

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: OCTOBER 14, 2015
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
TO: LOCAL AGENCY FORMATION COMMISSION



**SUBJECT: ITEM #7 – PRESENTATION OF THE PRELIMINARY FEASIBILITY
STUDY FOR RIM OF THE WORLD INCORPORATION**

BACKGROUND:

At the July 15, 2014 hearing, LAFCO agreed to a contract with the Second Supervisorial District to prepare a preliminary feasibility study for incorporation of the area generally defined by the Rim of the World Unified School District (USD) boundary. LAFCO staff in turn contracted with the firm of Rosenow Spevacek Group (RSG) to prepare an Incorporation Feasibility Analysis (IFA) that addressed state law and also addressed the specific policies that San Bernardino LAFCO has adopted. In preparing the IFA, RSG responded to questions of LAFCO staff, not a community group or other interested parties. This was intended to provide an unbiased view of whether incorporation could be feasible for the overall area and to provide the guideposts for further discussion in the community on development of an incorporation effort. Since LAFCO is the review body for any future such incorporation effort, the IFA prepared at LAFCO's request does not make a final feasibility determination or recommendation but provides the framework to develop such an effort armed with the information on potential costs and revenue sources.

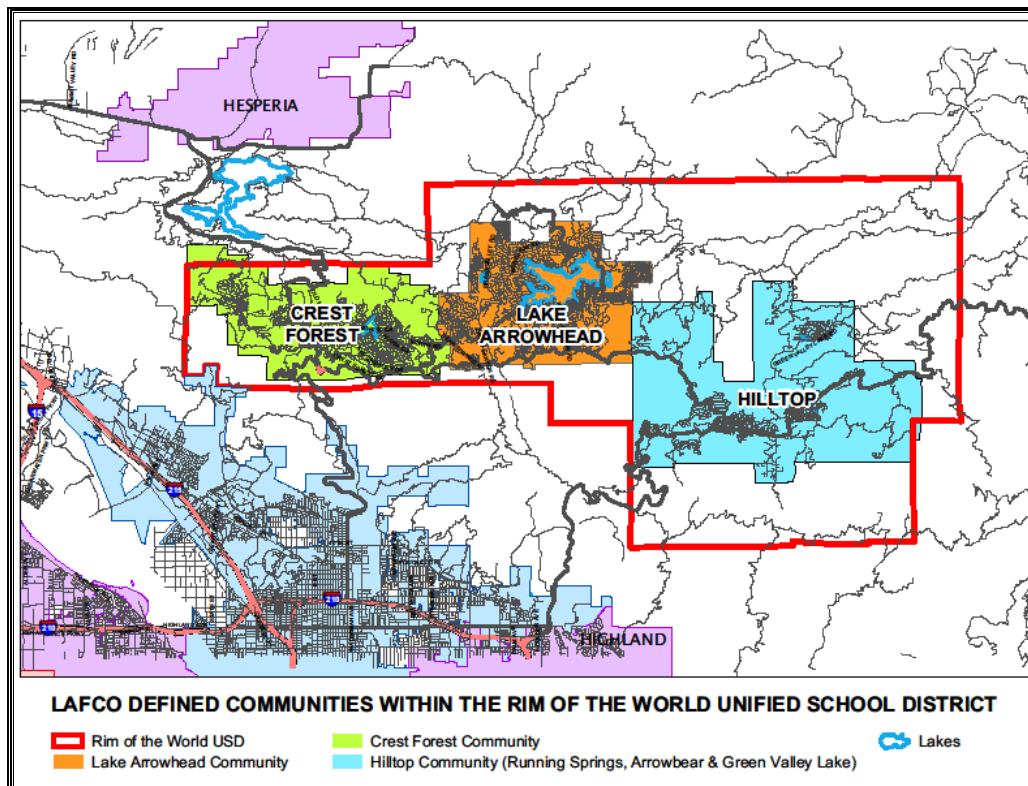
LAFCO staff also requested that an alternative excluding the LAFCO defined Hilltop community (Running Springs, Arrowbear, Green Valley Lake) be provided as a separate report. The IFA attached to this memorandum provides the financial information for these two options using the City of Big Bear Lake as a comparable local agency (an important aspect of Commission policies).

Attachments to this report provide maps for review of the area of consideration, the IFA prepared by RSG, and the Comprehensive Fiscal Analysis (CFA) prepared for the proposed City of Olympic Valley in Placer County. Staff is providing this CFA to show what would be required in the LAFCO-prepared document as well as providing some additional information on the development of revenues and expenditures for a mountain-type resort community.

The following assumptions went into the preparation of the IFA for Rim of the World.

Assumption 1 – Boundaries

As outlined above, the request from the Second District was to utilize the boundary of the Rim of the World School District for incorporation. This boundary includes vast areas of National Forest which house a limited number of structures with infrastructure and an even more limited population. LAFCO staff modified this request to address the LAFCO-defined communities of Crest Forest, Lake Arrowhead, and Hilltop which comprise the populated, service driven areas associated with Rim of the World and excludes the larger consolidated publicly-owned lands. This is significant in the scenario of service delivery, most importantly for law enforcement and road maintenance, due to the limited revenues available and the potentially significant cost and liability. One area has been added to the Rim of the World USD in the northwestern area to include the entirety of Crestline Sanitation District and its sphere of influence for service delivery. Both boundaries are shown below, but only the defined communities are reflected in the report:



This same philosophy of utilizing the community definition as the boundary for a new city was utilized in the incorporation of the City of Big Bear Lake more than 30 years ago.

Assumption 2 – Population

The Commission has adopted policies that specify that an incorporation must contain a minimum of 10,000 persons based upon the available census data. The estimated population provided by LAFCO staff for all three areas are identified as follows:

Rim of the World Incorporation Total Population (U.S. Census) per Community			
Community	Population	Acreage	Parcel Count
Crest Forest	12,315	9,456	13,853
Hilltop	6,486	16,058	8,181
Lake Arrowhead	<u>12,244</u>	<u>9,196</u>	<u>18,640</u>
Total Population	31,045	34,710	40,674

Footnote: Population data based on 2010 US Census – Block Group

The inclusion of the three communities clearly meets the Commission policy requirement.

In addition, the alternative, which excludes the Hilltop community from the feasibility study, would also meet the policy direction as shown below:

Rim of the World Incorporation Total Population (U.S. Census) per Community		
Community	Population	Parcel Count
Crest Forest	12,315	13,853
Lake Arrowhead	<u>12,244</u>	<u>18,640</u>
Total Population	24,559	32,493

Footnote: Population data based on 2010 US Census – Block Group

However, it is important to point out that the RSG calculation in the IFA utilized their own evaluation of population using the ESRI Business Analyst software. This provides for an estimated population in the overall area of 29,000 as full-time residents noting the strong presence of second homes/vacation homes throughout the area. It is LAFCO staff's position that the difference in population of 2,046 residents is not significant to the overall determinations and still meets the policy directives adopted by the Commission.

Assumption 3 – Inclusion of Special Districts

LAFCO’s adopted policy related to an incorporation is that all special districts within the area of consideration are to be addressed. The language of this policy is:

“The Commission requires that a new city shall assume jurisdiction over all community-based special districts serving the incorporation area. A clear and compelling rationale must be provided if the continued overlay of a community-based district is proposed.”

Based upon this directive the preliminary study has included all special districts, independent and board-governed, with the exception of the San Bernardino Mountains Community Healthcare District. Staff directed RSG to exclude this special district on the basis of past concern with a municipality being responsible for a healthcare operation. Case in point are the Cities of Needles and Barstow.

The balance of the agencies have been included in the preliminary feasibility study but without adjustment to expenditures to address staffing changes, i.e. reduction in number of general managers, reduction in separate legal counsels, board costs, or county management charges for operations of board-governed agencies.

The listing of special districts which follows outlines those included in the IFA along with the function(s) which they are authorized to perform and the action which would be a part of an incorporation proposal under the Commission’s policies. The chart identifies that the agency could be dissolved (which means a dissolution of the agency and transfer of responsibility to the new city), detached (which means a portion of its territory would be removed and transferred to the new city but the agency would remain to serve other areas) or unaffected (no change, it retain its boundaries, service obligations, etc.)

It is important to note that the revenues of “enterprise districts” which are generally water, wastewater and electric utility agencies are restricted in use to only those functions for which the rates are charged. What does that mean? It means that the revenues, expenditures, obligations, and reserves of the Lake Arrowhead CSD, Crestline Village Water District, Crestline Sanitation District, Crestline-Lake Arrowhead Water Agency, County Service Area 79 and the water and sewer functions of the Running Springs Water District and Arrowbear Park Water District must be isolated and protected should any incorporation effort be contemplated.

Name	Function(s)	Plan for Services Options for Change	
		Option A – Rim of the World Total	Option B – Excluding Hilltop
CSA 18*	Road Maintenance & Snow Removal (17.5 miles); Park and Recreation	Dissolved	Dissolved
CSA 54	Streetlighting	Detached	Detached
CSA 59	Road Maintenance & Snow Removal (5.0 miles)	Dissolved	Dissolved
CSA 68	Road Maintenance & Snow Removal (4.0 miles)	Dissolved	Dissolved
CSA 69	Road Maintenance & Snow Removal (5.0 miles)	Dissolved	Dissolved
CSA 70 R-13*	Road Maintenance & Snow Removal (1.5 miles)	Dissolved	Dissolved
CSA 70 R-16	Road Maintenance & Snow Removal (1.0 mile)	Dissolved	Unaffected
CSA 70 R-2*	Road Maintenance & Snow Removal (1.5 miles)	Dissolved	Dissolved
CSA 70 R-22*	Road Maintenance & Snow Removal (2.0 miles)	Dissolved	Dissolved
CSA 70 R-23*	Road Maintenance & Snow Removal (1.0 mile)	Dissolved	Dissolved
CSA 70 R-35	Road Maintenance & Snow Removal (0.1 mile)	Dissolved	Dissolved
CSA 70 R-4	Road Maintenance & Snow Removal (0.2 miles)	Dissolved	Dissolved
CSA 70 R-40*	Road Maintenance & Snow Removal (0.5 miles)	Dissolved	Dissolved
CSA 70 R-44*	Road Maintenance & Snow Removal (1.3 miles)	Dissolved	Dissolved
CSA 70 R-46*	Road Maintenance & Snow Removal (0.7 miles)	Dissolved	Dissolved
CSA 70 R-7*	Road Maintenance & Snow Removal (0.2 miles)	Dissolved	Dissolved
CSA 70 R-9	Road Maintenance & Snow Removal (1.0 mile)	Dissolved	Dissolved
CSA 70 Zone CG	Water; Roads	Dissolved	Dissolved
CSA 70 Zone D-1	Dam Maintenance (New Lake Arrowhead Dam); Park Services	Dissolved	Dissolved
CSA 79	Wastewater collection	Dissolved	Unaffected
CSA 79 R-1	Road Maintenance & Snow Removal (0.8 miles)	Dissolved	Unaffected
Arrowbear Park CWD	Water - wholesale & retail/domestic; Wastewater collection; Fire protection and emergency medical response, Refuse Collection	Dissolved	Unaffected
Crestline Lake Arrowhead Water Agency	Water - wholesale (State Water Project contractor) & retail	Dissolved	Unaffected
Crestline Sanitation District	Wastewater collection and treatment	Dissolved	Dissolved
Crestline Village Water District	Water - retail/domestic	Dissolved	Dissolved
Lake Arrowhead CSD	Water - retail/domestic; Wastewater collection and treatment	Dissolved	Dissolved
Rim of the World P&R	Park & Recreation	Dissolved	Detached
Running Springs WD	Water - wholesale & retail/domestic; Wastewater collection and treatment; Fire protection and emergency medical response; ambulance	Dissolved	Unaffected
SB County Fire Protection District	Fire Administration	Detached	Detached
SBCFPD Mountain Service Zone	Fire protection and emergency medical response; ambulance	Detached	Detached
SBCFPD Service Zone PM-4	Crest Forest special tax for paramedics	Dissolved	Dissolved
SBCFPD Service Zone PM-1	Lake Arrowhead special tax zone for paramedics	Dissolved	Dissolved

RSG has identified that determining staffing levels and levels of service would be a discussion for an incorporation group to decide and therefore has made limited adjustments in expenses in its analysis. Only the water and sanitation functions would continue as separate enterprise activities should a city be formed. The assumption of service memorandum provided by RSG identifies a 15% reduction in administrative costs for these agencies. However, staff would point out that the consolidation of operation would provide for reduction in the number of staff positions. As an example, the current expense for the top management positions of the independent special districts taken from the State Controller’s database are shown below:

Wages, Retirement, and Health Costs for General Managers during Calendar Year 2013

AGENCY	TOTAL WAGES	TOTAL RETIREMENT & HEALTH COST	TOTAL
Crestline Lake Arrowhead Water Agency	\$ 200,517	\$ 51,522	\$ 252,039
Crestline Village Water District	120,717	60,878	181,595
Crestline Sanitation District	168,456	42,685	211,141
Lake Arrowhead Community Services District (2012)	189,758	28,377	218,135
Running Springs Water District	147,535	60,835	208,370
Arrowbear Park County Water District (2012)	86,746	14,271	101,017
Rim of the World Recreation and Park District	82,001	4,311	86,312
Running Springs Water District (Fire Chief)	153,084	78,158	231,242
TOTAL	\$ 1,148,814	\$ 341,037	\$ 1,489,851

source: California State Controller's Office, Government Compensation in California Website, Accessed 8-17-2015

While it is the position of the consultant for the IFA not to make assumptions about future staffing changes through an incorporation, LAFCO staff believes that there are generalizations which can be made for consideration in this area. Such as, there would need to only be a single water manager, wastewater manager, fire chief and manager of the park function for the consolidated area. Through assimilation of these districts into a single city structure, the costs for these independent managerial positions can be reduced and the board-governed district administrative charges could be eliminated. Picking from only the ranges outlined above, the management expense could be reduced to \$780,734 to cover the operations to be assumed (CLAWA Manager, Crestline Sanitation General Manager, Rim of the World Park GM and the Fire Chief from Running Springs), a savings of almost \$710,000.

The RSG projection also does not take into account the economies of scale to address legal counsel needs (elimination of seven legal counsel contracts to a single City Attorney, removal of individual board expenses, consolidation of purchasing, testing, insurance, etc.) as these expenses are not easily discerned from audit materials. These are the elements that a future incorporation committee made up of a broad cross-section of the community would look at to further refine the IFA for an actual proposal.

Assumption 5 – Commission determination of feasibility:

San Bernardino LAFCO has adopted specific policies related to how it will determine “financial feasibility”. They are outlined in the Commission’s Policy and Procedure Manual, but a synopsis is provided below:

- a. “Financial Feasibility” means the ability to maintain pre-incorporation service levels with sufficient resources to provide a municipal level law enforcement.

The IFA has utilized the City of Big Bear Lake contract with the County Sheriff as the means to project law enforcement costs based upon population. The City of Big Bear Lake has one of the lowest ratios of sheriff personnel to population in the County. Staff believes that the use of this contract as the basis for projecting its financial feasibility meets the criteria of the policy.

- b. In determining feasibility only those revenues available to a general law city will be considered. No new taxes or hypothetical revenues will be considered in making this determination.

The revenues in the study include only those currently assessed including shares of the general ad valorem taxes from the County or Special Districts, transient occupancy taxes, or special taxes. No new taxes are contemplated. However, revenues for the transient occupancy tax (TOT), currently administered by the County and set at 7%, could increase by at least 50%, or an additional \$412,235, should a new city take steps to provide for a mechanism to track new bed and breakfast, Airbnb operations, or other short-term rental operations to assure that the appropriate tax is recouped and/or a means to provide for an audit of current payables.

In addition, RSG has prepared a calculation of the property tax transfer as required by Government Code Section 56810. This calculation identifies that a new City for Rim of the World would receive 2.567% of the general fund property tax allocation, the lowest of cities incorporated under the post-Prop 13 era in San Bernardino County. Should an incorporation effort be undertaken, this would be an area that should be carefully reviewed and negotiated with the County.

- c. In determining feasibility salary costs shall be based upon an average of similar-sized cities within San Bernardino and Riverside Counties.

The assumptions in the IFA have used the City of Big Bear Lake, a comparable sized city, as well as one with the unique service requirements for delivering service within a mountain community.

- d. A reasonable reserve shall be projected as equal to 10% of the general and special funds of the city.

The preliminary feasibility report has identified a 10% contingency for each year in the forecast as well as a 25% reserve of the City's proposed total expenditures.

One aspect not currently addressed by the Commission's policies relates to the determination of "revenue neutrality" as required by Government Code Section 56815. Page 16 of the modeling identifies RSG's calculation of this payment as "zero" based upon their experience in applying these provisions in other areas throughout the State. The cost factors utilized in this calculation are the same as those provided by the County in order to prepare the anticipated property tax transfer calculation required by Government Code Section 56810. This means that there will be a net financial gain to the County through the

transfer of general fund supported activities to a new City which may be taken into consideration when determining the property tax allocation process outlined above.

Finally, there are questions which would still need to be answered for an incorporation, which LAFCO staff nor RSG can answer at this time:

1. What happens to the Cedar Glen redevelopment project area which would be included in the Lake Arrowhead area? To date, San Bernardino LAFCO has not had to address the transfer of such an operation nor does the law which eliminated redevelopment agencies addressed consolidations or jurisdictional changes.
2. Public funded retirement systems would need to be addressed as well as the mechanism to consolidate CALPers and SBCERA contributions.
3. What would be the effect upon the County Special Districts Department through the elimination of the road districts, park districts, dam operations within this area, if any? What would be the equipment and equipment replacement reserve transfer do to the long-term sustainability of that agency?

CONCLUSION:

As noted in the RSG assumptions summary memo, the information presented is to provide a preliminary service model and benchmark to allow the community to decide if it wishes to look into incorporation further. In the last 30 years there have been three attempts to look at incorporation for the Lake Arrowhead area, but none have made it past the petition stage for political not financial reasons. The Incorporation Feasibility Analysis, in the LAFCO staff view, identifies that incorporation may be possible depending on the service shifts and the level of service and operations the proponents would propose.

KRM

Attachment

1. [Maps](#)
 - a. Rim of the World USD and Community Definition
 - b. Retail Water Providers
 - c. Retail Wastewater collection and treatment
 - d. Fire Protection Emergency Medical Response Providers
2. [Preliminary Feasibility Report dated September 23, 2015](#)
3. [Comprehensive Fiscal Analysis for Olympic Valley](#)