

RESOLUTION NO. 2019-18
A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE PHELAN PIÑON HILLS COMMUNITY SERVICES DISTRICT
ADOPTING ASSESSMENT DISTRICT CREDIT ALLOCATIONS

WHEREAS, the Phelan Piñon Hills Community Services District ("District") is a Community Services District located within the County of San Bernardino and is organized and operates pursuant to the California Government Code Section 61000, *et seq.*

WHEREAS, pursuant to Resolution No. 2994 of the Local Agency Formation Commission of the County of San Bernardino ("LAFCO") adopted on March 18, 2008, the District is the successor agency to County Service Area 9, County Service Area 56 Improvement Zone F-1, and County Service Area 70 Improvement Zones L and P-4 ("CSAs").

WHEREAS, prior to the adoption of LAFCO Resolution No. 2994, the territory within the CSAs was subject to the water rates and capacity fees that had been established by the County of San Bernardino ("County") pursuant to ordinances and resolutions that had been adopted by the County's Board of Supervisors.

WHEREAS, by minute action taken at its first meeting on March 19, 2008, the District's Board of Directors ("Board") approved the continuation and extension of all previously authorized fees and charges that had been fixed, levied, and imposed as a condition of water service within the CSAs. Thereafter, the Board has periodically updated the District's rates, fees, and charges.

WHEREAS, before the establishment of the District, certain areas of the CSAs required capital improvements to connect to the existing water system. To accommodate these developments, the County allowed the formation of assessment districts as a local funding mechanism. Each area formed a separate assessment district to secure tax-exempt municipal bonds to fund the necessary capital improvements required for development to occur. These assessment districts were formed in the early 1980s and were previously known as Assessment District 81-1 ("AD 81-1"), Assessment District 82-4 ("AD 82-4"), Assessment District 82-6 ("AD 82-6"), Assessment District 84-2 ("AD 84-2"), Assessment District 84-4 ("AD 84-4"), and Assessment District 87-3 ("AD 87-3"). Each bond issue amortized the debt of thirty years, and assessments secured the annual debt payment.

WHEREAS, since the parcels within the boundaries of each assessment district directly funded the capital improvements through assessments, the County provided credits to each affected parcel's capacity fee to account for the advance funding of improvements. These parcels developed over time, and there are still certain parcels that are undeveloped. While credits have been available since the formation of each assessment district, the years of service of the improvements is another consideration when determining remaining credits available to apply towards undeveloped parcels' capacity fees.

WHEREAS, the District maintains a comprehensive asset listing of the water system with detailed information reflecting the original installation date, original cost, useful life, years in service, annual depreciation, and accumulated depreciation of each asset. This comprehensive asset listing provides the District an understanding of the timing for repair and replacement of the

water system's infrastructure. Once an improvement is close to or fully depreciated, these improvements no longer contribute value to the system and must be replaced as part of the District's capital improvement plan.

WHEREAS, each assessment district funded backbone infrastructure ranging from production, distribution, storage, and land acquisition. The total costs varied for each assessment district based on the specific capital needs of each assessment district as well as the incidental expenses of the assessment district formation. All six assessment districts are retired, along with the debt obligations. The years of service for these improvements exceed thirty years and are reaching the end of their useful life. As such, the credits associated with these improvements should also expire at the same rate and directly correlate to the useful life of the improvements.

WHEREAS, the Board retained the services of a qualified firm, IB Consulting, LLC, to prepare the Assessment Credit Allocations study dated October 16, 2019, that is attached hereto as Exhibit "A" and incorporated herein by this reference ("the Study") to develop a schedule outlining the retirement of the credits for the District to use through the end of the useful life of the improvements funded by the assessment districts.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Phelan Pinon Hills Community Services District as follows:

1. The content and findings of the Study are hereby accepted in full by the Board. As such, the Assessment District Credit Schedule set forth in Table 8 of the Study is hereby expressly adopted and established by the Board.
2. The District's General Manager is hereby authorized to take any and all actions necessary to carry out the intent of the Board as is stated herein and as otherwise required in order to comply with applicable law.
3. This Resolution shall take effect immediately upon adoption and shall supersede any rules, regulations, policies, and/or procedures inconsistent therewith unless otherwise prohibited by applicable law.

ADOPTED by the Board of Directors of the Phelan Piñon Hills Community Services District at a regular meeting held on November 6, 2019, by the following vote:

AYES: Hoffman, Johnson, Philips, Roberts
NOES: _____
ABSENT: _____
ABSTAIN: _____



President, Board of Directors

Attest:


Secretary, Board of Directors

October 22, 2019

Assessment Credit Allocations

Phelan Pinon Hills
Community Services District



IB Consulting, LLC

Habib Isaac – Managing Partner

31938 Temecula Parkway, Suite A #350

Temecula, CA. 92592

Assessment Credit Analysis

The Phelan Pinon Hills Community Services District (CSD) formed in 2008 through a special election asking citizens of Phelan and Pinon Hills if a separate independent special district should be created to consolidate certain services provided by the County of San Bernardino (County), known as Zone-L70 Water, CSA-9 Phelan Parks & Street Lighting and CSA 56-F1 Pinon Hills Parks. The results of the elections was an 81% approval for the formation CSD. With the formation of the CSD, water services, parks & recreation, and street lighting became locally controlled by an elected five-member Board of Directors.

The CSD inherited property taxes, fees, charges, assessments, and special taxes connected to all parcels within the service area boundaries of the newly formed CSD. Since its inception in 2008, the CSD has updated its water rates and capacity fees periodically. Water rates fund the ongoing daily operations of the water enterprise, including repair and replacement of system assets and reserves as outlined within the CSD's reserve policy. Capacity charges are one-time charges against new connections to pay for the cost associated with serving the additional demand the new meter will place on the system. Capacity fees provide a means to ensure new development pays its way and does not inadvertently cause water rates to increase to accommodate growth.

Before the establishment of the CSD, certain areas of the County in the early 1980s required capital improvements to connect to the existing water system. To accommodate these developments the County allowed the formation of Assessment Districts as a local funding mechanism. Each area formed a separate assessment district and assessed themselves to secure taxed-exempt municipal bonds issued by the County to fund the necessary capital improvements for development to occur. These assessment districts were previously known as Assessment District 81-1, (AD 81-1), Assessment District 82-4, (AD 82-4), Assessment District 82-6, (AD 82-6), Assessment District 84-2, (AD 84-2), Assessment District 84-4, (AD 84-4), and Assessment District 87-3, (AD 87-3). Each bond issue amortized the debt over 30-years, and assessments secured the annual debt payment.

Because the parcels within the boundaries of each assessment district directly funded the capital improvements through assessments, the County provided credits to each affected parcel's capacity fee to account for the advance funding of improvements. These parcels developed over time, and there are still certain parcels that are still undeveloped. While credits were available since the formation of each assessment district, the years of service of the improvements is another consideration when determining the remaining credits available to apply towards remaining undeveloped parcels capacity fees.

The CSD maintains a comprehensive asset listing of its entire water system with detailed information of each asset reflecting the original installation date, original cost, useful life of the improvement, years in service, annual depreciation value, and accumulated depreciation amount. This comprehensive asset listing provides the CSD an understanding of the timing for repair and replacement of the water system's infrastructure. Once an improvement is close to or fully depreciated, these improvements no longer contribute value to the system and must be replaced as part of the District capital improvement plan.

Phelan Pinon Hills CSD – Assessment Credit Allocations

Each assessment district generally funded backbone infrastructure ranging from production, distribution, storage, and land acquisition. The total costs varied for each assessment district based on the specific capital needs of each district as well as the costs associated with the incidental expenses of the assessment district and bonds. All six assessment districts are retired, along with the debt obligations. The years of service for these improvements exceed 30 years and are reaching the end of its useful life. As such, the credits associated with these improvements should also expire at the same rate and directly correlate to the useful life of the improvements. Therefore, we developed a schedule outlining the retirement of the credits for the District to use through the end of the useful life.

Applying this approach to the assessment credits is similar to how capacity fees are determined using the Buy-In Method. With the Buy-In Method, we determine the value of the existing system by taking the current asset values less accumulated depreciation, which accounts for the number of years in service. This approach achieves capital equity between existing customers and new customers by requiring new customers to pay a proportional share of the system at the current value. The current book value of the system uses the Original Construction cost Less Depreciation (OCLD) to account for the number of years in service. Therefore, fully depreciated assets do not contribute to the value of the system, and the Buy-In Method eliminates these improvements from the capacity fee calculation because new development will not benefit from these improvements and the replacement costs are part of rates.

Based on the premise of charging new development, its proportional share of assets while accounting for depreciation, assessment credits should also reduce in line with how assets depreciate over time. Each assessment district included a listing of funded improvements, and based on the type of asset, we identified the useful life of each improvement. The following sections provide a summary of each assessment district and credit reimbursement schedule.

Assessment District 81-1 (AD 81-1)

AD 81-1 included distribution, storage, production facilities, land as well as soft costs and incidental expenses of the assessment district and bond financing. The construction of these improvements occurred in 1982, and Table 1 summarizes the original cost of improvements, years in service, remaining useful life, accumulated depreciation, and OCLD. Soft costs and assessment district incidentals are not backbone infrastructure and are incidental to the construction of the improvements and formation of the assessment district as the funding mechanism approved by affected parcels. Land is also not considered because the District requires rights-of-way dedications in gratis for ongoing maintenance. Therefore, these type of expenses fully depreciates after the first year.

Phelan Pinon Hills CSD – Assessment Credit Allocations

TABLE 1: ASSESSMENT DISTRICT 81-1 ASSET SUMMARY

ASSET CATEGORY	ORIGINAL COST	YEARS IN SERVICE	USEFUL LIFE	ACCUMULATED DEPRECIATION	ORIGINAL COST LESS DEPRECIATION
DISTRIBUTION	\$473,024	37	45	\$393,311	\$79,713
STORAGE	\$73,664	37	45	\$61,250	\$12,414
PRODUCTION	\$110,747	37	45	\$92,084	\$18,663
LAND	\$30,000	37	N/A	N/A	N/A
ASSESSMENT INCIDENTALS	\$310,325	37	1	\$310,325	\$0
SOFT COSTS	\$175,412	37	1	\$175,412	\$0
TOTAL	\$1,173,171	N/A	N/A	\$1,032,381	\$110,790
OCLD / ORIGINAL COST = REMAINING CREDIT PERCENTAGE					9.4%

Assessment District 82-4 (AD 82-4)

AD 82-4 included distribution, storage, production facilities, land as well as soft costs and incidental expenses of the assessment district and bond financing. The construction of these improvements occurred in 1984, and Table 2 summarizes the original cost of improvements, years in service, remaining useful life, accumulated depreciation, and OCLD. Soft costs and assessment district incidentals are not backbone infrastructure and are incidental to the construction of the improvements and formation of the assessment district as the funding mechanism approved by affected parcels. Land is also not considered because the District requires rights-of-way dedications in gratis for ongoing maintenance. Therefore, these type of expenses fully depreciates after the first year.

Phelan Pinon Hills CSD – Assessment Credit Allocations

TABLE 2: ASSESSMENT DISTRICT 82-4 ASSET SUMMARY

ASSET CATEGORY	ORIGINAL COST	YEARS IN SERVICE	USEFUL LIFE	ACCUMULATED DEPRECIATION	ORIGINAL COST LESS DEPRECIATION
DISTRIBUTION	\$786,425	35	45	\$618,946	\$167,479
STORAGE	\$173,893	35	45	\$136,861	\$37,033
PRODUCTION	\$108,678	35	45	\$86,943	\$21,736
LAND	\$30,000	35	N/A	N/A	N/A
ASSESSMENT INCIDENTALS	\$639,428	35	1	\$639,428	\$0
SOFT COSTS	\$455,257	35	1	\$455,257	\$0
TOTAL	\$2,193,681	N/A	N/A	\$1,937,433	\$226,248
OCLD / ORIGINAL COST = REMAINING CREDIT PERCENTAGE					10.3%

Assessment District 82-6 (AD 82-6)

AD 82-6 included distribution, storage, production facilities, land as well as soft costs and incidental expenses of the assessment district and bond financing. However, the improvements reflect phases or contracts designated identified as A, B, C, and D. Therefore, the asset category for each improvement is not known, and a maximum useful life of 45 years was assigned the construction of these improvements occurred in 1984, and Table 3 summarizes the original cost of improvements, years in service, remaining useful life, accumulated depreciation, and OCLD. Soft costs and assessment district incidentals are not backbone infrastructure and are incidental to the construction of the improvements and formation of the assessment district as the funding mechanism approved by affected parcels. Land is also not considered because the District requires rights-of-way dedications in gratis for ongoing maintenance. Therefore, these type of expenses fully depreciates after the first year.

Phelan Pinon Hills CSD – Assessment Credit Allocations

TABLE 3: ASSESSMENT DISTRICT 82-6 ASSET SUMMARY

ASSET CATEGORY	ORIGINAL COST	YEARS IN SERVICE	USEFUL LIFE	ACCUMULATED DEPRECIATION	ORIGINAL COST LESS DEPRECIATION
A	\$146,427	35	45	\$116,057	\$30,370
B	\$113,912	35	45	\$90,286	\$23,626
C	\$826,741	35	45	\$655,269	\$171,472
D	\$770,069	35	45	\$610,351	\$159,718
LAND	55,870	35	N/A	N/A	N/A
ASSESSMENT INCIDENTALS	\$782,092	35	1	\$782,092	\$0
SOFT COSTS	\$603,643	35	1	\$603,643	\$0
TOTAL	\$3,298,754	N/A	N/A	\$2,857,698	\$385,186
OCLD / ORIGINAL COST = REMAINING CREDIT PERCENTAGE					11.7%

Assessment District 84-2 (AD 84-2)

AD 84-2 included distribution, storage, production facilities, land as well as soft costs and incidental expenses of the assessment district and bond financing. However, the improvements reflect phases or contracts designated identified as A, B, C, and D. Therefore, the asset category for each improvement is not known, and a maximum useful life of 45 years was assigned. The construction of these improvements occurred in 1985, and Table 4 summarizes the original cost of improvements, years in service, remaining useful life, accumulated depreciation and OCLD. Soft costs and assessment district incidentals are not backbone infrastructure and are incidental to the construction of the improvements and formation of the assessment district as the funding mechanism approved by affected parcels. Land is also not considered because the District requires rights-of-way dedications in gratis for ongoing maintenance. Therefore, these type of expenses fully depreciates after the first year.

Phelan Pinon Hills CSD – Assessment Credit Allocations

TABLE 4: ASSESSMENT DISTRICT 84-2 ASSET SUMMARY

ASSET CATEGORY	ORIGINAL COST	YEARS IN SERVICE	USEFUL LIFE	ACCUMULATED DEPRECIATION	ORIGINAL COST LESS DEPRECIATION
A	\$103,608	34	45	\$79,433	\$24,175
B	\$77,644	34	45	\$59,527	\$18,117
C	\$653,291	34	45	\$500,856	\$152,434
D	\$504,940	34	45	\$387,121	\$117,819
LAND	57,000	34	N/A	N/A	N/A
ASSESSMENT INCIDENTALS	\$571,859	34	1	\$571,859	\$0
SOFT COSTS	\$400,409	34	1	\$400,409	\$0
TOTAL	\$2,368,751	N/A	N/A	\$1,999,205	\$312,546
OCLD / ORIGINAL COST = REMAINING CREDIT PERCENTAGE					13.2%

Assessment District 84-4 (AD 84-4)

AD 84-4 included distribution, storage, production facilities, land as well as soft costs and incidental expenses of the assessment district and bond financing. The construction of these improvements occurred in 1985, and Table 5 summarizes the original cost of improvements, years in service, remaining useful life, accumulated depreciation and OCLD. Soft costs and assessment district incidentals are not backbone infrastructure and are incidental to the construction of the improvements and formation of the assessment district as the funding mechanism approved by affected parcels. Land is also not considered because the District requires rights-of-way dedications in gratis for ongoing maintenance. Therefore, these type of expenses fully depreciates after the first year.

Phelan Pinon Hills CSD – Assessment Credit Allocations

TABLE 5: ASSESSMENT DISTRICT 84-4 ASSET SUMMARY

ASSET CATEGORY	ORIGINAL COST	YEARS IN SERVICE	USEFUL LIFE	ACCUMULATED DEPRECIATION	ORIGINAL COST LESS DEPRECIATION
DISTRIBUTION	\$2,625,672	34	45	\$1,954,667	\$671,005
STORAGE	\$523,661	34	45	\$389,836	\$133,824
PRODUCTION	\$77,960	34	45	\$62,001	\$15,960
LAND	\$151,196	34	N/A	N/A	N/A
ASSESSMENT INCIDENTALS	\$857,387	34	1	\$857,387	\$0
SOFT COSTS	\$645,024	34	1	\$645,024	\$0
TOTAL	\$4,880,899	N/A	N/A	\$3,908,914	\$820,789
OCLD / ORIGINAL COST = REMAINING CREDIT PERCENTAGE					16.8%

Assessment District 87-3 (AD 87-3)

AD 87-3 included distribution, storage, land as well as soft costs and incidental expenses of the assessment district and bond financing. The construction of these improvements occurred in 1988, and Table 6 summarizes the original cost of improvements, years in service, remaining useful life, accumulated depreciation and OCLD. Soft costs and assessment district incidentals are not backbone infrastructure and are incidental to the construction of the improvements and formation of the assessment district as the funding mechanism approved by affected parcels. Land is also not considered because the District requires rights-of-way dedications in gratis for ongoing maintenance. Therefore, these type of expenses fully depreciates after the first year.

Phelan Pinon Hills CSD – Assessment Credit Allocations

TABLE 6: ASSESSMENT DISTRICT 87-3 ASSET SUMMARY

ASSET CATEGORY	ORIGINAL COST	YEARS IN SERVICE	USEFUL LIFE	ACCUMULATED DEPRECIATION	ORIGINAL COST LESS DEPRECIATION
DISTRIBUTION	\$3,851,200	31	45	\$2,674,811	\$1,176,389
STORAGE	\$380,594	31	45	\$264,301	\$116,292
LAND	\$105,000	31	N/A	N/A	N/A
ASSESSMENT INCIDENTALS	\$1,248,420	31	1	\$1,248,420	\$0
SOFT COSTS	\$1,098,490	31	1	\$1,098,490	\$0
TOTAL	\$6,683,704	N/A	N/A	\$5,286,022	\$1,292,681
OCLD / ORIGINAL COST = REMAINING CREDIT PERCENTAGE					19.3%

Assessment Credit Schedule

The previous tables for each assessment district are reflective of remaining credits for Calendar Year 2019 (CY 2019). In subsequent years, the remaining credits will continue to reduce and retire once the original improvements reach the end of its useful life. Table 7 summarizes the previous calculations and remaining credits for CY 2019, and Table 8 provides a schedule of annual credits through the final year of credits.

TABLE 7: ASSESSMENT DISTRICT CREDIT SUMMARY FOR 2019

ASSESSMENT DISTRICT	ORIGINAL COST	ORIGINAL COST LESS DEPRECIATION	REMAINING CREDIT (CY 2019)
AD 81-1	\$1,173,171	\$110,790	9.4%
AD 82-4	\$2,193,681	\$226,248	10.3%
AD 82-6	\$3,298,754	\$385,186	11.7%
AD 84-2	\$2,368,751	\$312,546	13.2%
AD 84-4	\$4,880,899	\$820,789	16.8%
AD 87-3	\$6,683,704	\$1,292,681	19.3%

Phelan Pinon Hills CSD -- Assessment Credit Allocations

TABLE 8: ASSESSMENT DISTRICT CREDIT SCHEDULE

ASSESSMENT DISTRICT	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028	CY 2029	CY 2030	CY 2031	CY 2032
AD 81-1	8.6%	7.4%	6.1%	4.9%	3.6%	2.4%	1.1%						
AD 82-4	9.6%	8.5%	7.4%	6.3%	5.3%	4.2%	3.1%	2.0%	0.9%				
AD 82-6	10.8%	9.6%	8.3%	7.1%	5.8%	4.6%	3.3%	2.1%	0.8%				
AD 84-2	12.4%	11.1%	9.8%	8.6%	7.3%	6.1%	4.8%	3.6%	2.3%	1.0%			
AD 84-4	15.8%	14.4%	12.9%	11.5%	10.0%	8.5%	7.1%	5.6%	4.1%	2.7%	1.2%		
AD 87-3	18.4%	17.0%	15.6%	14.2%	12.8%	11.4%	10.0%	8.6%	7.2%	5.7%	4.3%	2.9%	1.5%