

PHELAN PINON HILLS COMMUNITY SERVICES DISTRICT

FINAL ENGINEER'S REPORT FOR FISCAL YEAR 2013-14

STANDBY CHARGE



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AFFIDAVIT FOR THE ENGINEER'S REPORT

PHELAN PINON HILLS COMMUNITY SERVICES DISTRICT WATER STANDBY CHARGE

This Report describes the annual Standby Charge of the Phelan Pinon Community Services District (the CSD), which was initially formed by the County of San Bernardino and assumed by the CSD as part of the reorganization pursuant to Condition 14 of LAFCO Resolution No. 2994, adopted March 18, 2008. This Report outlines the assessment methodology, affected parcels, and assessments to be levied for Fiscal Year 2013-2014. Reference is hereby made to the San Bernardino County Assessor's Maps for a detailed description of the lines and dimensions of parcels that are subject to the Standby Charge. The undersigned respectfully submits the enclosed Report as directed by the District Board.

Dated this _____ day of _____, 2013.

By: _____

Don Bartz
General Manager



By: _____

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OVERVIEW

Introduction

Pursuant to the provisions the Uniform Standby Charge Procedures Act (Gov. Code, §§ 54984- 54984.9; "Act"), public agencies may set a water standby charge each year for making water available to property "whether the water services are used or not." (§ 54984.2.) On November 5, 1996 the electorate adopted an initiative measure ("Proposition 218"), amending the California Constitution by adding articles XIII C and XIII D. Under article XIII D, new limitations and procedural requirements for assessments on real property were established and Section 6.b.4 of Article XIII D specifically states:

"Standby Charges, whether characterized as charges or assessments, shall be classified as assessments and shall not be imposed without compliance with Section 4."

However, notwithstanding the following, any assessment/standby charge that was in effect prior to the effective date of Proposition 218 that was imposed exclusively to finance the capital costs or maintenance and operation expenses for sidewalks, streets, sewers, **water**, flood control, drainage systems or vector control shall be exempt from the procedures and approval process set forth in Section 4. Therefore, the CSD's existing standby charge is not required to re-notice and undergo a Proposition 218 Majority Protest Balloting, unless the CSD wishes to increase the standby charge above its current rate.

Accordingly, the CSD is authorized by law to provide water service, and may fix, before August 10 of any given year, a water standby charge, on land within the jurisdiction of the CSD to which water services are made available for any purpose by the CSD, whether the water service is actually used or not.

Upon approval and adoption of the annual standby charge by the CSD Board, the standby charges for Fiscal Year 2013-2014 shall be submitted to the San Bernardino County Auditor/Controller for inclusion on the property tax roll for each parcel.

For the purposes of this Report, the word "parcel" refers to an individual property assigned its own Assessor Parcel Number by the San Bernardino County Assessor's Office.

HISTORICAL BACKGROUND AND CURRENT LEGISLATION

In November 1996, California voters approved Proposition 218 that established specific requirements for the ongoing imposition of taxes, assessments and fees. The provisions of the Proposition are now contained in the California Constitutional Articles XIII C and XIII D. All assessments described in this Report and approved by the District Board are prepared in accordance with Uniform Standby Charge Procedures Act (the "Act"), LAFCO Resolution No. 2994 and in compliance with the provisions of the Constitution.

Pursuant to the Article XIII D Section 5 of the Constitution, certain existing assessments and, in this case, standby charges, were exempt from the substantive and procedural requirements of the Article XIII D Section 4. Therefore, a property owner balloting is not required until such time that a new or increased standby charge is proposed. At this time, the CSD does not intend to increase the existing standby charge and this Engineer's Report is in connection with the continued collection of the current standby charge for Fiscal Year 2013-2014.

The standby charge of the CSD may be used for any purpose pursuant to the Act, commencing with Government Code Section 54984.2, whether the water service is actually used or not. The standby charge may also vary according to land uses, benefit derived or to be derived from the use or availability of facilities to provide water, or the degree of availability or quantity of the use of the water to the affected lands. The charge may be imposed on an area, frontage, or parcel basis, or a combination thereof.

The exiting standby charge methodology is employed throughout the CSD service area and is only levied against undeveloped parcels to provide equity between existing ratepayers and future customers that are not currently connected to the system by charging a portion of the cost to maintain the water system to undeveloped parcels that have the potential to develop in the future.

The existing standby charge generates approximately \$305,000 annually in comparison to an annual budget for the Water Enterprise Fund in excess of \$5.0 Million.

WATER SERVICES

Description of CSD

The CSD is located in the High Desert area of San Bernardino County between Palmdale and Victorville and has a population of an estimated 20,873. The CSD's water service area is approximately 118.7 square miles and the CSD provides water to almost 6,800 service connections. Nearly 99 percent of water service connections service single-family residences. The CSD has not experienced much growth in recent years; however, the service area has a high potential for growth as there are approximately 3,900 undeveloped parcels that may be further subdivided into developable lots. This potential development at buildout could generate up to 10,615 connections by 2035, as indicated within the CSD's 2010 Urban Water Management Plan.

In general, the CSD provides for the continued delivery of water service to its service area, including the operation, maintenance, servicing, repair and rehabilitation, and expansion of water facilities. These services are required and provide a special benefit to parcels that are not currently developed and connected to the water system as water must be available for the orderly development of such properties. Therefore, many water agencies impose a water standby charge against undeveloped parcels until such time that the property is developed and connected to the water system as a ratepayer. Standby charges provide a means to charge undeveloped parcels a proportional share of the cost of the water utility that provides a special benefit to undeveloped parcels, including, but not limited to, water resources, repair and replacement of existing facilities, new capital improvements, and operations (Water Services).

METHOD OF APPORTIONMENT

Benefit Analysis

Similar to many other water purveyors in the State, water standby charges provide a means to charge undeveloped parcels a proportional share of the cost of the water utility as a means to spread Water Service costs between existing ratepayers and undeveloped parcels, which will generate future customers as parcels are developed to their maximum potential. Water Services not only provide a direct benefit to existing customers, but it also provides a special benefit to undeveloped parcels as the CSD continues to provide service now and for future generations through the ongoing operations of water resource management, water production, water quality, and the repair, replacement and expansion of related capital improvements.

As previously referenced under the earlier Section of the Engineer's Report entitled "Overview," a standby charge is considered an assessment under the provisions of Article XIID of the State Constitution. Therefore, all parcels which will have a special benefit conferred upon them and upon which the standby charge will be imposed must be identified (the Assessment Roll). The proportionate special benefit derived by each identified parcel shall be determined in relationship to the entirety of the costs of the capital water improvement, the maintenance and operation expenses of such improvement, and the cost of the property-related service being provided. In addition, no standby charge shall be imposed on any parcel which exceeds the reasonable cost of the proportional special benefit conferred on that parcel. In addition to the elements identified above, the standby charge of the CSD may also be used for any purpose pursuant to the Act, commencing with Government Code Section 54984.2. Therefore, the CSD may use standby charge revenue to fund any portion of its annual budget. However, as the standby charge is only levied against undeveloped property and has not been increased since the original formation, the CSD's annual expenses for Water Services far exceed revenue generated by the Standby Charge.

Assessment Methodology

The current standby charge was originally established by the County of San Bernardino and transferred to the CSD through the LAFCO proceedings that created the CSD. More specifically, Condition 14 of LAFCO Resolution No. 2994 specifically states: "All previously authorized charges, fees, assessments, and/or taxes in effect upon the effective date of this reorganization shall be continued and assumed by the Phelan Pinon Hills CSD." The CSD does not intend to change the assessment methodology nor increase the existing standby charge; therefore, the continued collection of the current standby charge is in compliance with the Act and Article XIID of the State Constitution.

The benefit formula used for apportioning cost over affected parcels reflects the composition of the parcels and the Water Services provided. Therefore, as undeveloped parcels are the only parcels subject to the existing standby charge, the most appropriate allocation basis to use to fairly apportion the costs based on the special benefits to each assessable parcel is by assigning Equivalent Benefit Units to each parcel based on the lot size of such parcel. Only undeveloped parcels with Water Service readily available to the parcel are assessed. In determining access, the original criterion established for determining development potential is property within 660 feet of a water main. In addition, billable acreage excludes territory of a parcel that cannot access Water Services due to unique circumstances, such as, railroad or road impediments, pressure breaks, and drainage easements or other types of easements that restrict the parcel's access to Water Services.

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Equivalent Benefit Units:

To assess benefits equitably it is necessary to relate each property's proportional special benefits to the special benefits of all other properties that are subject to the Standby Charge. The method of apportionment most commonly used for assessments/standby charges is based on a weighted method of apportionment known as an Equivalent Benefit Unit (EBU) methodology. This proportional weighting may be based on several factors that may include, but are not limited to: the type and status of development (land use), size of the property, location of the property, parcel frontage, or other property related factors. In the case of the Phelan Pinon Hills Community Services District, 1 EBU is equal to one Acre of land and the standby charge is assessed only against unimproved property.

The assessable land area of a parcel reflects the development potential of a parcel and the special benefit that the parcel would receive from the Water Services. The total number of EBUs assigned to each parcel equals 1 EBU per acre plus 0.5 EBUs per acre for each fraction of an acre, with a minimum assignment of 1 EBU to assessable parcel. The reduced 0.5 EBUs per acre for each fraction of an acre accounts for the reduced potential of development as the primary zoning within the CSD's service area is lot sizes exceeding 1-acre. Therefore, the following formulas are used to calculate each parcel's EBUs and the total EBUs that are assessed the standby charge:

$$\text{Parcel's EBUs} = 1 \text{ EBU per Billable Acre} + 0.5 \text{ EBUs} \times \text{fractional Billable Acreage}$$

Ex)

$$5.6 \text{ Acres} =$$

$$5 \text{ EBUs for the first five acres} +$$

$$0.5 \text{ times the remaining fractional acreage of } 0.6 = (0.5 \times 0.6) = 0.3 \text{ EBUs}$$

$$\text{Total EBUs} = 5.3 \text{ EBUs}$$

The total number of EBUs equals the sum of all EBUs assigned to Undeveloped Parcels. The existing Standby Charge, equal to \$20 per EBU, is then applied to each parcel's individual EBUs to determine the parcel's proportionate benefit and total obligation. The following formulas are used to calculate each parcel's annual Levy Amount.

$$\text{Standby Charge per EBU} \times \text{Parcel's EBUs} = \text{Parcel's Levy Amount}$$

$$\text{Ex) } 5.6 \text{ Acres} = \$20 \times 5.3 \text{ EBUs} = \$106$$

DISTRICT BUDGET FISCAL YEAR 2013-2014

The following provides the preliminary proposed budget of the Water Enterprise Fund and for Fiscal Year 2013-2014. The budget includes the District's estimate of anticipated expenditures associated with the water utility. Pursuant to Section 54984.2 of the Act, the Standby Charge may fund any expenditure type of the proposed budget.

**Phelan Pinon Hills Community Services District
Preliminary Fiscal Year 2013-2014 Budget**

<u>Operating Expenses</u>	
Water Purchases	\$ 7,973
Salaries & Benefits	1,666,975
Board Compensation	146,254
Professional Fees	298,259
Service and Supplies	649,890
Utilities	836,424
Depreciation/Amortization	1,263,635
<u>Sub-Total</u>	\$ 4,869,411
<u>Non-Operating Expenses</u>	
Debt, administration, taxes, etc.	\$ 568,400
TOTAL	\$ 5,437,811

In determining the portion of the budget that may be funded by the standby charge, RFC reviewed the CSD's 2010 Urban Water Management Plan and the CSD's 2013 Water Connection Fee Study. Based on the total growth potential of the CSD, it is projected that the CSD will add approximately 2,570 connections through buildout. This growth potential will represent 27.5% of the CSD's total water service demand. Therefore, the portion of the CSD's budget that is authorized to be funded by the Standby Charge and represents the special benefit conferred on undeveloped property is \$1,495,398 (27.5% x \$5,437,811). The 27.5% of total water demand at buildout that is expected to be generated from future customers shall be updated at least every five years or at the same time that the CSD's Connection Fee Study is updated.

As such, based on the authorized total expenses of \$1,495,398, the maximum standby charge per EBU would be equal to \$94.65 for Fiscal Year 2013-2014 ($\$1,495,398 / 15,799.39 \text{ EBUs} = \94.65 per EBU). However, the current rate of \$20 per EBU may not be increased without a majority protest ballot proceeding pursuant to Article XIIID Section 4(d) of the State Constitution. The CSD does not intend to increase the existing standby charge at this time and will continue to levy and collect the current standby charge for Fiscal Year 2013-2014.

DISTRICT BOUNDARY DIAGRAMS

The boundaries subject to the standby charge are equivalent to the water service area of the CSD and, by reference are hereby made part of this Engineer's Report. However, only undeveloped parcels are subject to the Standby Charge. For more detailed specifications on the CSD's service area, diagrams are available for inspection at the administration office during normal business hours.

2013-2014 ASSESSMENT ROLL

Parcel identification, for each lot or parcel subject to the standby charge, shall be the parcel as shown on the San Bernardino County Assessor Parcel Maps and/or the San Bernardino County Secured Tax Roll for the year in which this Report is prepared. The proposed standby charge for each parcel has been prepared in accordance with the original rate established as part of the original formation and the method of apportionment described in this report and has been presented to the Board Secretary.

The standby charge information for each parcel as outlined in this Engineer's Report and confirmed by the District Board, shall be submitted to the County Auditor/Controller, and included on the property tax roll for Fiscal Year 2013-2014. If the parcels referenced by this Engineer's Report are re-numbered, re-apportioned or changed by the County Assessor's Office after approval of the Report, the new parcel(s) with the appropriate standby charge amount will be submitted to the County Auditor/Controller.

The Assessment roll includes approximately 3,900 parcels and would be voluminous to include as part of this Engineer's Report. Therefore, the Assessment Roll has been provided to the Board Secretary under separate cover and is on file at the District Office and is made part of this Engineer's Report by reference.