

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: OCTOBER 14, 2015 
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #8: First Quarter Financial Review for Period July 1 through September 30, 2015

RECOMMENDATION:

Staff recommends that the Commission take the following actions:

1. Note receipt of this report and file.
2. Increase Expenditure Account 2445 (Other Professional Services) by \$75,000 to \$122,428 to account for the consultant contract for supplemental staffing approved by the Commission on September 16, 2015.
3. Increase Revenue Account 9800 (LAFCO Fees) by \$45,864 to \$84,614 to account for an increase receipts from proposals received.
4. Recognize the increase in Cash Carryover from Fiscal Year 2014-15 of \$29,136 in Revenue Account 9970 for a total of \$186,960 [Total for Revenue Account 9970 (all carryovers to include reserves) increases to \$703,645].
5. Authorize the restitution of sick leave and payment of that leave into Retirement Medical Trust as authorized by LAFCO Benefit Plan based upon separation of employee from LAFCO service, and direct the Executive Officer to coordinate with the County HR Department to provide for payment of this benefit.
6. To account for the mandatory leave payouts from the separation of an employee transfer revenues as follows:
 - a) Increase Account 1010 (Regular Salary) by \$4,118 to \$459,396
 - b) Increase Account 1045 (Termination Payment) by \$2,604

- c) Decrease Account 6030 (Compensated Absences Reserve) by \$6,722 to \$9,607

BACKGROUND:

The first quarter of Fiscal Year 2015-16 has concluded and staff is presenting the Commission with its first financial report. This report 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 adjustments to account for:
 - Consultant contract for supplemental staffing approved by the Commission on September 16, 2015
 - Increase in revenue due to proposals received
 - Increase in Cash Carryover from Fiscal Year 2014-15
 - Mandatory leave payouts from the separation of an employee

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 27% of Approved Budget authority. There has been no request made for utilization of funds maintained in the Contingency and Reserve accounts during the first quarter. However, later this report will detail the staff's request to process a transfer from the Compensated Absence Reserve funds related to an employee leaving LAFCO service that would occur 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 \$184,157 through the first quarter, representing 25% of Approved Budget authority.

During the first quarter, the separation of LAFCO Analyst Joe Serrano from LAFCO employment required a mandatory payout of accumulated leave balances (vacation and holiday) totaling \$4,118 (Account 1010). The Commission's reserve policy requires that the balance of San Bernardino LAFCO employee compensated absences shall be funded and placed in a committed reserve account (Account 6030). LAFCO staff recommends that the payout amount of \$4,118 transfer from Compensated Absences Reserve (Account 6030) to Account 1010 (Regular Salary) to account for the payout.

In addition, it was discovered that the provision of the *LAFCO Policy and Procedure Manual*, to implement the payment of 75% of the employees accumulated sick leave balance into the Retirement Medical Trust Fund (RMT) had not been done.

According to County Human Resources, it can reverse the forfeiture and have the deposit made into the RMT once the Commission approves the action and they receive the necessary paperwork from SBCERA, OCERA and the employee. Under the discussion of the Contingency and Reserve funds will be the actions necessary to fund these charges.

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 \$98,525, or 30% of Approved Budget authority. Payments that are typical to the first quarter that have taken place include: payment for the California Association of LAFCOs (CALAFCO) membership, 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. Additionally, payments occurred for the Commission-approved: special study for Morongo Valley Community Services District, sphere of influence amendment for the Chino Basin Water Conservation District, and preliminary feasibility study for a potential Rim of the World incorporation.

B. *Anticipated Expenditures*

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

- Full-year payments for the annual financial audit (\$11,868) and subscription to the County Street Network (\$10,500) for maintenance of digital mapping.
- Consultant contract for supplemental staffing approved by the Commission on September 16, 2015, not to exceed \$75,000. To account for the consultant contract, staff recommends that the Commission increase Expenditure Account 2445 (Other Professional Services) by \$75,000 to \$122,428.
- Payments for the processing of the water, wastewater, and streetlights service reviews for the Valley Region.
- As described in more detail in the Revenue section below, proposals received just through the first quarter are not only at above normal activity but are also more complex. Significant payments for the processing of the proposals (legal costs, advertising and mailing) are anticipated.

C. Status of Ongoing Commission-approved Projects

The following provides an update on expenditures and progress on projects or proposals approved by the Commission or special studies initiated by the Commission.

INSTALLATION OF FIBER OPTIC LINE:

Due to the County Workforce Development Department vacating the building where the LAFCO office is located, LAFCO was required to install its own dedicated communications line. The budget for the installation of a dedicated fiber optic line is \$20,000. In August the installation was completed. Costs incurred related to Verizon's work is \$6,116. The remainder of the costs, when received, will stem from the County's work but are expected to be within the budgeted amount.

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 2014 hearing the Commission authorized the contract with Rosenow Spevacek Group (RSG) to prepare the financial projections for this study.

Of the \$24,773 received for the special study, \$15,000 was earmarked for the contract with RSG and \$9,773 was allocated toward LAFCO staff time. However, additional information needs required the shifting of some of the funds proposed for staff costs for payment to RSG. The contract costs have been paid in full; although additional costs for RSG attendance at County and community meetings have yet to be received. In addition, the Second District requested supplemental information be provided related to the feasibility study outside the existing LAFCO contract. LAFCO will receive additional funds from the Second District to cover the costs of the "Sensitivity Analysis" prepared as an addition to the contract. At this hearing staff will be presenting the Preliminary Feasibility Study on the Rim of the World Incorporation.

EDUCATIONAL TRAINING PROGRAM FOR SPECIAL DISTRICTS:

The Commission has expressed its desire to provide continuing governance training for the special districts within the County. As a part of this year’s budget, staff developed an education program with the California Special Districts Association (CSDA) and the Institute for Local Government (ILG) – see chart below. CSDA has indicated that it would not charge to conduct the training, and ILG has identified a cost of \$2,300.

Educational Training Program Timeline		
Training Session	Collaboration	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

The first session took place on September 28 at the Mojave Water Agency in Apple Valley, and estimated costs incurred were minimal, consisting of refreshments, copying charges and miscellaneous supplies. The session was well attended, included a cross-section of agencies, and overall feedback has been positive. Attendees totaled 49 persons from 22 different agencies, which represented 14 districts, three cities, four JPAs, and one MAC. The survey results are as follows:

- What is your overall rating of this seminar? 9.0 Out of 10
- How would you rate the pre-seminar registration process? 9.3
- How would you rate the on-site registration process? 8.6
- How would you rate the facility? 9.4

SPECIAL STUDY OF THE MORONGO VALLEY COMMUNITY SERVICES DISTRICT:

At the July hearing, staff presented the special study of the Morongo Valley Community Services District to the Commission. Additionally, at the request of the district, on September 30 LAFCO staff presented the special study and its findings at a community meeting in Morongo Valley. The costs for this special study (mainly comprised of staff time) are borne by the Commission as it directed

staff to address the concerns of the community. It is estimated that the total cost of the study are \$9,400.

SPHERE OF INFLUENCE AMENDMENT FOR THE CHINO BASIN WATER CONSERVATION DISTRICT:

As an outgrowth of the May 2015 service review for *Water Conservation in the Valley Region*, the Commission initiated a sphere of influence amendment for the Chino Basin Water Conservation District. The Commission considered the sphere amendment in September. The costs for this sphere amendment (mainly comprised of staff time) are borne by the Commission as the applicant.

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.

As previously mentioned, the separation of Joe Serrano from LAFCO employee in the first quarter required a mandatory payout of accumulated vacation and holiday leave balances totaling \$4,118 (Account 1010). In addition, as part of the preparation of the First-Quarter review it was discovered that the transfer of 75% of the sick leave balance to the Retirement Medical Trust had not taken place. In reviewing this question, it was learned that as a part of the PEPRA implementation occurring at the time of Joe's original hiring, a form was not included in the processing. The EMACs checklist in use at the time did not identify the form, nor did LAFCO staff verify its need upon his separation. In order to rectify this oversight, the staff is recommending that the Commission direct the Executive Officer to request that the County EMACs system reinstate the sick leave time eliminated (146.84 hours at a value of \$3,471.46), convert it to the Retirement Medical Trust (RMT) pursuant to LAFCO Benefit Plan Policies (75% of sick leave balance or \$2,604) and provide notification to the employee of the payment of this benefit.

The Commission's reserve policy requires that the balance of San Bernardino LAFCO employee compensated absences shall be funded and placed in a committed reserve account (Account 6030). LAFCO staff recommends that the payout amount of \$6,772 transfer from Compensated Absences Reserve (Account 6030) to Account 1010 (Regular Salary -- \$4,118) and Account 1045 (Termination Payment -- \$2,604) to account for the payouts.

Revenues

1. Revenues through First-Quarter

The Commission has received 108% of Adopted Budget revenues through the first quarter. The items below outline the revenue activity:

- Interest (Account 8500) - A minimal amount of \$813 in interest revenue was gained from the Commission's cash in the County Treasury as this reflects the final quarter of Fiscal Year 2014-15 cash. 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.
- Fees and Deposits (Accounts 9545 – 9800) – Through the first quarter, the Fees and Deposits series of accounts have received 173% of its budgeted revenue (\$180,546). Of this amount, 94% is related to proposals, 4% cost recovery, and 2% service contracts.

Most of the proposals are grand in scale and scope (two annexations to County Fire, annexations to the City of Big Bear Lake of municipally owned properties, and a reorganization to include annexations to the City of Rialto and the West Valley Water District). To account for the increase in revenues and to balance the budget, staff is recommending that the Commission increase Revenue Account 9800 (LAFCO Fees) by \$45,864 to \$84,614.

- Carryover from Prior Year (Account 9970)

The fund balance at the prior fiscal year's closure was carried forward into FY 2015-16 (\$758,758), and is composed of the following:

- All of the Contingency and Reserve funds identified in the FY 2014-15 budget have been carried forward, \$516,685.
- Allocated but unspent funds of \$3,275 from Commission-approved projects.
- Additional cash carryover of \$238,798 composed of the following:
 - Carryover of \$157,824 into FY 2015-16 to balance the budget.
 - Liabilities of \$51,838 include deferred revenue related to open applications and accounts payable.
- Unrecognized and unassigned carryover from FY 2014-15 of \$29,136. To account for the increase in carryover and to balance the budget, staff recommends that the Commission increase Account 9970 (Carryover from Prior Year) by 29,136.

2. Proposal Activity

The figure below identifies the number of proposals and service contracts received through the first quarter. The figure identifies that seven proposals and three service contracts were received in the first quarter. As identified above, the receipt of these proposals has brought in over \$180,000. Attachment #2 to this staff report includes a chart showing the yearly comparison of proposal, service review, and completed service review activity.

Activity	Budget	Through September	
		No.	% of Budget
Proposals	6	7	117%
Service Contracts - Development, Commission approval	1	0	0%
Service Contracts - Request for Exemption from 56133	0	1	
Service Contracts - Admin (E.O.) approval	4	2	50%
Protest Hearing Deposits	5	1	20%

Since the end of the first quarter, two service contracts have been received. One is a development related service contract (\$4,000 fee), and the other is a request for exemption from Gov. Code 56133 (\$2,250 fee). These two service contracts are not shown in the chart above or the revenues identified in this report.

The remainder of the year anticipates the completion of the second cycle service reviews for water (wholesale, retail, and recycled), sewer (collection, treatment, and reclamation), and streetlights. By action taken at the September hearing, the Commission has directed staff to prioritize its activities to address the fire proposals submitted as the top priority, other jurisdictional changes next, and service reviews to follow.

Fund Balance

As of September 30, the Commission's cash in the County Treasury was \$1,542,008. A breakdown of this amount is shown below.

September 30, 2015 Balance		\$1,542,008
Balance is composed of the following:		
<i>Liabilities (as of Oct 5, 2015)</i>		
	Deposits Payable/(Receivable) from open applications	24,695
<i>Committed (constrained to specific purposes)</i>		
	Net Pension Liability Reserve (Account 6010)	82,750
	Compensated Absences Reserve (Account 6030)	79,211
<i>Assigned (intended for specific purposes)</i>		
	Contingency (Account 6000)	105,501
	General Reserve (Account 6025)	291,007
	Projected Remaining Expenditures (full budgeted amount)	851,445
<i>Estimated Carryover into FY 2016-17 (assumes full gain from active proposals)</i>		107,399
BALANCE		\$1,542,008

CONCLUSION:

This year is shaping to be one not only with above normal activity, but also one with complex proposals which could directly impact the quality of life of hundreds of thousands of residents of our County. The approval of a consultant for supplemental staffing should help with the processing burden; however, staff will implement the direction of the Commission on its priorities. It is staff's recommendation that the Commission take the actions identified on page 1 of this report. These actions include:

- Acknowledge the obligation for placement of 75% of the sick leave balance of Joe Serrano upon his separation from LAFCO into a Retirement Medical Trust and direct staff to address the details necessary to effectuate that correction. In order to acknowledge this separation occurring in the first quarter, required mandatory payouts of accumulated leave balances totaling \$6,722 (Accounts 1010 and 1045). The Commission's reserve policy requires that the balance of San Bernardino LAFCO employee compensated absences shall be funded and placed in a committed reserve account (Account 6030). LAFCO staff recommends that the amount of \$6,722 transfer from Compensated Absences Reserve (Account 6030) to Account 1010 (Regular Salary) \$ 4,118 and Account 1045 (Termination Payment) \$2,604 to account for the payout.
- To account for the consultant contract for supplemental staffing approved by the Commission on September 16, 2015, staff recommends that the Commission:
 - Increase Expenditure Account 2445 (Other Professional Services) by \$75,000 to \$122,428.

- Balance the budget by:
 - Increasing Revenue Account 9800 (LAFCO Fees) by \$45,864 to \$84,614 to account for an increase in proposals received.
 - Recognize the increase in Cash Carryover from Fiscal Year 2014-15 of \$29,136 in Revenue Account 9970 for a total of \$186,960.

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