



# AGENDA

**Please turn off all cell phones while meeting is in progress.**

STALLION SPRINGS COMMUNITY SERVICES DISTRICT  
27800 STALLION SPRINGS DRIVE, TEHACHAPI, CA 93561

BOARD OF DIRECTORS SPECIAL BOARD MEETING  
TUESDAY, MARCH 19, 2019 @ 4PM

## **Call to Order**

This meeting is held in accordance with the Brown Act. Individuals may address the Board on any matter listed on this agenda, excluding CLOSED SESSION. Members of the audience desiring to address the Board must approach the podium and request recognition from the Board President. Presentation by the audience is limited to three minutes per agenda item.

## **Roll Call:**

Directors present:

Directors absent:

## **Flag Salute**

- 1) Presentation of Audit for Fiscal Year 2018 by a representative of Moss, Levy & Harzheim, LLP. Followed by approval of the Fiscal Year 2018 Audit.
- 2) A discussion with some direction in regard to the Bornt Property.
- 3) Motion to Adjourn.



# STALLION SPRINGS COMMUNITY SERVICES DISTRICT

27800 STALLION SPRINGS DRIVE, TEHACHAPI, CA 93561  
(661) 822-3268, FAX (661) 822-1878, [sscsd@stallionspringscsd.com](mailto:sscsd@stallionspringscsd.com)

## AGENDA SUPPORTING INFORMATION

### Agenda # 1S

**Subject:** Presentation of Audit for fiscal year 2018 by a representative of Moss, Levy & Harzheim, LLP. Followed by approval of the fiscal year 2018 audit.

**Submitted by:** David Aranda, General Manager

**Meeting Date:** March 19, 2019

**Background:** Each year, as required by State Law the District has an outside audit done for the fiscal year. This audit is for July 1, 2017 through June 30, 2018 or fiscal year 2018.

The completion of the audit is late due to a number of factors. The district is working with a different audit firm than the previous eight plus years and the auditor reviewing our books has a different method and found some concerns from the previous audit in regard to our fixed assets.

Please listen to the auditor's presentation and ask questions.

**Recommendation:** Approve the audit as presented for fiscal year 2018.

**PLEASE NOTE THE AUDIT IS 60 PAGES IN LENGTH SO WE HAVE PROVIDED SOME CORRESPONDENCE IN THE HARD COPY BUT UNLESS REQUESTED WILL ONLY PROVIDE THE AUDIT IN THE ELECTRONIC FORMAT.**

Stallion Springs CSD FY 2018 Fixed Asset Questions

yes  
yes

#	Question	Tab	Marker
1	Weir Lake has a cost basis of \$130,000 but only \$83,200 is being depreciated. Should the entire cost amount be depreciated? Generally there is no salvage value for water transmission systems.	Water	A1
2	Transmission system cost \$139,000 only \$80,383 being depreciated. Should the entire cost be depreciated?	Water	A2
3	Water system costs \$2,165,549 but only \$1,152,165 is being depreciated. Should the entire cost be depreciated?	Water	A3
4	Water system costs \$56,000 but only \$28,561 is being depreciated. Should the entire cost be depreciated?	Water	A4
5	Filtration costs \$65,593 but only \$33,346 is being depreciated. Should the entire cost be depreciated?	Water	A5
6	Piping for \$709 but only \$672 is being depreciated. In addition it's marked as 20 years. Should the entire amount of \$709 be depreciated and be done by 2007 versus the 2027 date being utilized?	Water	A6
7	Leisure Well site costs \$54,797 but only \$28,080 is being depreciated. In addition the life is marked at 20 years which would be fully depr since it was acquired in 1996. Should the full amount be depreciated and what is the correct life of the asset?	Water	A7
8	Buckpasser Well costs \$35,440 but only 7,974 is being depreciated. Should the total amount be depreciated?	Water	A8
9	CV Well materials costs \$1,318 but only \$37 is being depreciated. Should the total amount be depreciated?	Water	A9
10	For all of the assets marked A10 the cost is higher than what was depreciated (and all are fully depreciated). Should the entire cost be depreciated?	Water	A10
11	Water Well System cost \$44,428 but only \$1,111 is being depreciated. Should the full amount be depreciated?	Water	A11
28	Collection system has a cost basis of \$476,241 but only \$180,639 is being depreciated. Should the full cost be depreciated? If so the yearly depreciation should be \$9,525.	Sewer	B1
29	The assets marked B2 are fully depreciated but have cost basis amounts that are higher than the amount that was depreciated. Should the total amount be depreciated?	Sewer	B2
30	Plan & Disp cost \$3,062 but only \$1,542 is being depreciated per the schedule. District calculates depr expense as \$37 while our calculation is \$77.	Sewer	B3
31	Sewer engineering cost \$1,242 but only \$620 is being depreciated. District depr calculation is \$15 while ours calculates out to \$31.	Sewer	B4
32	Sewer improvements costing \$14,931 but only \$124 of that amount is being depreciated. District calculation is \$4 for depreciation but our calculation is \$498.	Sewer	B5
33	Scada Upgrades Life Station costing \$7,148.00 has a 20 year life but the scada upgrades from 6/1/11 has a 10 year life. What is the correct life? In addition the District calculates depreciation expense for the 20 year asset as \$179 while we calculate it as \$357.	Sewer	B6
34	Total assets per the detail list (and by account number) are less than the t/b balances 6/30/18 by \$18,216. Should we adjust the t/b balance to agree to the detail schedule? The cumulative adjustments are currently estimated to require a restatement of opening balance of \$135,613. The exact amount is not yet determined as it will be dependent on the answers we receive from above.	Sewer	B7
35	2007 Ford Ranger (#2 on the vehicle list Vin #896) does not appear to be on the fixed asset list. How much was the acquisition cost of this vehicle and in what FY was it acquired?	Sewer	none
37	Transfer Station Solid Waste has a cost basis of \$88,722 but only \$71,706 was depreciated. Should all of the cost be depreciated?	Solid	C1
38	R&S equipment Acct #1521 per the t/b is \$28,451 but the detail schedule does not include any assets for that account. What makes up the \$28,451?	Solid	C2
39	The total accumulated depreciation per the trial balance does not agree to the amount per the detail schedule. Need depreciation amount for the R&S equipment account.	Solid	none
40	R&S equipment per the detail listing is \$188,019 but on the t/b it only totals \$131,121 for a difference of \$56,898. Should we adjust to the detail total?	Roads	D1
41	Road costs per the detail schedule total \$1,560,142 but per the t/b roads total \$7,037,205 for a difference of \$5,477,063. Are there other road costs capitalized that aren't on the list?	Roads	D2
42	Assuming that we adjusted the road fixed assets to the amount on the detail schedule, we still have an estimated restatement of equity of approximately \$946,382.	Roads	D3
43	Road contract cost basis of \$618,190 with a life of 15 years however the District calculated depreciation expense as \$20,586 while we calculate depreciation expense as \$41,213.	Roads	D4
44	Engineering has a cost basis of \$23,991 with a 15 year life. The District calculates depreciation as \$799 while we calculate depreciation as \$1,599.	Roads	D5
45	For all of the assets marked D6 the District seems to be depreciating them at 30 years rather than the 15 years shown. Our calculations of depreciation expense are about double the District's.	Roads	D6
46	For the 2 assets marked D7, the District seems to be depreciating them at 10 years rather than the indicated 5 years. Our depreciation calculations are roughly twice of the District's	Roads	D7

## Jenni Morris

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**From:** Terry Robertson <trobertson@mlhcpas.com>  
**Sent:** Friday, March 08, 2019 10:43 AM  
**To:** Jenni Morris  
**Subject:** Re: Subject: findings needing management responses

HI Jenni,

- 1) Assuming you mean you want me to explain what I mean in more specifics to you (and not revising the report) here are the basic issues we are including in this recommendation. The District did not have a copy of the recommendations (if any) provided by the prior auditor, you did not have the final t/b in your files (or possibly you gave me the wrong one but the right one came from the old auditor so I presumed you didn't have it), the District should also have schedules that agree to the f/s amounts (you didn't have a fixed asset schedule that agreed for example), the District should get and maintain copies of any long term debt schedules (such as maintaining a file of the relevant loan agreements in one easy place and that it agrees to the financial statements) and the District should maintain some documentation of review of the financial statements as that is critical part of the process for the District accepting responsibility for the financial statements. One thing you did have for example is the actuarial evaluations for the prior year (which was easily agreed to the prior year f/s). It is important to keep your supporting documents in easy to find locations (your year end binder contains most such schedules already). The recommendation would also include that you should maintain some records of any other important disclosures in the financial statements.. Some entities even keep any important schedules/source documents that they provide if they are specifically created for the audit process.
- 2) Yes I can be at the district for 4 pm on the 19th (weather permitting).
- 3) We can discuss the fixed assets on the 19th (I can come earlier) but we will need additional information from the District before we can decide how to properly adjust your fixed assets. As for the final t/b and which entries to make we can discuss which and what entries to make as I'm not entirely sure why you record pension on your governmental funds.
- 4) You have a time frame in mind? We can probably find a time prior to June but easiest for you would probably be sometime in July/August after you've closed (or at least done your June close even if you haven't completed the whole year end close).

Separate request: Please provide the Gann limitation calculations and schedules for FY 17-18. The SCO report requires that information to be included.

thank you,

On Fri, Mar 8, 2019 at 10:52 AM Jenni Morris <[jmorris@stallionspringscsd.com](mailto:jmorris@stallionspringscsd.com)> wrote:

Questions:

1. Can you please clarify 2018-03 in detail.
2. Can you be at the District at 4pm on March 19<sup>th</sup> for your presentation to the Board?
3. We will still need to discuss any JE that need to be done for fixed Assets and Auditor entries, before an adjusted Trial Balance can be printed and current on books.

Jenni Morris

**From:** Terry Robertson <trobertson@mlhcpas.com>  
**Sent:** Monday, February 18, 2019 2:48 PM  
**To:** Jenni Morris; daranda@stallionsprings.com  
**Subject:** Subject: f/s not done

Hi Jenni/David,

I'm sorry but after all of the time spent on the fixed assets I was unable to complete the financial statements in time for them to be reviewed and finalized for tomorrow's meeting (the 19th).

I've written the f/s assuming that you would be excluding the Management Discussion and analysis but if you want to include that once you get the final draft that would still be possible.

Before we can issue we need a couple of items:

1) Information on the subsequent event note on the loan(s) that you took out during FY 2018-2019. We need to know the amounts, the project(s) and with whom the loan(s) were taken with along with applicable dates for when you have received monies from the loan.

2) You had significant construction occur during the early part of FY 2018 - 2019. We need to include the projects amount, a bit of detail on the scope of the project and the timing (if it's already completed we should note that as well).

3) Any other information for the subsequent event note. Jenni mentioned that you had some issues with one of your wells and that you were going to buy some land or water rights (or possibly a well). Not sure of the amount as the minutes related to that weren't on the website. Also any other significant details that you think would be of note to the CSD citizens. 2 ml-

4) I utilized an estimate for the amount of sick and vacation time in the notes to the f/s. If you'd prefer a more accurate number then I will need you to provide me that information.

5) Our internal review has not completed for the draft (i'm hoping that will happen tomorrow) but I need to confirm that there were no official budget changes during FY 2017 - 2018. I didn't see any in the minutes but the District exceeded budgets in the Public Safety Fund and the Road Fund. Also several funds had capital outlays with no budget for capital outlays. Are you sure that the Board didn't approve budget amendments, when the decision to make the capital purchases occurred (such as the cars for example)? N.D.

6) <sup>DA/Jm 2-20-</sup> Someone from the District has to review the financial statements and take responsibility for them before we can issue the report (other wise we aren't independent).

7) We are going to have several internal control findings so we would like to have had the chance to go over those with the two of you before they go to the Board so that we can agree on wording and that you are in agreement with our findings (sometimes clients are able to provide additional documentation that negates our findings).  
modified - /

I'll call you in the morning to discuss further (or you can call me if you prefer). Anytime after 8 am should be fine.

thank you,

Stake Committee - Jm  
Sent to

### Auditor Questions (cont.)

- o Were there any problems where the staff was not able to provide documentation or explanations to the satisfaction of the auditor?
- o Are there any changes that we could/should make to improve our manager's oversight?
- o Are there any changes that we could/should make to improve the Board's oversight?
- o What is different about this organization?



SPECIAL DISTRICT  
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### Auditor Questions (cont.)

- o Should management or the board have any particular concerns about current controls and operations?
- o Are there any recommendations for improvement for controls and operations, outside of the management letter?
- o How does this entity stack-up to others in the areas of, controls, operations, reporting, financial condition?



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## AGENDA SUPPORTING INFORMATION

### Agenda #2S

**Subject:** Discussion with some direction in regard to Bornt Property.

**Submitted by:** David Aranda, General Manager

**Meeting Date:** March 19, 2019

**Background:** The District took ownership of the Bornt Property on Thursday March 7, 2019. The primary purpose for the purchase of the property was in order to own and control a high producing well. The owners would only sell the well in conjunction with two 20-acre parcels and the office building that sits on the property. The purchase price was 1.8 million dollars.

The good news is that the well is in production producing at 850 gallons per minute.

The purpose for this discussion and some direction is for the following issues:

1. The District must pay property tax on the property that was purchased each year.
2. The District must maintain the property so that it does not create dust pollution in the Cummings Valley.
3. The District will need to operate and maintain the entire facility, including the building, parking lot and grounds around the building.

All of these responsibilities are going to create an expense for the District. The General Manager would like to propose the following ideas for consideration in order to offset some of the potential expenses in conjunction with this property.

- A. Work with Tehachapi Cummings Water District in their use of the property for recharge. This should generate some revenue.
- B. Consider making Tehachapi Cummings Water District a joint owner of the property in conjunction with the

possibility the property taxes would be waived by the County.

- C. Allow Grimmway to farm a portion of the property at no charge. The type of loan the District obtained forbids us to lease the property to any private entity. We may want to reexamine the loan in one year. Meanwhile I thought it would be a win win if Grimmway farmed a portion of the property in return for the proper maintenance of the grounds in meeting pollution/dust control standards. The attorney does not agree with this concept and feels that it could still be an IRS issue. I am willing to take that chance but I am looking for board input.
- D. I am still attempting to look at the feasibility of using some the property for a solar power plant. I found a person who would do a feasibility study for \$4,500. This is an individual who did a feasibility study for Bear Valley. I am attempting to reach someone from Bear Valley that can give me a recommendation on this study.

Recommendation: I am asking the Board for the following approvals: 1. Continue to negotiate with TCCWD in their using the property and the SSCSD receiving some compensation for their use. 2. See if TCCWD would be interested in carrying joint title with the District in order to avoid paying property taxes. 3. Approve a Resolution allowing Grimmway to farm the property at no cost to Grimmway. 4. Continue to investigate a solar energy system by performing a feasibility study at \$4,500.



**From:** david aranda <daranda300@gmail.com>  
**Sent:** Thursday, February 28, 2019 3:07 PM  
**To:** lcook@stallionspringscsd.com  
**Subject:** Fwd: Cummings Valley Recharge Opportunities

Please print

Sent from my iPhone

Begin forwarded message:

**From:** Tom Neisler <[tneisler@tccwd.com](mailto:tneisler@tccwd.com)>  
**Date:** February 28, 2019 at 2:06:52 PM PST  
**To:** David Aranda <daranda300@gmail.com>  
**Cc:** "Bernard C. Barmann" <[bbarmann@kuhsparkerlaw.com](mailto:bbarmann@kuhsparkerlaw.com)>  
**Subject:** Cummings Valley Recharge Opportunities

David,

Thank you for meeting with me on February 26, 2019.

My notes on the meeting:

1. APN 448-051-33 (Superior Sod HG parcel)
  - a. TCCWD is interested in lease/purchase of parcel not encumbered by improvements
    - i. Approx. 15 acre remainder
  - b. If TCCWD to purchase
    - i. Commercial appraisal required
      1. TCCWD will utilize appraised value as basis of offer
        - a. SSCSD GM indicated this was logical approach
      2. Guesstimate of value approx. \$25,000/acre
      3. Consideration would be given to benefit to SSCSD if TCCWD develops recharge basins on 15 ac parcel
    - ii. Property can only be subdivided because both parties are public agencies
      1. 20 acre minimum zoning
      2. 2 parcels would be created approx. 5 ac and 15 ac
        - a. SSCSD to retain 5 acre parcel with building, well and other facilities
    - iii. Entire basin benefits by additional TCCWD recharge west of existing 19 ac recharge
  - c. If TCCWD to lease
    - i. Lease value to approximate Ag lease value
      1. Approx. \$300/acre/year
      2. Revocable by either party with one year notice
        - a. Restore to original condition
    - ii. Provides more flexibility for both parties
    - iii. Proximity to recharge benefits still accrue to SSCSD and will be considered in lease rate
  - d. TCCWD and SSCSD will work to provide area for SSCSD solar installation

- i. Approx. 1 acre required
- 2. APN 448-051-34 (20 ac. Ag parcel east of Superior Sod HQ parcel)
  - a. SSCSD working on Ag lease
  - b. TCCWD could utilize this parcel as alternate
    - i. Would leave remainder parcel to west and adjacent to Pellisier Road (not desirable)
  - c. TCCWD could move boring hole to this parcel if SSCSD requested
- 3. APN 448-052-33 (SSCSD CV Well No. 1)
  - a. SSCSD has no interest in selling parcel
  - b. SSCSD is willing to allow TCCWD to extract water from well at fixed cost/AF
    - i. Current rate is \$100/AF when well is used for SSCSD flushing purposes
    - ii. SSCSD is willing to continue at this rate
      - 1. To be reviewed as appropriate to determine adequacy
  - c. TCCWD pumping well provides benefit to SSCSD
    - i. Hopeful that perchlorate will clear up and well can be returned to potable water production
  - d. TCCWD is willing to negotiate minimum annual withdrawal to increase flushing
    - i. TCCWD willing to surge well as SSCSD requests
- 4. Both GM's agreed that an agreement was within reach and TCCWD should continue due diligence
  - a. As directed by TCCWD BOD

Please let me know if you desire any revisions, additions or deletions.

I look forward to continuing to pursue this mutually beneficial arrangement.

Regards,



**Tom Neisler**

**General Manager**

Direct 661.771.1117

Main 661.822.5504 ext 117

Cell 661.331.2308

[tneisler@tccwd.com](mailto:tneisler@tccwd.com)

## David Aranda

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**From:** Lutfi Kharuf <Lutfi.Kharuf@bbkllaw.com>  
**Sent:** Thursday, February 28, 2019 2:33 PM  
**To:** 'David Aranda'  
**Subject:** RE: UPDATES

David – is the property adjacent to the District? We would have to apply for a reorganization to the local agency formation commission in the County. The application includes an initiating resolution, a property tax transfer agreement (if applicable), municipal service review, CEQA study if applicable, and additional studies showing viability of the reorganization. I think a lot of these will either be not applicable, or will be relatively easy and streamlined given the size of the parcel and the fact that the District is the only owner.

Once we submit the application to LAFCO, LAFCO will refer the application to the affected public agencies (including the public agency we would be annexing from) for comment. LAFCO will then set a hearing date and prepare a report. At the hearing, LAFCO will make findings about whether or not the reorganization is tenable, considering comments provided by other affected agencies. If LAFCO approves the application, they may require a 30 day reconsideration period, a follow up hearing, or may also impose certain terms and conditions for the annexation. If there are no hiccups, the annexation will go forward, and LAFCO will file necessary documents with the state.

This is a very bare bones explanation, and we can provide a more detailed explanation (or put you in touch with one of our experts here that handles these issues regularly). I don't think that the challenges that typically face reorganizations will apply, given the size of the parcel and the fact that the District is the only owner.

Lutfi

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**From:** David Aranda [mailto:daranda@stallionspringscsd.com]  
**Sent:** Thursday, February 28, 2019 11:26 AM  
**To:** Lutfi Kharuf  
**Subject:** RE: UPDATES

Hi Lutfi: What would be involved in annexation for that property? David.

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**From:** Lutfi Kharuf <Lutfi.Kharuf@bbkllaw.com>  
**Sent:** Tuesday, February 26, 2019 3:59 PM  
**To:** 'David Aranda' <daranda@stallionspringscsd.com>  
**Cc:** Ruben Duran <Ruben.Duran@bbkllaw.com>  
**Subject:** RE: UPDATES

Property TAX

Hi David,

I did some research and also spoke with Mike Huerta at the County today, and got a better understanding of the situation here.

As we discussed, all property owner by a public agency is exempt from property tax, unless a specific exemption applies. One exemption relates to acquisition of property outside of the jurisdiction that is taxable at the time it is acquired. This exemption is set forth in article XIII, section 11(a) of the Constitution, and was enacted in part to prevent the negative effects of "land banking," where public agencies (particularly LA and San Francisco) would acquire large swathes of land outside of their jurisdiction, depriving those other counties of tax revenue.

What this means for the property that is being acquired is that it will be subject to property tax. Stallion Springs is acquiring it from a private entity that is currently paying property tax, so it is taxable at the time of acquisition. It will remain outside of Stallion Springs territorial boundaries, so the exemption for publicly owned property from

There is a work-around, but I'm not sure that it will be an option for Stallion Springs. The work-around is to bring this property within the boundaries of the District through an annexation.

We can try to appeal the determination of the County. When we finally had our call, I mentioned that the property will be used for a public purpose for the provision of water, but he said that would not matter. Based on my research, I believe that to be the case.

I am sorry this isn't the answer we were hoping for, but after digging into the research a bit more and speaking with the county, I think that their initial determination was correct. We can always appeal and try to go through the process to remove the property tax, but I do not think this would be a successful effort.

Lutfi

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**From:** David Aranda [<mailto:daranda@stallionspringscsd.com>]

**Sent:** Tuesday, February 26, 2019 11:18 AM

**To:** Ruben Duran; Lutfi Kharuf; Todd Gee

**Subject:** UPDATES

Gentlemen: We are hoping to see the close of the Bornt property next week. Todd you asked about the bill of sale listing. I reviewed the property and what I see is a 10,000 gallon potable water tank, the well with all the housing and piping, the building with the only contents remaining is a refridgerator and stove. Does this information provide what you need to complete the bill of sale?

Lutfi, you were going to check into the district paying property on property outside of the District boundaries. Any update on that status?

Ruben, you were going to check with the attorney that was successful in obtaining settlement money on wells polluted with TCP 123. Any update?

Thank you. David.

This email and any files or attachments transmitted with it may contain privileged or otherwise confidential information. If you are not the intended recipient, or believe that you may have received this communication in error, please advise the sender via reply email and immediately delete the email you received.

## Fwd: Bornt Cummings Valley Land Purchase by Stallion Springs

From: david aranda &lt;daranda300@gmail.com&gt;

Sent: Tue, Jan 22, 2019 at 11:02 am

To: lcook@stallionspringscscd.com

image001.png (7.4 KB)

Please print

Sent from my iPhone

Begin forwarded message:

**From:** Lutfi Kharuf <Lutfi.Kharuf@bbklaw.com>  
**Date:** January 22, 2019 at 9:47:50 AM PST  
**To:** 'david aranda' <daranda300@gmail.com>  
**Cc:** Ruben Duran <Ruben.Duran@bbklaw.com>  
**Subject:** RE: Bornt Cummings Valley Land Purchase by Stallion Springs

Hi David – it was nice speaking with you this morning.

The District is purchasing the property with proceeds of a tax-exempt loan. As a result, there are limitations on what the District can do with the property. Specifically, section 141 of the Internal Revenue Code (26 U.S.C. section 141) provides that bonds that finance private business use, and receive private payments, are considered "private activity bonds." Except for certain qualified bonds (none of which apply here), interest on private activity bonds is taxable. If portions of the property acquired with the tax-exempt financing are leased to Grimmway, a private entity which would use the property for a private purpose, and the District will be receiving payments for use of that property from Grimmway (i.e. lease payments), this would cause the underlying financing to become a taxable transaction, which would cause the cost of the financing to the District to increase significantly.

The District can always go back and re-approve a higher interest rate and different terms for this financing, since it has not yet closed. However, the District should consider whether the amounts earned from lease payments on the property will justify the higher cost of the financing resulting from a higher interest rate.

The Internal Revenue Code requires that the District have a reasonable expectation to use the property for a public purpose. If at some point 5 or 10 years in the future, circumstances change such that the District must use the property for a private purpose, the District will be allowed to take certain remedial actions to prevent converting the financing to a taxable financing. For example, the District can use any private payments it receives from selling a portion of the property (or, potentially, lease payments) to pay down the debt. However, those remedial actions are not available for some time after issuance of the bonds.

Hopefully this helps, and please let me know if you have any questions.

Lutfi

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**From:** david aranda [<mailto:daranda300@gmail.com>]  
**Sent:** Tuesday, January 22, 2019 7:50 AM  
**To:** Lutfi Kharuf  
**Subject:** Fwd: Bornt Cummings Valley Land Purchase by Stallion Springs

Could you please call me to discuss what I need thanks David

Sent from my iPhone

Begin forwarded message:

**From:** Carl Voss <CVoss@grimmway.com>  
**Date:** January 18, 2019 at 9:00:30 AM PST  
**To:** "David Aranda ([daranda300@gmail.com](mailto:daranda300@gmail.com))" <[daranda300@gmail.com](mailto:daranda300@gmail.com)>  
**Cc:** Frank Iturriria <[FIturriria@grimmway.com](mailto:FIturriria@grimmway.com)>  
**Subject:** Bornt Cummings Valley Land Purchase by Stallion Springs

David:

On behalf of Grimmway, I would state that we are very much interested in leasing the open land that you will be acquiring around Bornt's office and well site. As you know, Bornt has quit farming in the Cummings Valley and we have been acquiring their leaseholds. We would propose leasing this land on a long term basis and utilizing T-CCWSD water supplies to irrigate our crops. Please let us know at your earliest convenience when we might discuss lease terms in more detail.

Thanks

## Vanessa Stevens

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**From:** David <daranda300@gmail.com>  
**Sent:** Wednesday, February 27, 2019 7:46 AM  
**To:** 'Vanessa Stevens'  
**Subject:** FW: Solar project evaluation - SeldEnergy  
**Attachments:** Prof Services Agreement (Seldenergy -SSCSD) .docx

Please print

**From:** Tom Selden [<mailto:tselden@seldenergy.com>]  
**Sent:** Tuesday, February 26, 2019 1:59 PM  
**To:** David Aranda ([daranda300@gmail.com](mailto:daranda300@gmail.com)) <[daranda300@gmail.com](mailto:daranda300@gmail.com)>  
**Subject:** Solar project evaluation - SeldEnergy

Hi David,

It was good meeting/speaking with you this morning regarding possible development of a solar project at Stallion Springs, in conjunction with Impact Energy and Solar. As you requested, I attached my standard 'services agreement', tailored specifically for a 'solar project evaluation' for SSCSD. I think you'll find it mutually-agreeable, but please review and make any suggested edits. In particular, please pay attention to Exhibit A (Scope of Work). If you approve of the contract, I'll make an official version for signature.

Also, I would like to re-iterate my experience with working on a very similar solar project with Bear Valley Community Services District within the last few years. I worked closely with Don Davis (General Counsel), and informed him that you may be contacting him. The BVCSD project (as initially designed) was stopped due to insufficient capacity with a particular substation of SCE's, but the CSD is considering a smaller project in order to circumvent the issue. There may be an opportunity for some "economies of scale" if both CSDs were to simultaneously develop solar projects!

Looking forward to hearing from you... thanks!

Regards,

**Tom Selden**

SeldEnergy - solar project development, financing, and consulting

949.887.6411

Connect on LinkedIn: [www.linkedin.com/in/tom-selden](http://www.linkedin.com/in/tom-selden)

 **SeldEnergy**

## David Aranda

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**From:** Lutfi Kharuf <Lutfi.Kharuf@bbkllaw.com>  
**Sent:** Monday, March 4, 2019 4:24 PM  
**To:** Ruben Duran; 'David Aranda'; John Rottschaefer  
**Subject:** RE: Farming

Hi David – thanks for providing the information below.

This approach could still result in taxability issues, and if you want to proceed with an arrangement with Grimmway to do so, I think that this warrants a deeper tax analysis. I have also included John Rottschaefer on this email – he is the head of our public finance group, and is also an expert on tax exempt issues relating to public finance.

The problem with the actions proposed in the resolution goes again to the private activity issues that we previously discussed prior to and immediately after closing. Here, the District acquired property for a public purpose, but is contemplating allowing a private entity to use the property for a private purpose. Additionally, although the District would not be receiving direct payment, the District is receiving free services that offset costs the District would otherwise incur, which could be construed as indirect payments. Generally speaking, these are the two factors that the IRS would look to when determining whether or not the private activity restrictions are violated such that the financing could lose its tax exempt status.

The District explicitly covenants not to take such an action in section 6.05(b) of the Installment Sale Agreement:

(b) Private Activity. The District shall assure that the proceeds of this Agreement are not so used as to cause this Agreement to satisfy the private business tests of Section 141(b) of the Internal Revenue Code of 1986, as amended (the "Code"), or the private loan financing test of Section 141(c) of the Code.

So, the action proposed in the resolution raises some red flags. We are happy to provide a deeper analysis at your request, but I am not sure that additional review will result in a change of this conclusion. As mentioned before, I included John on this email who is much more knowledgeable on tax exempt issues than I am, and I have spoken with him today about the transaction and proposed actions in general terms.

Lutfi

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**From:** Ruben Duran  
**Sent:** Monday, March 04, 2019 1:41 PM  
**To:** 'David Aranda'; Lutfi Kharuf  
**Subject:** RE: Farming

Thanks, David. That's helpful.

Ruben

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**From:** David Aranda [mailto:daranda@stallionspringscsd.com]  
**Sent:** Monday, March 04, 2019 12:53 PM  
**To:** Lutfi Kharuf; Ruben Duran  
**Subject:** RE: Farming

We have no interest in doing anything with the dirt that is part of the 40 acres. TCCWD does have an interest in some acres for a potential recharge site. That is a priority. So the advantage for Grimmway to farm would be the maintenance of the property would fall on Grimmway which would allow us to not worry about labor and renting equipment to accomplish the maintenance. The primary concern is the need to overplant the property to avoid dust storms and pollution violations. David.

**From:** Lutfi Kharuf <Lutfi.Kharuf@bbklaw.com>  
**Sent:** Monday, March 4, 2019 11:55 AM  
**To:** 'David Aranda' <daranda@stallionspringscsd.com>; Ruben Duran <Ruben.Duran@bbklaw.com>  
**Subject:** RE: Farming

David – thanks for sending this. Can you explain in a bit more detail what the benefits are to the District of allowing Grimmway to utilize portions of the property for free to farm? Also, how many acres of the total 40 acres will Grimmway be allowed to use?

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**From:** David Aranda [<mailto:daranda@stallionspringscsd.com>]  
**Sent:** Monday, March 04, 2019 11:21 AM  
**To:** Ruben Duran; Lutfi Kharuf  
**Subject:** Farming

Gentlemen: Attached is a draft resolution that would allow Grimmway to farm a designated portion of the property we are purchasing. As noted in the resolution the reasons for not charging is outlined and the reasons for allowing them to use the property for one year is outlined. Let me know what you think? Thanks David.

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**BEFORE THE BOARD OF DIRECTORS OF THE  
STALLION SPRINGS COMMUNITY SERVICES DISTRICT**

Resolution No. 2019-03

A RESOLUTION OF THE BOARD OF DIRECTORS OF STALLION SPRINGS COMMUNITY SERVICES DISTRICT ALLOWING GRIMMWAY FARMS TO UTILIZE DISTRICT PROPERTY IN REGARD TO FARMING.

WHEREAS,

1. The District purchased approximately 40 acres of property in Cummings Valley and,
2. The District received financing through a tax-exempt loan and,
3. The District is responsible for the proper maintenance of the property and,
4. The District is limited in use of the property for 2019 and 2020.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors that:

1. Grimmway Farms does organic farming in the area,
2. Grimmway Farms has expressed a desire to farm on the District property.
3. It would serve the Districts interests to have the property properly maintained and cared for to meet pollution standards and dust control.
4. It would serve the Districts interests to have proper security for the property.

THEREFORE, be it resolved that Stallion Springs Community Services District enters into an agreement with Grimmway Farms to farm the area as designated on Exhibit "A" and to place equipment in the area on Exhibit "B" at no charge.

Grimmway Farms agrees to properly care for the property, be "eyes and ears" for the property and see that the property meets all current laws regarding pollution control, dust control and weed abatement.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Stallion Springs Community Services District this 19<sup>th</sup> day of March 2019, on the following roll call vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

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Ed Gordon, President  
Board of Directors

Attest:

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Vanessa Stevens, Secretary  
Board of Directors