

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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**DATE:** FEBRUARY 10, 2014   
**FROM:** KATHLEEN ROLLINGS-McDONALD, Executive Officer  
MICHAEL TUERPE, Project Manager  
**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item #8: Mid-Year Financial Review for Period July 1 through  
December 31, 2013

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## **RECOMMENDATION:**

Staff recommends that the Commission:

1. Provide direction to staff on items of concern for the balance of the fiscal year;
2. Note receipt of this report and file; and
3. Approve the write-off of the uncollectible amount owed to LAFCO of \$1,728 for the Baker Community Service Review.

## **BACKGROUND:**

Staff is presenting the Commission with the FY 2013-14 mid-year financial report which includes:

1. A review of the mid-year financial activities and the presentation of a spreadsheet (Attachment #1) outlining expenditures and revenues through December 31, 2013. The spreadsheet also provides a forecast of anticipated expenditures and revenues through the end of the fiscal year; and
2. Discussion of an uncollectible amount owed for LAFCO 3159.

The report provides the detailing of the expenditure and revenue activities for the first half of Fiscal Year 2013-14. The following information includes a description of

expenditures and reserves, revenue and proposal activity, and cash in the County Treasury.

## **Expenditures and Reserves**

Expenditures are comprised of two categories of accounts: 1) Salaries and Benefits, and 2) Services and Supplies. Through the mid-year, total expenditures are at 45% of Adopted Budget authority. No request for utilization of the funds maintained in the Contingency and Reserve accounts has been made as analysis shows that current budget authorization is sufficient to accommodate anticipated expenditures. A more detailed analysis of the categories is as follows:

### 1. Salaries and Benefits (1000 series)

#### A. *Mid-Year Activity*

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$291,943 through the mid-year, representing 44% of Final Budget authority. This amount is six percent lower than the 50% benchmark due to the LAFCO Secretary not starting employment until mid-October. Prior to October, clerical support was acquired through a contract with a temporary employment agency paid out of the Services and Supplies series of accounts (Account 2335). This has led to the decrease in Salary and Benefits costs of approximately \$25,000.

#### B. *Projected Remaining Activity*

There are no extraordinary activities anticipated for the second half of the Fiscal Year. Salaries and Benefits are forecast to end the year at 92% of budget authority.

### 2. Services and Supplies (2000 and 5000 series)

#### A. *Mid-Year Activity*

For the mid-year, the Services and Supplies series of accounts (2000 and 5000 series) had expenditures of \$153,762, or 48% of Final Budget authority within the normal range of activity for the period. Payments that are typical during the first two quarters that have taken place include activity from the prior year, full-year, and one-time payments such as payment for the California Association of LAFCOs (CALAFCO) and California Special District Association (CSDA) memberships, the CALAFCO conference (registration, hotel, and travel for staff and Commissioners), and the Commission's property and liability insurance. Given these one-time and full-year costs, expenditures are generally on target for the fiscal year.

*B. Projected Remaining Activity*

Services and Supplies are projected to end the year at 86% of budget authority. Budgeted and anticipated activities for the second half include significant expenditures, identified as:

- Remaining payments for the annual financial audit (\$4,174) and subscription to the County Street Network (\$10,500) for maintenance of digital mapping.
- Remaining payments for COWCAP (\$3,026).
- Payments for the Commission-approved projects for the *Fiscal Indicators* project and special study for Daggett, Newberry, and Yermo Community Services Districts (roughly \$20,000) including significant expenditures for advertising and mailing of notices. This special study has also been approved to include governance training by Special Districts Risk Management Authority (SDRMA) for the independent special districts.
- Anticipated payment to County ISD for conversion LAFCO's digital maps to a more interactive format for placement on the LAFCO website (\$3,000).
- Significant legal advertisement, publication, and printing costs as the Commission considers proposals and service reviews for the Valley communities.

*C. Status of Ongoing Commission-approved Projects*

The current Commission authorized projects have reached certain milestones, identified below:

**FISCAL INDICATORS:**

The background on this project is that County ISD work on the project began in October and was completed within the prescribed six weeks and the survey conducted with the County, Cities, Special Districts, and the JPAs that provide a municipal service to seek their opinion on the range of indicators yielded a 66% response rate.

After the presentation of the First Quarter Financial Report, staff conducted a workshop on October 30 with the agencies who had 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 from all agencies were requested and have been obtained. LAFCO staff is currently inputting that data into spreadsheet format – the most labor intensive part of the project for staff. The newly formatted

data will be provided to all agencies for review prior to placement on the LAFCO website. The first concentration is the agencies within the Valley Region, the current service review region under consideration.

As a part of budget approval, the project allocation was \$14,497. \$10,179 of this amount has been expended to date. Staff will continue providing status updates on the project at regular intervals to the Commission along with further discussion of the ongoing development of this program as a part of the FY 2014-15 budget in April.

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

At the September 2013 hearing the Commission initiated a special study for the Newberry CSD and the bordering Daggett and Yermo CSDs based upon the recommendations within the 2012-13 Grand Jury report. The Commission 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.

At the January hearing, the Commission authorized an additional \$5,000 for governance training to be provided by SDRMA for these districts, with an invitation to be offered to all independent special districts within the County. The training is scheduled for Tuesday, March 25 at 1:00 pm at the Mojave Water Agency in Apple Valley (copy of program announcement included as Attachment #3).

Staff conducted site visits with the three districts in November, and is conducting a second site visit with the Newberry CSD on February 10 since there have been significant director and staff changes: three new members of the Board of Directors, a new general manager and office staff since the first visit. Staff is currently working on the financial data submitted for the three districts; however, a complete financial review cannot be conducted until receipt of Newberry CSD outstanding FY 2011-12 and FY 2012-13 audits. The District has indicated that they anticipate completion of these documents by March.

The project allocation is \$20,000, of which \$167 has been expended to date. It is important to note that the majority of the costs for this project will be related to the SDRMA training, community meeting (advertised and individual notice provided), and Commission hearing (advertised and individual notice provided). Staff will continue providing status updates on the project at regular intervals to the Commission and provide an update as to the expenditures as a part of the FY 2014-15 budget review in April.

### 3. Contingency and Reserves (6000 series)

The Commission has not authorized nor has there been an identified need for activity in the Contingency or Reserve accounts through the mid-year. In addition, no activities are anticipated at this time to need supplemental funding for the remainder of the fiscal year.

## **Revenues and Proposal Activity**

### 1. Revenues

#### A. *Mid-Year Activity*

The Commission has received 104% of Budget revenues through the mid-year. The items below outline the revenue activity:

- Interest (Account 8500) – Forty-two percent of the budgeted interest has been received from the Commission's cash in the County Treasury. However, the bulk of LAFCO's revenues are received during the first quarter of the fiscal year. It is anticipated that the annual rate will remain at or just below 1% for the balance of the year.
- Apportionment (Account 8842) - 100% 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. However, prior to requesting the withholding of these revenues from the first proceeds of taxes, one special district and the city submitted its payments. As for the one outstanding special district, payment was received through a reduction from that district's property tax allocation.
- Fees and Deposits (Accounts 9545 – 9800) – Through Mid-Year, the Fees and Deposits series of accounts has received 186% of its budgeted revenue (\$63,279). Of this amount, 78% is related to proposals, 16% to service contracts, and 6% to cost recovery for completed actions.

#### B. *Projected Remaining Activity*

This LAFCO has historically taken a conservative approach to projecting revenues. Keeping with this practice, staff is projecting receipt of limited interest payments for the remaining two quarters and two proposals for the balance of the Fiscal Year. Total Revenues are projected to end the year at 106% of budget authority.

## 2. Proposal Activity

The figure below identifies the number of proposals and service contracts received through December 31, 2013. The figure identifies that four proposals and five service contracts were received through the mid-year. Attachment #2 to this report includes a chart showing the yearly comparison of proposal, service contracts, and completed service review activity. Staff is anticipating the receipt of two additional proposals in the coming months, to bring the anticipated year-end total to six proposals. The last time that six proposals were received was in FY 2010-11 and FY 2008-09; therefore, it appears that proposal receipts are emerging from many years of stagnant activity.

Activity	Budget	THROUGH MID-YEAR		PROJECTED	
		No.	% of Budget	No.	% of Budget
Proposals	3	4	133%	6	200%
Service Contracts - Commission approval	1	1	100%	1	100%
Service Contracts - Admin (E.O.) approval	3	4	133%	4	133%
Protest Hearing Deposits	3	0	0%	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 water conservation, open space and habitat preservation for the Valley Region along with the initiation of water, wastewater, fire protection and emergency response, and streetlighting to be considered in the following fiscal year.

## **Cash in Treasury**

As of December 31, 2013, the Commission's cash in the County Treasury was \$1,108,588. This amount is composed of the categories shown in the chart below. Taking into account expenditure and revenue projections, staff is projecting that all of the Reserves and Contingencies will carry forward into FY 2014-15.

<b>Dec 31, 2013 Cash Balance</b>	<b>\$1,108,588</b>
Projected Remaining Revenues	30,472
Projected Remaining Expenditures	(491,750)
<b>PROJECTED CASH CARRYOVER INTO FY 2014-15</b>	<b>\$647,311</b>
<b>Projected Cash Carryover is composed of the following:</b>	
<b>Liabilities</b>	
Unearned Revenue from open applications	23,854
Deposits Payable to be spent or refunded from open applications	11,354
<b>Committed (formal action to impose, remove, or modify)</b>	
COWCAP Reserve (Account 6010)	46,780
Compensated Absences Reserve (Account 6030)	66,620
<b>Assigned (limitation resulting from intended use)</b>	
Contingency (Account 6000)	99,872
General Reserve (Account 6025)	250,000
<b>Unassigned Cash Carryover, Estimated</b>	<b>148,831</b>
<b>PROJECTED CASH CARRYOVER INTO FY 2014-15</b>	<b>\$647,311</b>

### **WRITE-OFF OF UNCOLLECTIBLE ACCOUNT**

In July 2013, the Commission considered LAFCO 3159 – Service Review and Sphere of Influence Update for the Baker Community. The only public agency identified in this review was the Baker Community Services District (“District”). The District has been the only non-participant to date for the state-mandated service review and sphere of influence update program. Nonetheless, staff recommended and the Commission approved a substantial sphere expansion for the District.

Item A3c of San Bernardino LAFCO’s adopted Fee Schedule requires a \$500 deposit from agencies for a sphere update/service review to address advertising and notification costs. Throughout the review the District did not respond to any of LAFCO’s requests for information, nor was the required \$500 deposit submitted. Additionally, the Fee Schedule reads as follows:

For the item above, agencies will be required to reimburse the Commission for all direct charges (LAFCO legal counsel, environmental review, reproduction costs, notification costs, etc.) in excess of the deposit. If charges billed to LAFCO are less than the amount of the deposit, the balance of the deposit will be refunded to the applicant.

Costs incurred by LAFCO in conducting LAFCO 3159 total \$1,728 (not including staff time which cannot be recovered for a service review). Staff invoiced the District on September 16, October 16, and November 13, along with copies of each billing item. Collection procedures have been conducted without results, coupled with the lack of response from the District; therefore, the outstanding balance has been determined to be an account which is uncollectible.

Staff is recommending that the Commission determine the amount owed to LAFCO of \$1,728 for LAFCO 3159 (Baker Community Service Review) to be uncollectible and approve the write-off of the amount. This will make the determination that the amount is no longer recognized as collectible receivables for financial reporting purposes. All financial documentation related to LAFCO 3159 will be a part of the materials for the 2014 audit.

### **CONCLUSION AND REQUESTED COMMISSION ACTION**

The mid-year 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 stagnation. All in all the staff is providing a positive financial forecast for the balance of the fiscal year.

Additionally, collection efforts have been unsuccessful for charges incurred related to the Baker Community service review. Should the Commission approve the write-off of the uncollectible amount owed to LAFCO, then the amount would no longer be recognized as collectible receivables for financial reporting purposes and all related documentation would be readily available for the financial audit. These costs will be absorbed by the funding provided by the other agencies required to fund LAFCO operations.

Staff recommends that the Commission take the actions identified in the recommendation section on page 1 of this report to receive and file the report and address the lack of response from the Baker CSD. Staff will be happy to answer any questions from the Commission prior to or at the hearing.

KRM/MT

Attachments:

1. [Spreadsheet of First-Quarter Expenditures, Reserves, and Revenues](#)
2. [Chart Illustrating Yearly Proposal, Service Contract, and Service Review Activity](#)
3. [Program Announcement for Governance Training Scheduled for March 25](#)