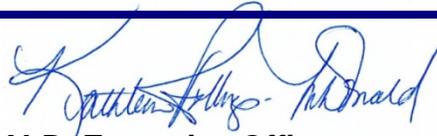


**LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY**

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: JANUARY 13, 2015



**FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager**

TO: LOCAL AGENCY FORMATION COMMISSION

**SUBJECT: Agenda Item #10: Request for Authorization for Special Study of the
Morongo Community Services District**

RECOMMENDATION:

Staff recommends that the Commission initiate a special study for the Morongo Valley Community Services District.

BACKGROUND:

On August 18, 2014, LAFCO received a complaint from a director of the Morongo Valley Community Services District dated August 11, 2014 (included as Attachment #1). The complaint was also distributed to the Grand Jury and the Third District Supervisor. The complaint states that since LAFCO's service review/sphere update of November 2012, the district's expenses have increased dramatically. The director requested LAFCO's assistance to review the district's operations and determine the District's ability to preserve fire protection services and avoid bankruptcy.

At the September 17, 2014, LAFCO hearing, the Executive Officer notified the Commission in the Executive Officer's Oral Report that staff will be looking into the complaint and would return at the January 21, 2015 hearing with a report. Staff conducted a site visit on January 5 with the general manger and fire chief. It was agreed by all those at the site visit that with all things remaining equal and constant that the district would exhaust all funds within two years. Based upon LAFCO staff's preliminary review of materials gathered as well as information obtained during the site visit, this report to the Commission requests authorization to conduct a special study of the Morongo Valley CSD.

LAFCO Staff's Initial Review to the Complaint

Below is an initial review to the director's complaints, a summary of the interview with the current general manager and fire chief, and the need for further study of the District.

Comment #1: *"Since the LAFCO's sphere review of November 2012, the Morongo Valley Community Services District's (MVCSD) expenses have increased dramatically."*

LAFCO Staff Response: Based on the District's audits, the actual expenditures have increased 23% since the FY 2011-12 audit while revenues have increased 4%.

Comment #2: *"At the July 17, 2014 regular monthly meeting (Hearing), the MVCSD adopted a budget with deficit over \$105,000, balanced with a transfer from current cash on hand, calling it reserve."*

Comment #3: *"As of June 2014 MVCSD fund balance was less than \$360,000. After budget approval 7/17/2014 cash on hand/reserves is less than \$260,000."*

LAFCO Response: Following LAFCO's 2012 service review recommendation, the District approved the establishment of designated reserve accounts. Nearing the end of FY 2013-14, the District transferred approximately \$105,000 from its reserve account to balance the budget. For FY 2014-15, the District's budget was adopted with the same deficit as the previous year - \$105,000. Based upon the FY 2014-15 adopted budget, staff estimates the fund balance to be approximately \$251,000; this is a 56% decrease in fund balances since FY 2011-12.

Comment #4: *"The MVCSD board majorities of 2012 thru 2014 repeatedly stated fire department expense increases are largely due to LAFCO & ISO requirements that must be met in order to be in compliance."*

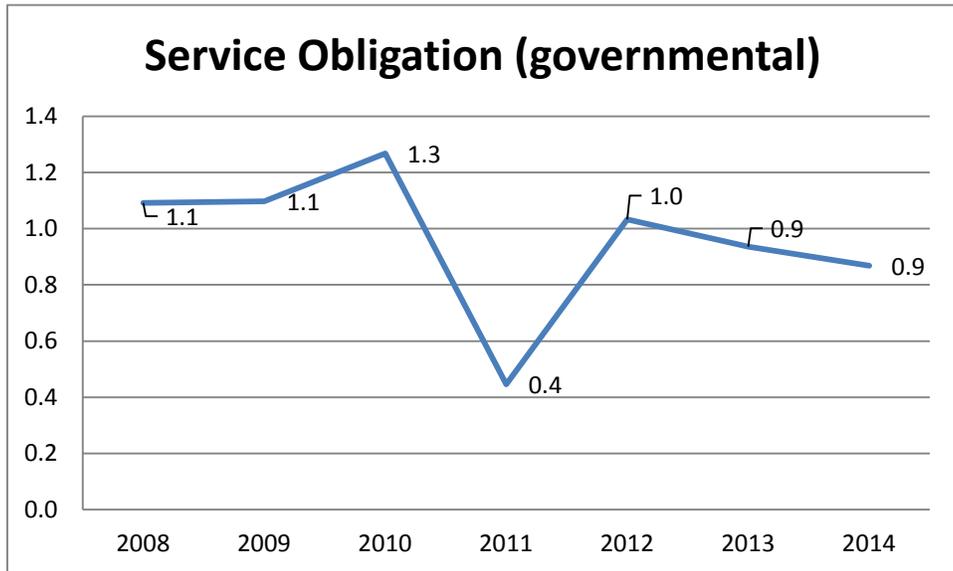
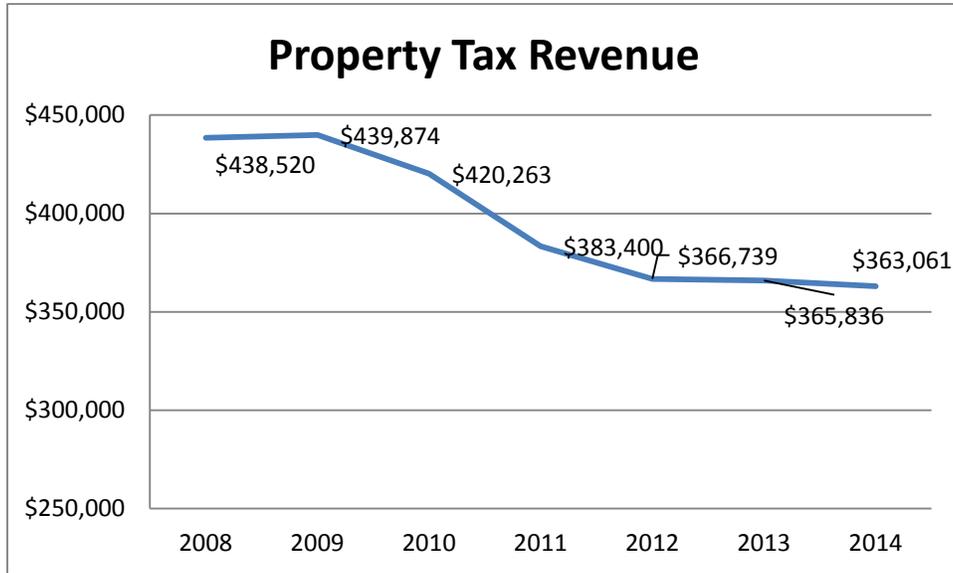
LAFCO Response: The LAFCO Commission has not set any requirements on the District's fire staffing.

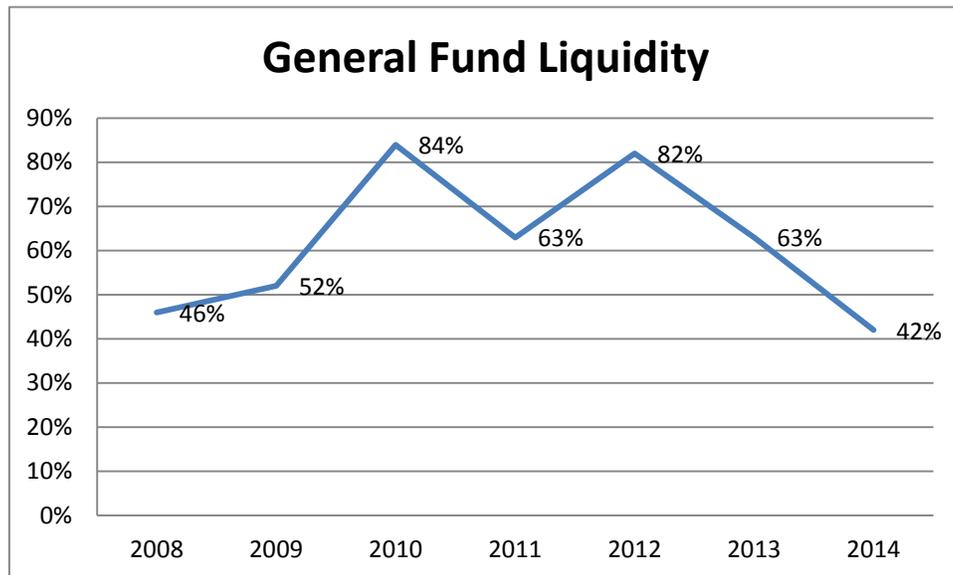
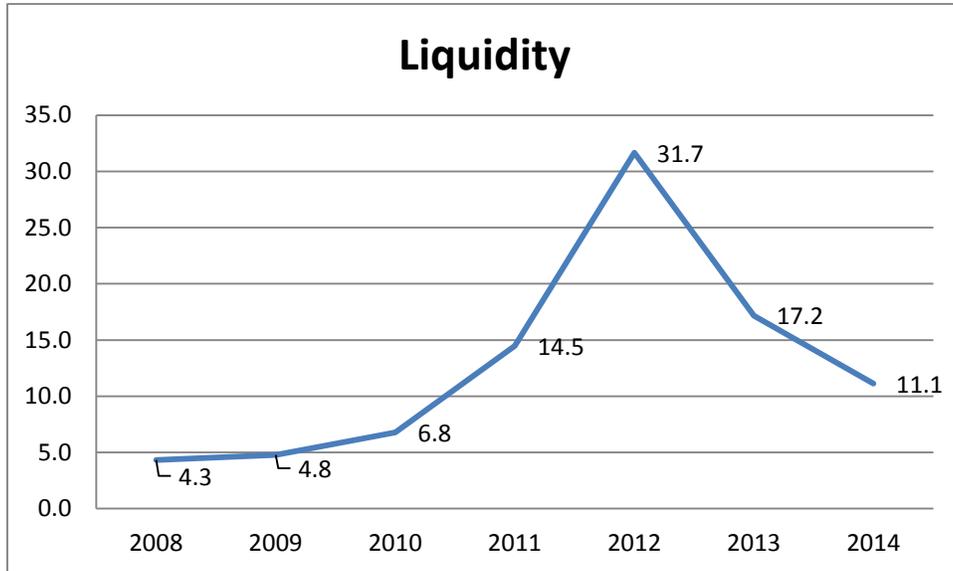
Comment #5: *"I hope you can evaluate the MVCSD's trend of operating deficits and prevent the current board majority from bankrupting the community."*

LAFCO Response: For FY 2010-11 and FY 2011-12 the district operated at or near its means. However, beginning FY 2012-13 the District began to constantly operate with an annual deficit. The first chart below shows the District's activities to include revenue detail, expenditure detail, and fund balance. The subsequent charts show fiscal indicator data, each showing a downward trend.

MORONGO VALLEY CSD FUND BALANCE								
	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Actual	2012-13 Actual	2013-14 Actual	2014-15 Budget
Revenues:								
Property tax	438,520	439,874	420,263	383,400	361,994	365,836	363,061	360,452
Fire assessment	214,573	263,798	269,762	280,605	286,528	292,076	313,913	300,535
Grant income	7,629	69,537	-	186,044	31,971	13,951	11,516	3,500
Fire service	56,354	6,111	15,900	4,992	1,542	9,222	25,482	26,300
Park revenue	2,355	2,686	101,042	4,992	3,332	4,279	9,398	5,000
Other*	6,300	2,243	14,483	3,463	27,034	8,993	15,293	117,658
Total Revenues	\$ 725,731	\$ 784,249	\$ 821,450	\$ 863,496	\$ 712,401	\$ 694,357	\$ 738,663	\$ 813,445
Expenditures:								
General government	91,887	87,677	81,440	86,016	105,302	184,718	126,095	146,123
Fire operations	487,666	534,118	473,141	504,787	500,731	517,123	624,702	645,656
Park & recreation	57,246	64,707	64,747	247,417	67,078	34,767	90,360	11,850
Streetlights	3,546	3,837	4,091	4,116	4,074	4,237	4,080	4,000
Debt service/replacement	24,680	24,627	24,626	24,627	12,313	1,454	5,816	5,816
Total Expenditures	\$ 665,025	\$ 714,966	\$ 648,045	\$ 866,963	\$ 689,498	\$ 742,299	\$ 851,053	\$ 813,445
Revenues less Expenditures:	\$ 60,706	\$ 69,283	\$ 173,405	\$ (3,467)	\$ 22,903	\$ (47,942)	\$ (112,390)	\$ -
Fund Balances, Beginning	242,517	303,223	372,506	545,911	542,444	517,511	469,569	357,179
Fund Balances, Ending	\$ 303,223	\$ 372,506	\$ 545,911	\$ 542,444	\$ 565,347	\$ 469,569	\$ 357,179	\$ 251,354
Change from prior year	25.0%	22.8%	46.6%	-0.6%	4.2%	-16.9%	-23.9%	-29.6%

*Notes: (1) FY 2012-13 Fund Balance had adjustment to Beginning Balance of \$47,836
(2) District transferred \$105,825 from reserves for FY 2014-15





Interview with General Manager and Fire Chief

In response to the complaint, staff conducted a phone interview with the general manager in September followed by a site visit in January. The interviews revealed management issues related to the District's operations and finances going back many years during the tenure of the two previous general managers. Items of significance discussed at the site visit include:

- Previous misuse of grant funds. The funds from some grants were not used for the intended purpose which resulted in the district being blacklisted from future grant applications. To be eligible once again required the closing of the previous grants, which means that the District had to spend other district funds to comply with the original grant purpose (2008-2012).

- Whistle blower and hostile work environment lawsuits which included undisclosed settlements (2012-2014).
- OSHA issues. The District states that it is now in compliance (2012-2014).
- Special Districts Risk Management Authority representative conducted a site-visit and issued a 63-page report on liability and risk exposure, which resulted in an increase in the district's deductible from \$5,000 to \$25,000 (2014).
- To balance the FY 2013-14 budget, the District transferred \$105,000 from reserves. However, there is no record of the transfer being approved by the Board of Directors nor does the audit identify a budget adjustment.
- FY 2014-15 begins with a \$105,000 deficit – the same deficit as the previous year. The District hopes to narrow the deficit by half by the end of the year. Even if the deficit is cut in half, the two-year shortfall would be \$157,500.
- From 2009 through 2012, the District may have deferred capital and maintenance expenditures which would have artificially increased past fund balances.
- It was agreed by all those at the site visit that with all things remaining equal and constant that the district would exhaust all funds within two years.
- The board is considering placing a ballot measure to convert its current benefit assessment into a special tax with an increase in total amount generated and an annual inflation factor to continue, not augment, current levels of fire protection and paramedic service.

Authorization to Conduct a Special Study

It is the position of LAFCO staff at this time that the District is entering the realm where it will not have the ability to continue to meet its service obligations without substantial disposition of assets, decrease or divestiture of its fire protection and EMS function, and/or adoption of a special tax to continue the current level of service.

Therefore, staff recommends that the Commission initiate a special study of the Morongo Valley Community Services District. Should the Commission initiate the special study, work would begin immediately with the desire that it be heard by the Commission before the end of the fiscal year, likely the May hearing. Staff estimates the total costs for completing the study would be roughly \$10,000 in staff time and \$2,000 for study processing (the 2012 service review incurred processing costs of \$1,235). The \$10,000 for staff time is derived as follows: site visit for additional interviews and data collection, project manager research and staff report preparation (2 weeks), internal review of the draft report, and site visit to review the draft staff report with the District.

KRM/MT

Attachment:

Letter to LAFCO dated August 11, 2014 from a Director of the Morongo Valley CSD

Date: 08/11/2014

To: Kathleen Rollings-McDonald, Executive Officer
LAFCO San Bernardino
215 North D Street, Suite 204,
San Bernardino, CA 92415-0490

RECEIVED
AUG 18 2014

LAFCO
San Bernardino County

From: Chuck Osborne
10888 West Drive #12
Morongo Valley, CA 92256
Ph. (760) 363-6308

Re: July 17, 2014 the MVCSD 2014/15 Budget was passed intentionally spending \$105,000.00 plus over income.

Dear Ms. Rollings-Mc Donald,

Since LAFCO's sphere review of November 2012, the Morongo Valley Community Services District's (MVCSD) expenses have increased dramatically. The MVCSD voted to pass a 2014 budget with Fire Service operations 27% over your projections for the FY2014/15. As an 18 yr elected member of the MVCSD, I request your assistance to review our operations and determine our ability to preserve fire protection services and avoid bankruptcy.

Complaint

At the July 17, 2014 regular monthly meeting (Hearing), the MVCSD adopted a budget with deficit over \$105,000, balanced with a transfer from current cash on hand, calling it reserves. The current cash on hand/reserves sustain the districts operating costs through December 2014. At that meeting I presented the board with 3 balanced budgets scenarios. The board refused to discuss my balanced options. In fact, the only written response I received was from President Johnny Tolbert. He wrote the word "Joke" on the budgets I distributed.

The following contains the LAFCO financial projections and current financial status.

	2011-12	2012-13	2012-13	2013-14	2013-14	2014-15	2014-15
	AUDIT	Adopted Budget.	AUDIT	LAFCO Projection.	Actual expenditures as of June 27, 2014	LAFCO Projection.	Budget July 17, 2014
Revenues:							
Property Tax	366,739	365,516	365,836	365,516	356,136	365,516	360,452
Fire Assessment	286,528	291,915	292,076	297,753	300,193	303,708	300,535
Grant Income	31,971	5,293	13,951	0	11,516	0	3,500
Fire Service	1,542	27,900	9,222	3,638	34,192	3,711	26,300
Park Revenue	3,332	5,200	4,279	5,304	9,268	5,410	5,000
Other	22,289	1,500	8,993	1,500	5,484	1,530	11,833
Total Revenue	\$712,401	\$697,324	\$694,357	\$673,711	\$716,789	\$679,875	\$707,620
Expenditures:							
General							
Government	105,302	179,877	158,718	183,475	161,596	187,144	118,623
Fire Operations	500,731	485,323	517,123	495,029	597,690	504,930	645,656
Park & Recreation	67,078	12,924	60,767	13,182	72,436	13,446	39,350
Streetlights	4,074	4,200	4,237	4,284	3,699	4,370	4,000
Debt Service	12,313	15,000	1,454	0	5,816	0	5,816
Total Expenditures	\$689,498	\$697,324	\$742,299	\$695,970	\$841,237	\$709,890	\$813,445
Total Rev	\$712,401	\$697,324	\$694,357	\$673,711	\$716,789	\$679,875	\$707,620
Total Exp	\$689,498	\$697,324	\$742,299	\$695,970	\$841,237	\$709,890	\$813,445
Balance	\$22,903	0	\$-47,942	\$-22,259	\$-124,448	\$-30,015	\$-105,825
Trans from fund balance			\$47,942		\$124,448		\$105,825

As of June 2014 MVCSD fund balance was less than \$360,000.00. After budget approval 7/17/2014 cash on hand/reserves is less than \$260,000.00. Approximate monthly expenditures are \$70,000.00 plus per month.

The MVCSD majority board financial plan to solve budget deficits is to put forth an assessment in 2015, although the cost for review to obtain it has not been voted on by the Board at this time, the plan is being reviewed by Legal Counsel.

Budget deficit can be solved by reducing expenses, specifically the Fire Department staffing from 6 employees daily to 4 employees daily, including the Chief as one of the four, 4 days a week and providing one reserve daily for 3 days a week. I have been told by the Board Directors since 2012 that 4-0 staffing is required because of the 2 in-2out law. I have not found a LAW that requires Fire Departments to have 4-0 staffing to be in lawful compliance.

San Bernardino County Battalion Chief Dave Benfield reported at the Morongo Basin Municipal Advisory Committee meeting (MAC) the County of San Bernardino Fire Departments in his jurisdiction will be raising their staffing levels from 2-0 to 3-0 in some of their stations as of September 2014. The minutes from the M.A.C. in May 2014 meeting do not reflect details of the County Fire staffing. The Chief's report and full meeting can be found on YouTube : <https://www.youtube.com/watch?v=FJVOJsbuYr8>. MVCSD Director & Fire Commissioner, Gail Swarat, the appointed Morongo Valley MAC Representative was present for the Chief's report. When I quoted the Chief on July 17,

2014 in MVCSD meeting, Director Gail Swarat told the Board of Directors that this was not true, that the Battalion Chief did not say that, she disputed the fact that our mutual aid is dispatched at the same time we receive the 911 call for fire. I personally called and spoke to BC Benfield to verify this MAC report re: staffing and the 2in-2out rule is covered by mutual aid. He reiterated the same facts relayed in the MAC meeting. Swarat voted for a budget based on 6 staff on duty.

MVCSD Fire Department current staffing levels are determined by the adoption of NFPA Standards: Agenda Item J-4: A recommendation put forth by former MVCSD General Manager Rick Lebel Re: The adoption of NFPA Standards as follows:

“That the Board of Directors take action for review and approval of Standard Operating Guidelines (SOG) No. 22 and 23 relative to standardized staffing as recommended by the 2013 ISO Review and National Fire Protection Association (NFPA) response standards as adopted by State and Federal agencies.”

This proposal was passed with the caveat of “As long as we have the money in the budget”. At the time of this proposal and passing of SOG’s, I was all for it as long as our budget could sustain it.

Due Diligence:

July 2014 I contacted the State Fire Marshal’s Office and found out:

1. State Of California and San Bernardino County have not adopted NFPA Standard’s. When I asked why I was told: Adoption of NFPA Standards would cause a major cost and hardship to the communities.

The MVCSD board majorities of 2012 thru 2014 repeatedly stated fire department expense increases are largely due to LAFCO & ISO requirements that must be met in order to be in compliance. I did not find any requirements imposed by either agency.

During my 18 plus year tenure as an elected official, most boards worked to improve the financial stability and enhance services. In the early 2000’s the Fire Department transitioned from all volunteer to 24/7 combination paid/volunteer department. During the period covered by your 5 year service review, with careful budgeting, grant funding and model volunteer training programs, we were able to obtain apparatus, add paramedic services and construct park facilities. In the past two years we have decreased services (State brush clearance inspections) and closed a station. I hope you can evaluate the MVCSD’s trend of operating deficits and prevent the current board majority from bankrupting the community.

Substantiation documentation is available upon request, including DVD’s of MVCSD meetings.

Thank you for your consideration.

Sincerely,



Chuck Osborne

8/11/14

Date

Distribution List:

- SB County Grand Jury
- SB LAFCO
- James Ramos, Third District Supervisor, SB County Board of Supervisors