

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 #10: Status LAFCO 3189 - Special Study of the Morongo Valley Community Services District

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of the status report and file.
2. Set the next status report for the August 2016 hearing.

BACKGROUND:

At the July 2015 hearing, the Commission completed the special study of the Morongo Valley Community Services District ("District"). The special study was conducted at the request of a district board member due to financial and governing concerns and was narrow in focus – determining the financial sustainability of the district to perform its authorized range of services, most specifically fire protection and emergency response.

This is the first scheduled status update for the District related to the special study findings and determinations. Unfortunately, LAFCO's monitoring of the District now includes reviewing its immediate sustainability.

At the conclusion of the special study, the District took painful and significant measures and received additional State reimbursement revenue to barely break-even for FY 2014-15. As a part of the special study LAFCO staff provided a forecast for the next five fiscal years (through 2020-21). The forecast did not show even nominal annual revenue gains – basically a break-even scenario. The forecast assumes that funding, equipment, and personnel remain equal and constant. Any deviation would force the razor-thin surplus to evaporate.

Specifically, LAFCO identified four variables which could result in budget challenges for the district, ranging from severe to moderate.

1. Replacement of Current Fire Truck. The district fire truck is a 2001 model with roughly 100,000 miles, and the backup is a 1992 truck. A complete replacement would cost roughly \$500,000.
2. Wild land Fire Truck is Recalled. Should the federal program cease, the recall of the brush engine would remove a revenue source as well as remove a backup fire truck.
3. Replacement of Current General Manager. The current general manager has over the past two years voluntarily decreased her salary by roughly \$15,000 in order to balance the budgets. Should the need arise to fill the position, returning the salary to the previous figure may be necessary to recruit a general manager with the skill level required of the position.
4. Any other Major Expense. There is little to no room for any other major expense such as a new roof or replacement of the fire admin vehicle. Due to the age of the facilities it is a matter of when, not if, major expenses will occur.

In the conclusion to the report, LAFCO staff stated, “Should the district desire to increase the levels of its current services or expand the range of services, additional revenue sources would need to be obtained.”

As a result of the special study, the Commission directed the staff to:

- Continue to monitor the district’s financial position and sustainability by requesting the district to provide LAFCO with its adopted annual budget, mid-year financial report, and financial statements for the next three years, and
- Monitor and update the Commission biannually for the next three years regarding the district’s financial position and sustainability.

The following provides a narrative discussion of LAFCO staff’s ongoing monitoring of the District.

FY 2014-15 Audit and Fiscal Indicators

District staff provided LAFCO with its FY 2014-15 year-end estimates for the July special study. Through the special study, the Commission is aware of the financial status of the District up to that point. The following provides a review of the District’s financial position from its audited financial statements moving forward.

Fund Balance

The District’s fund balance has decreased for the past three years – by a total of 42.4%. However, the most recent fiscal year experienced a lesser decrease – of 1.6%. As identified in the July 2015 special study, the District experienced a back-log of maintenance,

insurance and employment claims, and was required to use unbudgeted monies to rectify the proper closing of grants and OSHA issues. During 2014-15, the District implemented measures to cut expenditures which tempered the annual decrease in fund balance.

FUND BALANCE						
	2010-11	2011-12	2012-13	2013-14	2014-15	
Fund Balance:						
Non spendable	66,270	65,902	1,758	1,669	2,400	
Restricted	12,490	15,142	11,348	13,569	26,930	
Unassigned (Unreserved)	463,684	484,303	456,463	341,941	322,177	
Total Fund Balances	\$ 542,444	\$ 565,347	\$ 469,569	\$ 357,179	\$ 351,507	
Revenues:						
Property tax	383,400	366,739	365,836	363,061	373,931	
Fire assessment	280,605	286,528	292,076	313,913	300,825	
Grant income	186,044	31,971	13,951	11,516	18,184	
Fire service	4,992	1,542	9,222	25,482	113,284	
Park revenue	4,992	3,332	4,279	9,398	7,113	
Other	3,463	22,289	8,993	15,293	10,819	
Total Revenues	\$ 863,496	\$ 712,401	\$ 694,357	\$ 738,663	\$ 824,156	
Expenditures:						
General government	86,016					
Fire operations	504,787	605,710	657,767	734,367	742,443	
Park & recreation	247,417	79,714	77,435	106,084	76,781	
Streetlights	4,116	4,074	5,645	4,786	4,788	
Debt service	24,627	-	1,452	5,816	5,816	
Total Expenditures	\$ 866,963	\$ 689,498	\$ 742,299	\$ 851,053	\$ 829,828	
Revenues less Expenditures:	\$ (3,467)	\$ 22,903	\$ (47,942)	\$ (112,390)	\$ (5,672)	
Fund Balances, Beginning	545,911	542,444	517,511	\$ 469,569	\$ 357,179	
Fund Balances, Ending	\$ 542,444	\$ 565,347	\$ 469,569	\$ 357,179	\$ 351,507	
Increase from prior year	-0.6%	4.2%	-16.9%	-23.9%	-1.6%	
Sources: Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance						
*Notes: (1) FY 2012-13 Fund Balance had adjustment to Beginning Balance of \$47,836						

Focusing on the past three audited years, the breakdown of Revenues and Expenditures by activity (fire protection and emergency response, park and recreation, and streetlights) clearly identifies that the district's fire protection and emergency response function operates in the red. While this was known during the special study, the most recent audit solidifies this circumstance, as shown below.

FY 2012-13	Fire	Park & Rec	Streetlights	Total
Revenues:				
Property tax	325,437	34,754	5,645	365,836
Fire assessment	292,076	-	-	292,076
Other	24,745	11,700	-	36,445
Total Revenues	\$ 642,258	\$ 46,454	\$ 5,645	\$ 694,357
Expenditures:				
Salaries & wages	412,277	27,235	840	440,352
Benefits	57,448	10,775	-	68,223
Operations expense	188,040	39,425	4,805	232,270
Debt service	1,454	-	-	1,454
Total Expenditures	\$ 659,219	\$ 77,435	\$ 5,645	\$ 742,299
Revenues less Expenditures	\$ (16,961)	\$ (30,981)	\$ -	\$ (47,942)
FY 2013-14				
Revenues:				
Property tax	266,673	91,602	4,786	363,061
Fire assessment	313,913	-	-	313,913
Other	47,207	14,482	-	61,689
Total Revenues	\$ 627,793	\$ 106,084	\$ 4,786	\$ 738,663
Expenditures:				
Salaries & wages	441,253	35,268	364	476,885
Benefits	73,745	10,325	64	84,134
Operations expense	219,369	60,491	4,358	284,218
Debt service	5,816	-	-	5,816
Total Expenditures	\$ 740,183	\$ 106,084	\$ 4,786	\$ 851,053
Revenues less Expenditures	\$ (112,390)	\$ -	\$ -	\$ (112,390)
FY 2014-15				
Revenues:				
Property tax	291,801	77,286	4,844	373,931
Fire assessment	300,825	-	-	300,825
Other	138,273	11,127	-	149,400
Total Revenues	\$ 730,899	\$ 88,413	\$ 4,844	\$ 824,156
Expenditures:				
Salaries & wages	472,925	35,549	272	508,746
Benefits	74,047	6,060	33	80,140
Operations expense	195,471	35,172	4,483	235,126
Debt service	5,816	-	-	5,816
Total Expenditures	\$ 748,259	\$ 76,781	\$ 4,788	\$ 829,828
Revenues less Expenditures	\$ (17,360)	\$ 11,632	\$ 56	\$ (5,672)

Assessed Value, Property Tax, and Assessments

The special study identified how assessed value of the District had declined for five consecutive years which led to a corresponding decline in property tax revenues received. On a positive note, the assessed value has increased for two consecutive years. However, the fire assessment is not tied to assessed value; yet conversely enjoyed annual gains until 2014-15, which interestingly experienced a decrease.

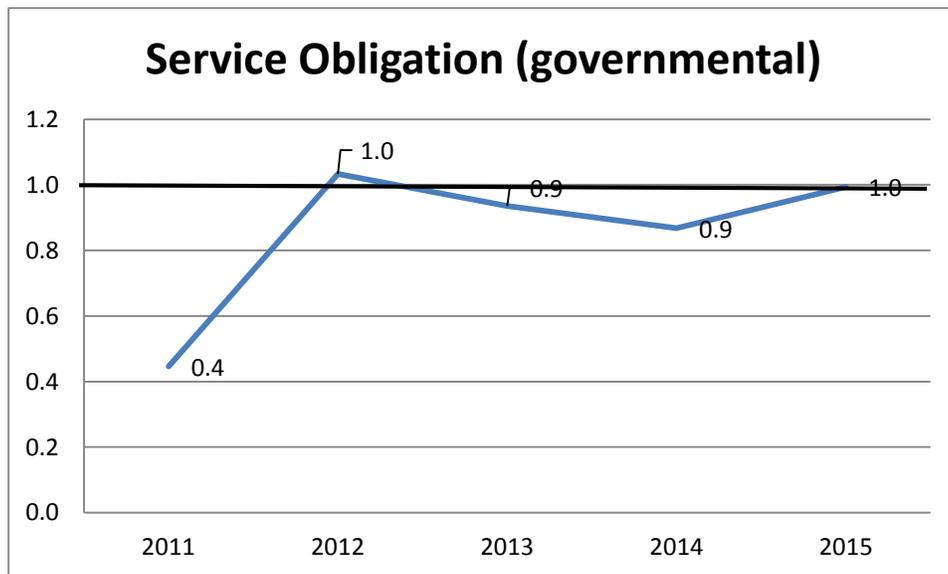
Year	Assessed Value		Tax Received		Assessment Received	
	Valuation	% change	Total Tax	% change	Total	% change
2007-08	\$ 219,980,152	16.8%	\$ 438,520	15.2%	\$ 214,573	7.4%
2008-09	\$ 226,288,922	2.9%	\$ 439,874	0.3%	\$ 263,798	22.9%
2009-10	\$ 211,888,756	-6.4%	\$ 420,263	-4.5%	\$ 269,762	2.3%
2010-11	\$ 194,095,885	-8.4%	\$ 383,400	-8.8%	\$ 280,605	4.0%
2011-12	\$ 186,380,022	-4.0%	\$ 366,739	-4.3%	\$ 286,528	2.1%
2012-13	\$ 184,029,593	-1.3%	\$ 365,836	-0.2%	\$ 292,076	1.9%
2013-14	\$ 179,691,565	-2.4%	\$ 363,061	-0.8%	\$ 313,913	7.5%
2014-15	\$ 188,970,893	5.2%	\$ 373,931	3.0%	\$ 300,825	-4.2%
2015-16	\$ 201,126,374	6.4%				
sources:						
County of San Bernardino, Agency Net Valuations						
Morongo Valley CSD audits						

Fiscal Indicators

Currently, LAFCO’s Fiscal Indicators program includes audited data through FY 2013-14. LAFCO staff has added FY 2014-2015 to the District’s Service Obligation and Liquidity indicators.

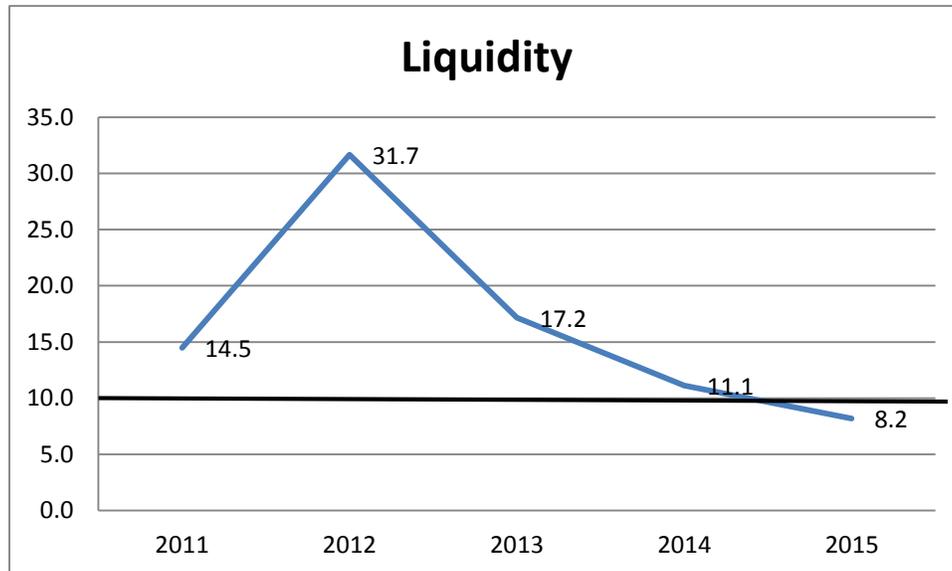
Service Obligation

Service Obligation measures whether or not a government's annual revenues were sufficient to pay for annual operations. In most cases, as the percentage of general revenues decreases, an agency loses its ability to respond to changing conditions and to citizens’ needs and demands. It is calculated by dividing operating expenditures by operating revenues. A ratio of one or higher indicates that a government lived within its annual revenues. On the whole, the District is at or just below the break-even level.



Liquidity

Liquidity measures a government's ability to meet its short-term obligations. In other words, if a short-term obligation became due would the agency be able to satisfy that obligation with cash. It is calculated by dividing current liabilities by cash and investments. The higher the ratio suggests a government is better able to meet its short-term obligations. For agencies not meeting its service obligations (see previous indicator), the literature suggests a ratio of ten or above. As shown, Liquidity is slipping into territory where satisfying short-term obligations becomes a challenge.



2015-16 MID-YEAR

At first glance, the mid-year financial chart (shown below) does not reveal major concerns since revenues exceed expenditures. However, the narrative provided by the District for the second half of the year reveals major concerns for the District and LAFCO staff.

For the park and recreation services, the chart below identifies that 75% of expenditure authority has been incurred to date (roughly \$8,000 above the mid-year benchmark). The District's documents identify roughly \$2,500 in plumbing costs at the park. Additionally, the lease agreement with the County in October 2015 for continued use of Mojave Park (located on the Big Morongo Canyon Preserve Area) resulted in an unbudgeted expense of \$2,077.

As for fire, the medic engine incurred an unbudgeted expense – a repair to its engine of roughly \$25,000.

MORONGO VALLEY CSD						
	2013-14	2014-15	2015-16	2015-16	2015-16	
	Actual	Actual	Adopted	Thru	Percent	
			Budget	Mid-Year	Mid-Year	
Revenues:						
Property tax	363,061	373,931	369,483	182,732	49%	
Fire assessment	313,913	300,825	302,932	150,497	50%	
Grant income	11,517	18,184	10,000	119	1%	
Fire service						
Cost Recovery	1,818	4,003	4,000	1,768	44%	
OES Reimbursement	22,270	94,769	22,000	126,829	576%	
Fire Inspections	1,394	2,494	2,400	408	17%	
Donations	9,792	4,161	-	2,273		
Other	-	18,676	-	66		
Total Fire Service	35,274	124,103	28,400	131,344	462%	
Park revenue	9,398	5,703	5,000	3,114	62%	
Other	5,500	1,410	3,334	5,942	178%	
Total Revenues	\$ 738,663	\$ 824,156	\$ 719,149	\$ 473,748	66%	
Expenditures:						
General government	189,608	148,133	117,175	63,238	54%	
Fire operations						
Operating Supplies	15,812	12,359	11,650	5,313	46%	
Training & Safety	35,592	19,686	17,000	4,338	26%	
Administration	41,001	29,837	28,650	17,031	59%	
Apparatus	64,253	73,167	57,350	54,993	96%	
Compensation	448,410	500,459	446,458	297,507	67%	
Total Fire Operations	605,068	635,508	561,108	379,182	68%	
Park & recreation	46,520	36,205	31,050	23,439	75%	
Streetlights	4,039	4,166	4,000	2,075	52%	
Debt service	5,818	5,816	5,816	2,908	50%	
Total Expenditures	\$ 851,053	\$ 829,828	\$ 719,149	\$ 470,842	65%	
Revenues less Expenditures:	\$ (112,390)	\$ (5,672)	\$ -	\$ 2,906		
Fund Balances, Beginning	469,569	357,179	351,507	-		
Fund Balances, Ending	\$ 357,179	\$ 351,507	\$ 351,507	\$ 2,906		
Change from prior year	-23.9%	-1.6%				

However, additional mid-year materials included by the District identify that payroll for fire personnel has dramatically increased during the past months. According to District staff, while the Chief was on medical leave his salary was partially paid by Workers' Compensation, which reduced the amount that the District paid to its highest earner. However, this reduction in staffing has created the unintended consequence of more overtime, which in the end is resulting in higher payroll.

The figure below shows the projections provided by the District for its fire staffing for the second half of the fiscal year. As shown, at current levels, payroll during the second half will exceed its budget by roughly \$74,000, without any offsetting increase in revenues.

	Fire Payroll - 2nd Half		
	Budget	Projected	(Over) Under
paramedic	\$ 52,728	\$ 61,893	\$ (9,165)
engineer	\$ 54,624	\$ 59,475	\$ (4,851)
captains	\$ 23,346	\$ 74,217	\$ (50,871)
chief	\$ 26,502	\$ 28,704	\$ (2,202)
taxes	\$ 14,484	\$ 21,372	\$ (6,888)
TOTAL	\$ 171,684	\$ 245,661	\$ (73,977)
reserves	\$ 9,102	\$ 7,800	\$ 1,302
Notes:			
Chief's salary partially paid by Workers' Comp in first half			

Additionally, the general manager has voluntarily reduced the compensation of her position more than once. These actions are not reflective of a well-funded agency and cannot be relied upon to achieve a sustainable budget.

Unfortunately, LAFCO's monitoring of the District now shifts to questions on its immediate sustainability.

Special Tax Election

The special study concluded that,

“The district should consider placing a ballot measure to convert its current benefit assessment into a special tax with an annual inflation factor as a special tax would not be subject to an annual engineering report and annual exposure to being challenged. Further, an election to convert the assessment to a special tax could request an increased tax in order to augment fire protection and paramedic service. The District indicates that consideration of any ballot measure would not take place until all the mechanisms are in place to ensure that it annually operates with a sustainable budget and properly governs within that budget.”

At its January 2016 hearing, the District voted 4-1 to call an election on a proposed \$350 annual parcel tax related to its fire protection and emergency response services (District's resolution included as Attachment #4). The tax proposal will be placed on the June 7 election and will require two-thirds approval to pass. If successful, the \$350 special tax would replace the current assessment (which would be a substantial increase). If unsuccessful, the current assessment would remain. The measure, as shown in the District's Resolution No. 1-1-2016, reads as follows:

“Shall the Morongo Valley Fire and Rescue Assessment be converted into a special parcel tax of \$350 per year, adjusted for inflation, to use in funding fire protection and paramedic services provided by the Morongo Valley Community Services District?”

Of note, the measure does not include a cap on the annual adjustment for inflation, such as 3% or 5%, which is a concern for such measures.

CONCLUSION:

After what appeared to be a sustainable adopted budget, coupled with a positive mid-year spreadsheet, the District predicts a second half that will result in overages of \$74,000 just for fire staffing. If all overtime were to be cut, then the projection shows an overage of \$23,000. Therefore, the District resumes its never ending discussion about what level of fire service is desired in the community - how to pay for it or how to lower costs. Unfortunately, LAFCO's monitoring of the District now shifts to reviewing its immediate sustainability rather than the question of long term sustainability.

The budget remains challenged, and as a result the delivery of its range of services is challenged. If any additional major expense were to occur, such as further repairs to its 2001 truck, then service sustainability for the residents and travelers on Highway 62 would be severely challenged.

To address these sustainability concerns, as stated in the special study, the Commission may choose to initiate a sphere of influence review and a full service review. Such a review would include analysis of designating a zero sphere of influence signaling that a future change of organization take place. By designating a zero sphere, the Commission's desire would be that an overlying or adjacent agency would potentially assume the district's services. These could include:

- San Bernardino County Fire Protection District and its South Desert Service Zone (adjacent - fire protection and emergency medical response)
- County Service Area 70 (overlying - park and recreation, streetlights), or the District could maintain these services with fire being reorganized (as shown above)

Given the issues identified in this report, staff recommends that the Commission await the outcome of the June 7 election where the special tax measure will be decided by the voters. Should the special tax be approved, this would provide a stable source of revenue for the

District's fire protection and emergency medical services. Until the next scheduled update in August 2016, the results of the special tax election will dictate the coming year's budget as well as the possible direction of the community's fire protection and emergency services. The next update will revise the five-year financial projections identified in the special study based upon the District's unaudited year-end figures as well the results of the special tax election.

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Attachments:

1. [FY 2014-15 Financial Statements](#)
2. [FY 2015-16 Mid-Year Spreadsheets](#)
3. [July 2015 Special Study – Staff report](#)
4. [Morongo Valley CSD Resolution Calling for Election](#)