

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: OCTOBER 7, 2013
FROM:  KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #7: First Quarter Financial Review for Period July 1 through September 30, 2013

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of this report and file.
2. Approve the following amendments to the FY 2013-14 Budget and direct the Executive Officer to take the actions necessary to effectuate the changes identified as:
 - a) Increase Revenue 9970 (Carryover from Prior Year) by \$80,446 to \$223,225 for a Total Revenue of \$1,495,187.
 - b) Increase Total Appropriation by \$80,446 to \$1,495,187 by taking the following actions:
 - i. Increase Expenditure Account 2085 (Legal Notices) by \$2,500 to \$24,000.
 - ii. Increase Expenditure Account 2310 (Postage) by \$3,200 to \$13,670.
 - iii. Fund Expenditure Account 2335 (Temporary Services) for \$13,323.
 - iv. Fund Expenditure Account 2414 (Application Development) for \$11,961.
 - v. Increase Expenditure Account 2424 (Environmental) by \$9,103 to \$18,053.

- vi. Increase Expenditure Account 2445 (Other Professional Services) by \$4,300 to \$44,950.
- vii. Increase Contingencies (Account 6000) by \$36,059 to \$99,872.

BACKGROUND:

The first quarter of Fiscal Year 2013-14 has concluded and staff is presenting the first financial report which includes a review of the financial activities and the presentation of a spreadsheet (Attachment #1) outlining expenditures and revenues through September 30, 2013. Included within the discussion will be an update on approved activities – Fiscal Indicators Program, Website Update and the Off-cycle Service Review for the Newberry, Daggett, and Yermo CSDs.

In addition, staff continues to work with the staff of the County Auditor-Controller/Treasurer/Tax Collector on the contract for continuing to receive the full range of services for LAFCO. The Commission will recall that as a part of the year-end report presented at the July hearing, staff was directed to notify the County of its desire to continue to receive payroll and accounting services. Staff has met with representatives of the ATC to begin the contract process. It is anticipated that the contract will be presented at the November hearing for consideration.

The following provides a review of the first quarter financial activity that includes a discussion of expenditures and reserves, revenues received, and a description of cash in the County Treasury as well as providing an update on special project activities.

Expenditures and Reserves

Expenditures are comprised of two categories of accounts: 1) Salaries and Benefits, and 2) Services and Supplies. Through the first quarter, total expenditures are at 21% of Adopted Budget authority. There has been no request made for utilization of funds maintained in the Contingency and Reserve accounts. A more detailed analysis of the categories is as follows:

1. Salaries and Benefits (1000 series)

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$128,591 through the first quarter, representing 19% of Adopted Budget authority. This amount is six percent lower than the 25% benchmark due to lower staffing levels.

This decrease in expenditures is explained by the deferral of the recruitment of the LAFCO Secretary position during the quarter. However, the recruitment of the Secretary is nearing completion, with the position anticipated to be filled by early November dependent upon other actions taken at this hearing. To date, clerical support has been acquired through a contract with a temporary employment agency. This in turn has led to a decrease in Salary and Benefits costs as these costs are

accounted for in the Services and Supplies series of accounts (Account 2335), representing an overall reduction of approximately \$10,000.

2. Services and Supplies (2000 and 5000 series)

A. *First Quarter Activity*

For the first quarter, the Services and Supplies series of accounts (2000 and 5000 series) had expenditures of \$80,638, or 25% of Adopted Budget authority. Payments that are typical to the first quarter that have taken place include payment for the California Association of LAFCOs (CALAFCO) membership, the CALAFCO Annual conference (registration, hotel, and travel for staff and Commissioners), and the Commission's property and liability insurance.

In addition, the first quarter included approximately \$9,800 in expenses for Temp Services (Account 2335) providing for the contract clerical support. This amount is for activity from June through August. This contract ended October 4, and all outstanding invoices for activity through the contract end date will be processed by the County Auditor in October. An action recommended for the Commission is to provide funding in Account 2335 (Temporary Services) to accommodate the clerical support contract.

Given these one-time and full-year costs, expenditures are generally on target for the fiscal year.

B. *Anticipated Expenditures*

Budgeted and anticipated activities for the second quarter include significant expenditures, identified as:

- Full-year payments for the annual financial audit (\$8,600) and subscription to the County Street Network (\$10,500) for maintenance of digital mapping.
- Payments for the Commission-approved projects for the *Fiscal Indicators* project and special study for Daggett, Newberry, and Yermo Community Services Districts (roughly \$30,000).
- Possible payment to either County ISD or County Surveyor for conversion LAFCO's digital maps to a more interactive format for placement on the LAFCO website (\$9,000).
- Significant legal advertisement, publication, and printing costs as the Commission considers the service reviews for the Valley communities.

C. Status of Ongoing Commission-approved Projects

The following provides an update on expenditures and progress on projects approved by the Commission during the budgetary process or in response to recommendations of the County Grand Jury.

WEBSITE UPDATE:

As a part of the FY 2012-13 budget, the Commission approved the expenditure of up to \$10,629 for updating the LAFCO website. The new website is active as of July 2013, the County Information Services Department (“ISD”) portion of the project is complete, and LAFCO staff is assuming operational control of maintenance of the website. The County ISD has charged \$9,562, or 90% of budget approval for the project.

FISCAL INDICATORS:

At the September hearing, the Commission approved the Fiscal Indicators project with County ISD for \$13,179 with a 10% contingency, bringing the not-to-exceed total to \$14,497. The FY 2013-14 budget allocates \$3,500 towards the project, leaving a remaining cost of \$10,997. The Commission determined to fund the remaining \$10,997 from the unassigned carryover of funds from FY 2012-13 into FY 2013-14. ISD work on the project began September 30, and is estimated to take six weeks to complete. Staff is recommending that the Commission take the specific action to increase funding in the appropriate accounts from unassigned additional carryover from the prior fiscal year to cover the increased costs for the program.

Additionally, staff issued a survey on the fiscal indicators to the County, Cities, Special Districts, and the JPAs that provide a municipal service to seek their opinion on the range of indicators to be included. The survey yielded a 66% response rate. In late October/early November staff will conduct a workshop with the agencies who have indicated a desire to participate in a working group to determine the final indicators for use in the program. Copies of audits for five years have been requested from all agencies under the Commission’s purview and will be utilized in the development of the program.

Staff will provide a status update on the project at regular intervals to the Commission as the Valley Region Service Reviews progress and provide an update as to the expenditures in the development of this program as a part of the mid-year financial review in January.

SHARED SERVICES:

The Executive Officer will be working with the County to assist in developing this system to support the County Vision and the LAFCO service review needs.

Current efforts have been directed toward the Fiscal Indicators Program and will now shift to the development of the Shared Services database. Staff will provide an update for this project at the January hearing. No project cost information is available at this time.

**SPECIAL STUDY FOR DAGGETT, NEWBERRY, AND YERMO
COMMUNITY SERVICES DISTRICTS:**

In response to the 2012-13 Grand Jury's report related to the Newberry Community Services District, at the September hearing the Commission initiated a special study for the Newberry CSD and the bordering Daggett and Yermo CSDs. The Commission also allocated \$10,000 towards the study from the unassigned carryover of funds from FY 2012-13 into FY 2013-14 with an additional \$5,000 to be provided by the County First Supervisorial District.

Staff has forwarded a letter notifying the agencies of the Commission's action and requesting information items to begin the process. In addition, staff will be conducting a site visit in early November. Staff will provide a status update on the special study at regular intervals over the fiscal year.

3. Contingency and Reserves (6000 series)

No activity has been authorized by the Commission to take place in the Contingency or Reserve accounts through the first quarter.

Revenues

1. Revenues through First-Quarter

The Commission has received 108% of Adopted Budget revenues through the first quarter. The items below outline the revenue activity:

- Interest (Account 8500) - A minimal amount of \$534 in interest revenue from the Commission's cash in the County Treasury as this reflects the final quarter of Fiscal Year 2012-13 cash. In addition, interest rates remain low. The bulk of LAFCO's revenues are received during the first quarter of the fiscal year through receipt of its annual apportionment. However, it is anticipated that the annual interest rate will remain below 1% for the balance of the year providing limited resources.
- Apportionment (Account 8842) - 99% of the mandatory apportionment payments from the County, cities, and independent special districts billed by the County Auditor have been received. At the September hearing, staff identified that two independent special districts and one city had outstanding payments. Since that time, the city payment was received. Remaining are the two independent special districts, whose apportionment payments will be received in the second

quarter through a reduction in the first proceeds of those districts' property tax allocation.

- Fees and Deposits (Accounts 9545 – 9800) – Through the first quarter, the Fees and Deposits series of accounts has received 130% of its budgeted revenue (\$44,071). Of this amount, 86% is related to proposals, 7% to service contracts, and 7% to cost recovery.

Of note, Item 6 on this month's agenda is a request from Helendale Community Services District for a reduction in filing fees for its reorganization proposal that was received by LAFCO in September (LAFCO 3175). Should the Commission grant its request, then this category of accounts would decrease accordingly.

- Carryover from Prior Year (Account 9970)

The fund balance at prior year's closure was carried forward into FY 2013-14 (\$621,355), and is composed of the following:

- All of the Contingency and Reserve funds identified in the FY 2012-13 budget have been carried forward, \$398,130.
- Carryover of \$142,779 into FY 2013-14 to balance FY 2013-14 budget.
- Additional cash carryover of \$80,446 composed of the following:
 - Liabilities of \$35,176 include deferred revenue related to open applications and accounts payable.
 - Allocated but unspent funds of \$7,578 from Commission-approved projects.
 - Unassigned carryover of \$37,692. At the September hearing, the Commission allocated \$10,997 for the *Fiscal Indicators* program and \$10,000 for the special study for the Daggett, Newberry, and Yermo Community Services Districts from this source. This leaves \$16,695 to be allocated for a balanced budget.

2. Proposal Activity

The figure below identifies the number of proposals and service contracts received through the first quarter. The figure identifies that two proposals and one service contract were received in the first quarter. Attachment #2 to this staff report includes a chart showing the yearly comparison of proposal, service review, and completed service review activity.

Activity	Budget	ACTUAL	
		No.	% of Budget
Proposals	3	2	67%
Service Contracts - Commission approval	1	0	0%
Service Contracts - Admin (E.O.) approval	3	1	33%
Protest Hearing Deposits	3	0	0%

Two service reviews were finished during the first quarter, completing the first cycle of service reviews. The remainder of the year anticipates the completion of the off-cycle service reviews for the Daggett, Newberry Springs, and Yermo communities (related to the Grand Jury report); and second cycle service reviews for wastewater, retail water, and fire protection for the Valley Region.

Cash in Treasury

As of September 30, the Commission's cash in the County Treasury was \$1,312,879. A breakdown of this amount is shown below.

SEPTEMBER 30, 2013 Cash Balance		\$1,312,879
Liabilities (as of Oct 3)		
Unearned Revenue from open applications		(39,783)
Deposits Payable to be spent or refunded from open applications		(11,607)
FUND BALANCE (Cash - Liabilities)		\$1,261,489
Committed (formal action to impose, remove, or modify)		
COWCAP Reserve (Account 6010)		(46,780)
Compensated Absences Reserve (Account 6030)		(66,620)
Assigned (limitation resulting from intended use)		
Contingency (Account 6000)		(63,813)
General Reserve (Account 6025)		(250,000)
Projected Remaining Budgeted Expenditures		(778,298)
Commission-approved Projects not in Final Budget		(20,994)
Estimated Carryover Revenue/(Additional Revenue Needed)		\$34,984

DISCUSSION OF BUDGET AMENDMENTS

As identified above, the fund balance at the close of the Fiscal Year included an additional cash carryover of \$80,446. This section discusses and recommends Commission action to adjust the budget to account for the increase in year-end

carryover into FY 2013-14 as well as to accommodate post-budget actions and circumstances. The breakdown of this amount as well as staff's recommendation for Commission action is outlined below. The recommended changes are identified on the attached spreadsheet in red, bold, italic.

1. Liabilities of \$35,176 to include deferred revenue to be spent or refunded from open applications and accounts payable.

Of this amount, \$2,603 is due to deposits payable from open applications for environmental activity. Additionally, this fiscal year \$6,500 in additional deposits were received for supplemental environmental analysis for open applications. Staff recommends that Expenditure Account 2424 (Environmental) be increased by \$9,103 to accommodate these anticipated costs.

It is anticipated that \$13,323 is the cost for utilizing temporary staffing from July 1, 2013 through October 7, 2013. Staff recommends that Expenditure Account 2335 (Temporary Services) be funded accordingly to accommodate these costs.

The remaining \$12,750 is due to unearned revenue (LAFCO Filing Fees) from open applications. These funds are not tied specifically to any one account and are used to accommodate staff time and staff-related expenses. Since the 1000 series of accounts (Salaries and Benefits) already accounts for staffing costs, staff recommends that these funds be placed into Contingencies and that Account 6000 (Contingencies) increase accordingly.

2. Allocated but unspent funds of \$7,578 from Commission-approved projects.

A. Closed Projects

Two projects from the prior fiscal year (digitizing proposal files and website update) are closed and were under budget. The project to update the Commission's website incurred an invoice of \$964 in September for work done in June. Staff recommends that Account 2414 (Application Development) be funded accordingly. This leaves \$4,114 remaining from these two projects. Staff recommends that these funds be placed into Contingencies, and that Account 6000 (Contingencies) be increased accordingly.

B. Project not started in FY 2012-13

The third project, Fiscal Indicators, had an allocation of \$2,500 in Fiscal Year 2012-13. The project did not commence until October 2013 and is fully funded in the FY 2013-14 budget. Staff recommends that these carryover funds be placed into Contingencies, and that Account 6000 (Contingencies) be increased accordingly.

3. Unassigned carryover of \$37,692.

Unassigned carryover represents any carryover that cannot be identified for a specific purpose from the prior year budget. At the September hearing, the Commission allocated \$10,997 for the *Fiscal Indicators* program and \$10,000 for the special study for the Daggett, Newberry, and Yermo Community Services Districts from this source. Staff recommends that these activities be accommodated as follows:

- Fund Account 2414 (Application Development) by \$10,997 to accommodate the *Fiscal Indicators* program.
- Special Study for Daggett, Newberry, and Yermo CSDs (\$10,000)
 - Increase Account 2085 (Legal Notices) by \$2,500
 - Increase Account 2310 (Postage) by \$3,200
 - Increase Account 2445 (Other Professional Services) by \$4,300

The balance of \$16,695 remains unassigned; therefore staff recommends that these funds be placed into Contingencies and that Account 6000 (Contingencies) increase accordingly.

CONCLUSION AND REQUESTED COMMISSION ACTION

The First Quarter Financial Report identifies that the expenditures of the Commission are within budget targets, proposal activity revenues are at full-year anticipated amounts, and cost savings have been identified with the hiring of the LAFCO secretary position in October. Of specific note is that the report identifies that proposal activity revenues have reached full-year levels, an indication that proposal activity is on the uptick after many years of stagnant activity. All are positive financial occurrences.

Staff recommends that the Commission take the actions identified in the recommendation section on page 1. Staff will be happy to answer any questions from the Commission prior to or at the hearing regarding the items presented in this report.

KRM/MT

Attachments:

1. [Spreadsheet of First-Quarter Expenditures, Reserves, and Revenues](#)
2. [Chart Illustrating Yearly Proposal, Service Contract, and Service Review Activity](#)