

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
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TO: LOCAL AGENCY FORMATION COMMISSION



SUBJECT: Agenda Item #9: Mid-Year Financial Review for Period July 1 through December 31, 2014

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of this report and file;
2. For the Commission's Reserves:
 - a) Rescind action taken by the Commission at the October 22, 2014 hearing from Agenda Item #10, Recommendation #5 (First Quarter Financial Review for FY 2014-15) to establish a separate reserve fund within the County Treasury;
 - b) Convert the existing COWCAP Reserve (Account 6010) to a Net Pension Liability Reserve in line with LAFCO Accounting and Reserve Policy #7 amended October 22, 2014; and
 - c) Increase Account 6010 (Net Pension Liability Reserve) by \$15,929 from \$40,503 to \$56,432 per the Commission's intent from October 22, 2014;
3. To address the relocation of the County's Workforce Development Department from 215 North "D" Street and the need to retain communications at the current level:
 - a) Decrease Account 2445 (Other Professional Services) by \$15,000 from \$61,196 to \$46,196;

- b) Decrease Account 2450 (System Development) by \$5,000 from \$22,500 to \$17,500.
 - c) Add Account 2040 (Relocation Charges) with a \$10,000 appropriation;
 - d) Increase Account 2125 (Inventoriable Equipment) by \$5,000 from \$12,500 to \$17,500; and
 - e) Increase Account 2041 (Phone Service/Outside Company) by \$5,000 from \$540 to \$5,540.
4. Provide direction to staff on items of concern for the balance of the fiscal year;

BACKGROUND:

Staff is presenting the Commission with the FY 2014-15 mid-year financial report which includes a discussion of three specific issues identified as:

1. A review of the mid-year financial activities and the presentation of a spreadsheet (Attachment #1) outlining expenditures and revenues through December 31, 2014. The spreadsheet also provides a forecast of anticipated expenditures and revenues through the end of the fiscal year.
2. The need to rescind the actions taken at the October 2014 hearing to establish a separate reserve fund within the County Treasury. This in response to a determination by the County to not allow the creation of additional funds for such a purpose. Address the conversion of the COWCAP Reserve to Net Pension Liability Reserve to retain the Commission's determination from the October hearing.
3. Discussion of the relocation of the sole County department at the building where the LAFCO office is located. This affects LAFCO because our communications (telephone and internet/email/county internal databases) extend from that Department's infrastructure. The infrastructure burden will now be placed wholly upon the Commission, which means that LAFCO will have to purchase and lease equipment and pay directly for the services. However, since there are budgeted activities that have will not take place this fiscal year or are no longer necessary, the existing Services and Supplies budget can absorb these costs through a reallocation of expenditure authority.

MID-YEAR REVIEW

The report details the expenditure and revenue activities for the first half of Fiscal Year 2014-15. The following information includes a description of expenditures and reserves, revenue and proposal activity, an update on special project activities, and a breakdown of the fund balance through the mid-year.

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 44% of Adopted Budget authority. In October the Commission authorized the transfer of \$11,000 from Contingencies to account for the increase in County Information Services Department charges. Additionally, this report will detail a request for processing another transfer from Contingency funds. 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 \$335,876 through the mid-year, representing 49% of Adopted Budget authority.

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 97% 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 \$137,549 or 36% of Final Budget authority. Below is an explanation of the activities that have not taken place to date:

- Outstanding payments not yet processed by the County (\$8,300)
- Supplementary costs for service by the County's Information Services Department (\$2,000)
- Cancellation of the August and November hearings (\$8,000 savings)

B. Projected Remaining Activity

Services and Supplies are projected to end the year at 91% of budget authority. Budgeted and anticipated activities for the second half include significant expenditures, identified as:

- Those costs identified above that were anticipated during the first quarter (\$10,300).
- Consultant payments for the feasibility study for the incorporating the Rim of the World communities (\$15,000).
- Subscription to the County Street Network and Google Earth (\$14,000) for maintenance of digital mapping.
- Remaining payments for COWCAP (\$3,154).
- Authorized equipment purchases (\$6,800).
- 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 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 and Mountain Regions (through FY 2011-12) are active on the LAFCO website. The North Desert and South Desert Regions are anticipated to go live by the end of January. The project allocation (with contingency) is \$14,497. To date, \$12,858 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 practice 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:**

At the October hearing the Commission conducted a workshop to review the draft staff report and provide direction to staff. On December 10, a community meeting was held to review the draft staff report with the community. At this hearing the final staff report will be presented to the Commission for action.

The special study allocation is \$20,000; however, the special study has incurred costs of \$29,393 to date. Below is a breakdown of those costs:

Activity	LAFCO Contribution	First District Contribution
Contribution	\$15,000	\$5,000
Expenses		
staff time	17,671	
processing costs	4,446	
community meeting		7,276
Total Expenses	22,117	7,276
Excess Costs	\$7,117	\$2,276

As shown, the special study has exceeded its allocation by \$9,393. The LAFCO contribution of \$15,000 was mostly for staff time and is already a part of the budget. The excess costs of \$2,276 for the Community Meeting will be absorbed by the Services and Supplies series of accounts.

**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 finalized the contract with RSG. Following the Annual Conference at the end of October staff met with RSG principal Jim Simon to begin the study process. To date, LAFCO has received an invoice for \$2,515 which was processed in January.

At this time, a request for information from various County departments is being processed with a meeting scheduled for the end of January to review status on the receipt of sales tax, transit occupancy tax information, to review property tax information and review the boundaries proposed for discussion in the feasibility study.

3. Contingency and Reserves (6000 series)

In October the Commission authorized the transfer of \$11,000 from Contingencies to account for the increase in County Information Services Department charges. No other activities are anticipated at this time for supplemental funding for the remainder of the fiscal year.

Revenues and Proposal Activity

1. Revenues

A. *Mid-Year Activity*

The Commission has received 108% of Budget revenues through the mid-year. The items below outline the revenue activity:

- Interest (Account 8500) – Forty-six 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 through receipt of the annual apportionment; therefore, staff anticipates that the January interest payment will be close to the amount of the October payment. 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.
- Fees and Deposits (Accounts 9545 – 9800) – Through mid-year, the Fees and Deposits series of accounts has received 111% of its budgeted revenue (\$65,069). Of this amount, 51% is related to proposals, 2% to service contracts, 9% to cost recovery for completed actions, and 38% for the special feasibility study for the Rim of the World Incorporation. Staff anticipates the receipt of 161% of budget projected fees and deposits for the year.

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 three proposals for the balance of the Fiscal Year. Total Revenues are projected to end the year at 108% of budget authority.

2. Proposal Activity

The figure below identifies the number of proposals and service contracts received through December 31, 2014. The figure identifies that four proposals and two 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 conservatively anticipating the receipt of three additional proposals in the coming months, to bring the anticipated year-end total to seven proposals. Beginning last fiscal year, it appears that proposal receipts are emerging from many years of stagnant activity.

Activity	Budget	Thru Mid-Year		Projected	
		No.	% of Budget	No.	% of Budget
Proposals	9	4	44%	7	78%
Service Contracts - Development	2	0	0%	0	0%
Service Contracts - Admin (E.O.) approval	5	2	40%	4	80%
Protest Hearing Deposits	9	3	33%	3	33%

The remainder of the year anticipates the completion of the special study 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 is the probable special study for the Morongo Valley Community Services District (pending Commission initiation).

Fund Balance

As of December 31, 2014, the Commission's cash in the County Treasury was \$1,185,521. A breakdown of this amount is shown 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.

Dec 31, 2014 Balance		\$1,185,521
Balance is composed of the following:		
<i>Liabilities (as of Jan 9, 2015)</i>		
	Unearned Revenue from open applications	24,801
	Deposits Payable/(Receivable) from open applications	30,083
<i>Committed (constrained to specific purposes)</i>		
	Net Pension Liability Reserve (Account 6010)	40,503
	Compensated Absences Reserve (Account 6030)	72,897
<i>Assigned (intended for specific purposes)</i>		
	Contingency (Account 6000)	87,356
	General Reserve (Account 6025)	300,000
	Remaining Projected Expenditures	538,664
Estimated Unassigned Carryover Revenue into FY 2015-16		91,218
BALANCE		\$1,185,521

LAFCO RESERVE ACCOUNTS

During the First Quarter Budget Review in October 2014, LAFCO staff recommended that the Commission's reserve funds be placed in a separate account in the County Treasury. Doing so was to segregate the reserve funds from the operating funds and reinforcing the position that the reserve funds are for restricted activities. 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 no longer required and was to be converted to a Net Pension Liability Reserve. Additionally, \$15,929 of the cash carryover into FY 2014-15 that was unassigned was to be placed in the Net Pension Liability Reserve, setting the total at \$56,432. The Commission also amended its Reserve Policy to identify the Net Pension Liability.

Unfortunately, staff was notified by the County Auditor office that final approval for establishment of the separate reserve account would not occur – this after a preliminary review and assumed greenlight. To maintain staff's and the Commission's intent for segregation of the reserves, staff is proposing to account for the reserve accounts in the same manner as currently done – as separate account codes under LAFCO's single account in the County Treasury. Staff will continue to show this segregation in its budget reports and audits. The steps that need to be taken are as follows:

- Rescind Action taken by the Commission at the October 22, 2014 hearing for Agenda Item #10, Recommendation #5 (First Quarter Financial Review for FY 2014-15) to establish a separate reserve fund within the County Treasury (shown below);

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*
- Convert the COWCAP Reserve (Account 6010) to the Net Pension Liability Reserve in line with LAFCO Accounting and Reserve Policy #7 amended October 22, 2014; and
 - Increase Account 6010 (Net Pension Liability Reserve) by \$15,929 from \$40,503 to \$56,432 per the Commission's intent from October 22, 2014;

By taking these actions, the Commission's intent from the October hearing will be addressed and the Reserve Policy that was amended in October will be complied with.

RELOCATION OF COUNTY DEPARTMENT FROM BUILDING

Just recently staff heard through the grapevine that the sole County department at the building where the LAFCO office is located, the County's Workforce Development Department, will be moving by the end of June. This relocation affects LAFCO because our communications infrastructure (telephone and internet/email/county internal databases) extend from that Department's infrastructure.

Staff has hurriedly been in contact with County Information Services Department which has indicated that it will continue to provide service to LAFCO. However, the infrastructure burden will now be placed upon LAFCO, which means that LAFCO will have to purchase and lease equipment and pay for all direct services.

An option would be to consider the private market for such services. However, LAFCO would lose access to the County's internal information systems (Assessor, Accounting, Auditor, Payroll, etc.), email system, and GIS programs. By using private vendors

LAFCO would forgo the economies of scale of the County system. Further, acquisition of the GIS program and hardware alone would cost more than the necessary equipment to remain on the County system. The use of GIS and access to the County's internal databases are central to LAFCO's operations.

Consideration of this matter cannot wait until the Commission's review of the budget in April since coordination of communication matters can take months. Staff has met with ISD staff which has provided a preliminary estimate on the upfront and continuing costs. The preliminary estimate FY 2014-15 for all services and supplies is \$15,000 with an additional expenditure for additional labor from Verizon for the fiber optic line.

In reviewing the funding options for presentation to the Commission, staff has determined that the budgeted activities that will not take place this fiscal year (Executive Officer recruitment) or are no longer necessary allow the Services and Supplies budget to absorb these costs. Therefore, staff is recommending that the Commission authorize the fund transfers outlined below.

- Decrease Account 2445 (Other Professional Services) by \$15,000. The budget allocated \$15,000 for the recruitment of the Executive Officer position. However, with Commission approval of the Executive Officer contract extension, recruitment will not occur for a few more years. Therefore, these funds can be moved to cover these unanticipated costs;
- Decrease Account 2450 (System Development) by \$5,000. The budget allocated \$5,000 for maintenance of the database that LAFCO uses to generate parcel listings for proposals. With the access to the GIS system of the County, the database is no longer necessary. Therefore, these funds can contribute towards this project;
- Add Account 2040 (Relocation Charges) with \$10,000 Appropriation;
- Increase Account 2125 (Inventoriable Equipment) by \$5,000; and
- Increase Account 2041 (Phone Service/Outside Company) by \$5,000 to address Verizon IT equipment.

As a part of the FY 2015-16 Budget review, staff will update the Commission on the status of this project.

CONCLUSION AND REQUESTED COMMISSION ACTION

The mid-year financial report identifies that the expenditures of the Commission are within budget targets, and proposal activity revenues are at full-year anticipated amounts. Of importance is that the report identifies that proposal activity revenues have reached full-year targets, 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.

Due to the County not allowing for the creation of additional funds for reserve purposes, staff is recommending that the Commission rescind the actions taken at the October 2014 hearing to establish a separate reserve fund within the County Treasury. However, staff is recommending actions to convert the COWCAP Reserve to Net Pension Liability Reserve along with a transfer to the account of unassigned funds from prior year to implement the Commission's intent from October to begin to address its unfunded pension liability.

Relocation of the County's Workforce Development Department from the LAFCO office building will require the Commission to purchase and lease equipment and pay for all information services directly. The existing Services and Supplies budget can absorb these costs and a transfer from Contingency is not necessary.

Staff recommends that the Commission take the actions identified in the recommendation section 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.

KRM/MT

Attachments:

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