

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

215 North D Street, Suite 204, San Bernardino, CA 92415-0490
(909) 383-9900 • Fax (909) 383-9901
E-MAIL: lafco@lafco.sbcounty.gov
www.sbclafco.org

DATE: OCTOBER 14, 2014 
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #10: First Quarter Financial Review for Period July 1 through September 30, 2014

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of this report and file.
2. Authorize the Executive Officer to sign the agreement with the County of San Bernardino ("County") and the County Auditor-Controller/Treasurer/Tax Collector ("ATC") in which the County and ATC will continue to provide accounting and payroll services to LAFCO, following final review by the Executive Officer and Legal Counsel.
3. To account for the increase in County Information Services Department charges, approve a transfer from Contingencies to Expenditures and direct the Executive Officer to take the actions necessary to effectuate the changes identified as:
 - a) Increase ISD Direct (Expenditure Account 2421) by \$11,000 to \$12,800.
 - b) Decrease Contingencies (Expenditure Account 6000) by \$11,000 to \$87,356.
4. Recognize the increase in Cash Carryover from Fiscal Year 2013-14 of \$15,929 in Revenue Account 9970 for a total of \$249,887.
5. Approve establishment of a separate reserve fund within the County Treasury and direct the Executive Officer to take following actions:

- a) Establish a new fund account with the County Auditor-Controller-Treasurer-Tax Collector.
 - b) Transfer \$429,329 from LAFCO's Operating Fund in the County Treasury (NHY 890) to the newly established Reserve Fund as follows:
 - 1) COWCAP Reserve (Expenditure Account 6010) - \$40,503, and Other Carryover Unassigned Revenue (Revenue Account 9970) - \$15,929 into a newly defined Net Pension Liability Reserve Account (Account 6010)
 - 2) General Reserve (Expenditure Account 6005) - \$300,000
 - 3) Compensated Absences Reserve (Expenditure Account 6030) - \$72,897
6. Amend Accounting and Reserve Policy #7 (Reserve Policy) to read as follows:

RESERVE POLICY *(Adopted April 21, 2011, Amended October 22, 2014)*

The Commission will require the maintenance of three separate reserves which shall be funded as a part of the annual budget adoption process as follows:

- a) The balance of San Bernardino LAFCO employee compensated absences at April 1 of each fiscal year shall be funded and placed in a committed reserve account in the following fiscal year budget;
- b) Annually the Commission shall set aside a minimum of \$200,000 in a committed reserve account for payment of potential litigation or other special need; and,
- c) A committed reserve account shall set aside funds for future payment of the Commission's net pension liability to the San Bernardino County Employees Retirement Association (SBCERA).

BACKGROUND:

The first quarter of Fiscal Year 2014-15 has concluded and staff is presenting the Commission with its first financial report. This report which includes a review of the financial activities and the presentation of a spreadsheet (Attachment #1) showing the line item expenditures and receipts during the period. The following narrative provides a discussion of:

- Expenditures and reserves, revenues received, an update on special project activities, and a breakdown of the fund balance at the end of the quarter.

- Recommended budget adjustment to account for unanticipated activity.
- Recommendation for the establishment of a new account to segregate reserve funds from the operating funds of the Commission.
- Approval of an agreement with the County to provide LAFCO with accounting and payroll services.

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 23% of Adopted Budget authority. There has been no request made for utilization of funds maintained in the Contingency and Reserve accounts for the first quarter; however, this report will detail a request for processing a transfer from contingency funds during the second quarter. 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 \$153,934 through the first quarter, representing 22% of Adopted Budget authority.

In Fiscal Year 2013-14 LAFCO staff processed a reciprocity change under the new retirement requirements, going from a Tier 2 status to a Tier 1 for Joe Serrano, LAFCO Analyst. This change required a calculation by SBCERA to correct the amounts due from the employee and employer for retirement purposes. It was estimated that the roughly \$3,400 would be transferred by year's end but the invoice from SBCERA to County Payroll has been past due since June. The invoice is to seek payment from the Commission to make LAFCO's employer contribution whole. LAFCO is working with County Payroll to resolve this payment issue. This is an unbudgeted expense which can be accommodated through the Salary Reserve established in Account 1000.

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 \$84,995, or 23% 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) and California Special Districts Association (CSDA) memberships, the CALAFCO Annual conference (registration, hotel, and travel for staff and Commissioners), and the Commission's property and liability insurance. These one-time and full-year expenditures are generally on target for the fiscal year.

B. Anticipated Expenditures

Anticipated activities for the second quarter include significant expenditures, identified as:

- Full-year payments for the annual financial audit (\$11,799) and subscription to the County Street Network (\$10,500) for maintenance of digital mapping.
- Payments for the Commission-approved special study for Daggett, Newberry, and Yermo Community Services Districts.

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.

FISCAL INDICATORS:

The Fiscal Indicators development project is nearing completion. All contracted work through the County's Information Services Department (ISD) is complete, and currently the Valley Region (through FY 2011-12) is active on the LAFCO website. The Mountain Region is anticipated to go live by October 22, followed by the North Desert and South Desert by December 19. The project allocation (with contingency) is \$14,497. To date, \$12,642 of this amount has been expended.

Once the project for all regions is live, it will transition from a special project to an ongoing maintenance activity. This project will be included in the annual budgeted for maintenance and preparation of the annual updates. The internal operating policy is that an annual update of the site will occur in July of each year.

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

In August, a working copy of the report was reviewed with the affected agencies and First District for comment and editorial purposes. At this Commission hearing, the Commission will conduct a workshop to review the draft staff report and provide direction to staff. Thereafter, a community meeting will be scheduled to review the draft staff report with the community, most likely to be held in late November/early December at the Silver Valley High School in Yermo. The final staff report will be presented to the Commission at the January 21, 2015 hearing for action.

The project allocation is \$20,000, of which \$410 in direct costs has been expended to date. In addition, staff time costs for processing this special study is estimated at this time at \$6,306. This leaves \$13,284 to cover the costs for final report preparation, the cost of the community meeting (advertisement and individual notice provided) and Commission hearings (advertisement and individual notice provided).

FEASIBILITY STUDY FOR INCORPORATION OF THE RIM OF THE WORLD COMMUNITIES:

At the September hearing the Commission authorized the contract with Rosenow Spevacek Group (RSG) to prepare the financial projections for this project with the notation that no work would begin until receipt of the County's payment for the project. On September 25, the funds were transferred and LAFCO staff will meet with RSG principal Jim Simon after the Annual Conference to begin this process. To date, no funds have been expended on this project.

3. Contingency and Reserves (6000 series)

No activity has been authorized by the Commission to take place in the Contingency or Reserve accounts during the first quarter. However, an occurrence has taken place which requires a budget adjustment to this account described later in this report.

Revenues

1. Revenues through First-Quarter

The Commission has received 104% of Adopted Budget revenues through the first quarter. The items below outline the revenue activity:

- Interest (Account 8500) - A minimal amount of \$737 in interest revenue from the Commission's cash in the County Treasury as this reflects the final quarter of Fiscal Year 2013-14 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 low for the balance of the year providing limited resources.
- 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 one city had outstanding payment, and the Commission directed staff to request that the County Auditor reduce the same amount from the city's first proceeds of property tax allocation. Since that time the city payment was received; therefore, there was no need to submit a request to the County Auditor as all payments have been received.

- Fees and Deposits (Accounts 9545 – 9800) – Through the first quarter, the Fees and Deposits series of accounts has received 51% of its budgeted revenue (\$30,018). Of this amount, 16% is related to proposals (cost recovery), 2% to service contracts, and 82% to the special feasibility study for the Rim of the World Incorporation.

At the July hearing the Commission authorized LAFCO staff to contract with the Second Supervisorial District to prepare a preliminary feasibility study for the incorporation of the Rim of the World communities. On August 19, 2014, the County Board of Supervisors, as a part of the 2013-14 Year-End Budget Review (Item #64), approved the Discretionary Funding of \$24,723 to be provided to LAFCO to prepare the financial study for the Rim of the World communities. Of this amount, \$15,000 is for a contract with Rosenow Spevacek Group Inc. to perform the financial study for the potential incorporation of the Rim of the World communities.

- Carryover from Prior Year (Account 9970)

The fund balance at the prior fiscal year's closure was carried forward into FY 2014-15 (\$729,669), and is composed of the following:

- All of the Contingency and Reserve funds identified in the FY 2013-14 budget have been carried forward, \$463,272.
- Allocated but unspent funds of \$16,510 from Commission-approved projects.
- Additional cash carryover of \$249,887 composed of the following:
 - Carryover of \$176,807 into FY 2014-15 to balance the budget.
 - Liabilities of \$57,151 include deferred revenue related to open applications and accounts payable.
 - Unrecognized and unassigned carryover of \$15,929.

2. Proposal Activity

The figure below identifies the number of proposals and service contracts received through the first quarter. The figure identifies that zero proposals and zero service contracts were received in the first quarter. However, staff is anticipating the receipt of proposals in the second quarter from agency interest relayed to staff. 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	9	0	0%
Service Contracts - Development	2	0	0%
Service Contracts - Admin (E.O.) approval	5	1	20%
Protest Hearing Deposits	9	2	22%

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, water (wholesale, retail, and recycled), sewer (collection, treatment, and reclamation), streetlights, and habitat conservation. An additional item may be a possible off-cycle service review for the Morongo Valley Community Services District.

Fund Balance

As of September 30, the Commission's cash in the County Treasury was \$1,387,457. A breakdown of this amount is shown below.

September 30, 2014 Balance		\$1,387,457
Balance is composed of the following:		
Liabilities		
	Unearned Revenue from open applications	22,903
	Deposits Payable/(Receivable) from open applications	36,542
Committed (constrained to specific purposes)		
	COWCAP Reserve (Account 6010)	40,503
	Compensated Absences Reserve (Account 6030)	72,897
Assigned (intended for specific purposes)		
	Contingency (Account 6000)	98,356
	General Reserve (Account 6025)	300,000
	Remaining Budgeted Expenditures	816,190
Estimated Unassigned Carryover Revenue into FY 2015-16		66
BALANCE		\$1,387,457

DISCUSSION OF BUDGET AMENDMENTS

The County has changed the billing method for its ISD desktop support services (also known as the help desk) from an hourly charge based upon activity to a flat monthly fee. The change in billing is to capture revenue to pay for ISD desktop support overhead. The current LAFCO budget has only allocated \$1,800 toward this activity (based upon the former billing method). The new charges will be roughly \$10,000 per year. To cover this cost for FY 2014-15, staff is recommending that the Commission transfer \$11,000 from Contingency Funds (Account 6000) to Information Services Department Direct (Account 2421).

ESTABLISHMENT OF TRUST ACCOUNT FOR RESERVE FUNDS

Staff is recommending a change in the holdings of the Commission's reserve funds. Currently, the operating and reserve funds are integrated in the same account. The three reserve funds are currently defined as follows:

COWCAP Reserve	\$ 40,503
Compensated Absences Liability Reserve	\$ 72,897
General Reserve	\$300,000

Staff is recommending that the Commission's reserve funds be placed in a separate account in the County Treasury. Doing so would segregate the reserve funds from the operating funds and reinforce that reserve funds are for restricted activities. Further, the interest gained in this account would then be allocated proportionally amongst the reserve funds.

The Compensated Absences Reserve and General Reserve would transfer to the new account without changes in purpose, name, or amount. For the COWCAP Reserve, it was established to set aside funds to pay for services provided by the County ISD, since such services were billed two years in the rear in a lump sum. However, in July 2012 the County and LAFCO entered into an agreement whereby payment for ISD services shifted from COWCAP to a monthly processing of payments, there has been no additional costs included in the COWCAP charges in the ensuing years and the current year costs for COWCAP are for the 2012-13 fiscal year. Therefore, the COWCAP Reserve is no longer required.

The Commission has previously expressed concern regarding its net pension liability to SBCERA and the lack of allocating funds for the liability. Of importance, net pension liability will become a component of government financial statements no later than the FY 2014-15 audit. SBCERA has estimated LAFCO's share of the total SBCERA net pension liability as of June 30, 2013 to be \$582,793 (note that this amount is an estimate and will be revised in early 2015). The Commission has expressed its position for the need to set aside funds to cover this liability for the future. Therefore, staff is recommending that the Commission convert the COWCAP Reserve to a Net Pension Liability Reserve transferring the reserve balance. Additionally, \$15,929 of the cash carryover into FY 2014-15 is currently unassigned and unrecognized by the Commission. Staff is recommending that this amount be recognized by the Commission and also be placed in the Net Pension Liability Reserve. The three reserve amounts, placed in separate accounts, would be identified as follows:

Proposed Reserve Fund Cash Balance		\$429,329
Balance is composed of the following:		
<i>Committed (constrained to specific purposes)</i>		
	Net Pension Liability Reserve (former COWCAP reserve & unassigned carryover)	56,432
	Compensated Absences Reserve	72,897
	General Reserve	300,000

This action would allocate funds for 9.7% of the estimated pension liability at June 30, 2013 in a reserve account. In the future discussion of the Reserve Accounts would be presented alongside the Operating Account at quarterly intervals to include recommendations to adjust the balances based upon updated liability figures.

To correspond with this recommendation, staff also recommends an amendment to Accounting and Reserve Policy #7 (Reserve Policy) to identify the Net Pension Liability Reserve (shown in bold italic).

RESERVE POLICY (Adopted April 21, 2011, **Amended October 22, 2014**)

The Commission will require the maintenance of three separate reserves which shall be funded as a part of the annual budget adoption process as follows:

- a) The balance of San Bernardino LAFCO Employee Compensated Absences at April 1 of each fiscal year shall be funded and placed in a committed reserve account in the following fiscal year budget;
- b) Annually the Commission shall set aside a minimum of \$200,000 in a committed reserve account for payment of potential litigation;
- c) ***A committed reserve account shall set aside funds for future payment of the Commission's net pension liability to the San Bernardino County Employees Retirement Association (SBCERA).***

AGREEMENT WITH COUNTY FOR PAYROLL SERVICES

LAFCO has contracted with the County for payroll and payroll reporting and general accounting services since 1981 when it became independent of the County. As a part of this relationship, the County has deposited and paid LAFCO's federal and state tax liabilities, while utilizing the County's Federal and State Employer Identification Number. In June 2013, the County notified LAFCO that changes in payroll reporting in the Internal Revenue Code as a result of the Affordable Care Act required the establishment of a defined payroll reporting relationship (in this case the relationship between the County and LAFCO).

At the July 2013 hearing, the Commission directed the Executive Officer to negotiate a contract with the County for payroll reporting and accounting services and to obtain its own federal and state identification numbers. In response to information from the

County that a draft contract was imminent, the matter was placed on the LAFCO agenda and continued several times until it was eventually removed from the calendar until such time that the County could produce a draft contract. Fortunately, in the interim, the Assistant Auditor assured LAFCO staff that payroll services would continue in the same manner as before and it would continue to deposit and pay LAFCO's payroll taxes as LAFCO's "reporting agent", using LAFCO's separate Federal and State Employer Identification Numbers while the contract considerations take place.

On October 10, 2014, County Auditor-Controller/Treasurer/Tax Collector ("ATC") staff provided LAFCO staff with the long-awaited draft copy of the standardized agreement between the County, ATC, and the other districts/JPAs for the provision of accounting and payroll services by the ATC (copy included as Attachment #3). The receipt of the contract requested that any concerns or questions be provided by October 15 so that they could be provided to the County for its consideration at the November 18 Board hearing (after a year of waiting for a draft contract it was received October 10, a Friday, October 13 was a holiday, allowing for two days for review and response). Staff's position is that contracting with the County for accounting and payroll services offers economies of scale that would not be achieved otherwise; however, those are tempered with the lack of ability to review the contract with Legal Counsel prior to presentation for consideration.

The County's draft agenda item for November 18 has a recommendation that the standardized contract form will be effective January 1, 2015. In the event that the draft contract contains a minor change, staff recommends that the Commission authorize the Executive Officer to sign the agreement following final staff and counsel review. However, should significant issues arise in the review, staff will return to the Commission for further direction.

It is staff's recommendation that the Commission take the actions identified on pages 1 and 2 of this report. 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](#)
3. [Draft Agreement with the County for Accounting and Payroll Services](#)