

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 #3: Unaudited Year-end Financial Report for FY 2014-15

RECOMMENDATION:

Staff recommends that the Commission note the receipt of and file the Unaudited Year-End Financial Report for Fiscal Year 2014-15.

BACKGROUND:

Staff is presenting the Commission with its year-end review of the FY 2014-15 Budget which includes unaudited expenditures, reserves, revenues, and a breakdown of the fund balance. Attachment #1 to this report is a spreadsheet summarizing the unaudited financial activity for the period July 1, 2014 through June 30, 2015. The spreadsheet identifies that total expenditures were within appropriation authority for all fund categories and total revenues were above projections due to an increase in application receipts during the year. Additional information, in narrative form regarding the year-end review, is provided below.

Expenditures and Reserves

Expenditures comprise two categories of accounts: 1) Salaries and Benefits and 2) Services and Supplies. The unaudited Total Expenditures at June 30 was \$970,269 (91% of Final Budget); the difference of \$95,850 between the final budget and Unaudited Year-End is explained below. In October the Commission authorized the transfer of \$11,000 from Contingencies to account for the increase in County Information Services Department charges. The remainder of Contingencies (\$87,356) and the entirety of Reserves (\$429,329) are carried forward into FY 2015-16.

1. Salaries and Benefits (1000 series)

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$679,860 for the year, representing 99% of budget authority.

Mirroring the County Exempt Compensation Plan, in April the Commission approved a one-time incentive payment of \$1,750 for each full-time employee, at a cost of \$8,750 for the five regular employees. The Salary Reserve Account (1000) had a balance of \$9,000 to fund any Replacement Benefit Plan payments required. No cost was identified for the replacement benefit, so these funds were available to accommodate the payment (paid from Account 1050).

2. Services and Supplies (2000 and 5000 series)

A. *Year-End Activity*

Expenditures for Services and Supplies (2000 and 5000 series of accounts) are at \$290,408 for the year, or 77% of Budget authority. However, \$11,006 in invoices were submitted for payment to the County Auditor in June but will be processed in July. The funds for these activities have been carried forward into FY 2015-16.

B. *Status of Ongoing Commission-approved Projects*

The following provides an update on expenditures and progress on projects approved by the Commission or special studies initiated by the Commission in response to complaints.

FISCAL INDICATORS:

The initial round of fiscal indicators (2008-2012) are available on the LAFCO website. The project allocation (with contingency) is \$14,497, and \$12,858 of this amount was spent.

With the initial round complete, this special project now transitions to an ongoing maintenance activity. The internal operating practice is that an annual update of the site will occur in July/August of each year. At this time, the indicators for 2013 and 2014 are being formulated and will be distributed to the agencies for review near the end of July.

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

In August 2014, the County Board of Supervisors, as a part of the 2013-14 Year-End Budget Review (Item #64), approved the Discretionary Funding of \$24,773

to be provided to LAFCO to prepare a preliminary feasibility study for the 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 study 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 CALAFCO Annual Conference at the end of October, staff met with RSG principal Jim Simon to begin the study process.

A meeting occurred in February with LAFCO staff, RSG, and County representatives to review the receipt of sales tax, transit occupancy tax information, property tax information, and the boundaries proposed for discussion in the feasibility study. Staff continues to work with RSG on the financial projections which were received in draft form at the end of the 2015 fiscal year. Once completed these financial projections will then be incorporated into the preliminary feasibility study anticipated to be presented to the Second District and Commission in the early fall.

Of the \$24,773 received for the special study, \$15,000 is for the contract with RSG. To date, invoices totaling \$11,725 have been received.

SPECIAL STUDY OF THE MORONGO VALLEY COMMUNITY SERVICES DISTRICT:

In August 2014, LAFCO received a complaint from a director of the Morongo Valley Community Services District that 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 this hearing, staff will present the special study to the Commission. The costs for this special study (mainly comprised of staff time) are estimated to be \$5,500, which are borne by the Commission as there is no applicant to charge.

EDUCATIONAL TRAINING PROGRAM FOR SPECIAL DISTRICTS:

As a part of the special study for the Daggett, Newberry, and Yermo Community Services Districts, LAFCO arranged for the Special Districts Risk Management Authority (SDRMA) to conduct local training on board governance. The training held in March 2014 provided access to resources that the districts may not have had otherwise and was attended by 50 representatives. The Commission expressed its intent to build upon this educational pursuit and continue to provide governance training for the special districts within the County. Staff has developed an education program for the coming year with the California Special

Districts Association (CSDA) and the Institute for Local Government (ILG). CSDA has indicated that it would not charge to conduct the training, and ILG has identified a cost of \$2,300.

The anticipated program schedule is as follows:

Educational Training Program Timeline		
Proposed Session	Collaboration	Proposed Date
Understanding the Brown Act – Beyond the Basics	California Special Districts Association	September 28, 2015
Partnering with Community-based Organizations for more Inclusive Public Engagement	Institute for Local Government	January 13, 2016
Positioning Your Agency for Successful Financing (webinar)	California Special Districts Association	February 24, 2016

3. Contingency and Reserves (6000 series)

Actions taken during the year regarding Contingencies and Reserves include:

- Transferring \$11,000 from Contingencies to account for the increase in County Information Services Department charges.
- Converting the COWCAP Reserve to the Net Pension Liability Reserve.
- Increase Net Pension Liability Reserve by \$15,929 from \$40,503 to \$56,432 to accommodate additional carryover from the prior year.

Revenue and Proposal Activity

1. Revenues at Year-end

The unaudited Total Revenues at year's end is \$1,729,027 which is above budget projections by roughly 9%. The items below outline the revenue activity for the year:

- Interest (Account 8500) – One hundred-seven percent of the interest projected for the year was received by the County Treasury. This is due to interest rates rising ever so slightly.
- 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) – The Fees and Deposits series of accounts has received 223% of its budgeted revenue (\$130,311). This large variance is due to more proposals received than budgeted, as well as timely recovery of costs in excess of deposits by applicants. Of this amount, 67% is related to proposals, 3% to service contracts, and 30% to cost recovery for completed actions.
- Other Types of Revenue (Accounts 9910-9970) – In sum this category of revenue accounts exceeded budget projections by eleven percent, which includes Miscellaneous Revenues mainly due to payment from CALAFCO for staff participation in CALAFCO functions.

2. Proposal Activity

The figure below identifies the number of proposals, service contracts, and service review deposits received through the year. The figure identifies that proposals and service contracts exceeded projections. This is the second straight year of proposal receipts emerging from many years of stagnant activity. Attachment #2 to this report is a chart showing the yearly comparison of proposal, service review, and completed service review activity.

Activity	Budget	Year-End	
		No.	% of Budget
Proposals	6	8	133%
Service Contracts - Development	1	0	0%
Service Contracts - Admin (E.O.) approval	4	7	175%
Protest Hearing Deposits	6	5	83%

The second cycle of service reviews is underway for the Valley Region. One service review (Water Conservation) reviewing five primary agencies was completed during the year. Staff is currently processing service reviews for open space/habitat preservation, water, and wastewater.

Two special studies were completed during the year: 1) Daggett, Newberry Springs, and Yermo communities (related to the Grand Jury report) and 2) Morongo Valley Community Services District (stemming from a complaint).

Fund Balance

As of June 30, 2015, the Commission’s cash in the County Treasury was \$758,758. A breakdown of this amount is shown below.

June 30, 2015 Balance		\$758,758
Balance is composed of the following:		
Liabilities (as of June 30, 2015)		
Unearned Revenue from open applications		39,082
Deposits Payable/(Receivable) from open applications		1,751
Accounts Payable, above materiality level (as of June 30, 2015)		11,006
Encumbered contract with RSG for Rim of the World financial projections		3,275
Committed (constrained to specific purposes)		
Net Pension Liability Reserve (Account 6010)		56,432
Compensated Absences Reserve (Account 6030)		72,897
Assigned (intended for specific purposes)		
Contingency (Account 6000)		87,356
General Reserve (Account 6025)		300,000
Amount used to Balance FY 15-16 Budget		157,824
Estimated Unassigned Carryover into FY 2015-16		29,136
BALANCE		\$758,758

After accounting for liabilities, committed, and assigned funds, the additional carryover into FY 2015-16 is \$29,136. At the first quarter review for FY 2015-16, staff will present a discussion of the use of these revenues and recommend the appropriate action or placement of the unassigned, additional carryover.

CONCLUSION:

Total expenditures were within appropriation authority for all fund categories, and total revenues were above projections due to an increase in applications received during the year. The remainder of Contingencies (\$87,356) and the entirety of Reserves (\$429,329) were carried forward into FY 2015-16.

Of importance is that the report identifies that this is the second straight year of proposal receipts reaching or exceeding full-year targets, an indication that proposal activity is on the uptick after many years of stagnation.

Staff recommends that the Commission take the action identified on page 1 of this report to receive and file the report. Staff will be happy to answer any questions from the Commission prior to or at the hearing.

MT/KRM

Attachments:

1. [Spreadsheet of Year-end Expenditures, Reserves, and Revenues for FY 2014-15](#)
2. [Chart Illustrating Yearly Proposal, Service Contract, and Service Review Activity](#)