July 2015 Special Study – Staff Report

Attachment 3

LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY

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DATE: **JULY 1, 2015**

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

TO: **LOCAL AGENCY FORMATION COMMISSION**

SUBJECT: **Agenda Item #9: LAFCO 3189 - Special Study of the Morongo Valley Community Services District**

RECOMMENDATION:

Staff recommends that the Commission take the following actions related to LAFCO 3189:

1. Receive and file the special study for the Morongo Valley Community Services District.

2. Request the Morongo Valley Community Services District to provide LAFCO with its adopted annual budget, mid-year financial report, and financial statements for the next three years.

3. Direct LAFCO staff to monitor and update the Commission biannually for the next three years regarding the financial position and sustainability of 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.

In response to the complaint, staff conducted a phone interview with the general manager in September followed by a site visit with the general manager and fire chief in January. At the January 21, 2015 hearing, based upon staff's recommendation the Commission

authorized a special study of the district. This special study is narrow in focus – determining the financial sustainability of the district to perform the minimum level of services.

Methodology

Throughout February, March, and April the district general manger formulated the FY 2015-16 Budget. During this time, the general manager provided LAFCO staff with documentation on cost cutting measures for 2014-15 and 2015-16 as well as insight into rectifying the problems that have plagued the district since at least 2010.

On April 7, LAFCO staff conducted a site visit and interviewed the general manager and interim fire chief. On April 11, the district held a special meeting and unanimously adopted its preliminary 2015-16 budget as presented by district staff. The district adopted the final 2015-16 budget at its May 20 hearing.

Sources utilized for this report include:

- Interviews and correspondence with district management staff
- District financial documents
    - Audits through FY 2013-14
    - Ledger for FY 2014-15 through March with year-end projections provided by district
    - FY 2015-16 final budget provided by district
- State Controller Report for Special Districts through FY 2012-13
- Assessed Valuation data from the County Auditor
- Population data from the U.S. Census with projections from ESRI (Environmental Systems Research Institute)
- District fire department response calls by type from 2011 through 2014
- Traffic flow data from the State Department of Transportation and ESRI

Review of Draft Report

The draft staff report was provided to the district for review and comment which culminated with a meeting on June 11. The District has identified that it does not have written comments on the draft staff report. The final step for the special study is this report presented to the LAFCO Commission at a public hearing.

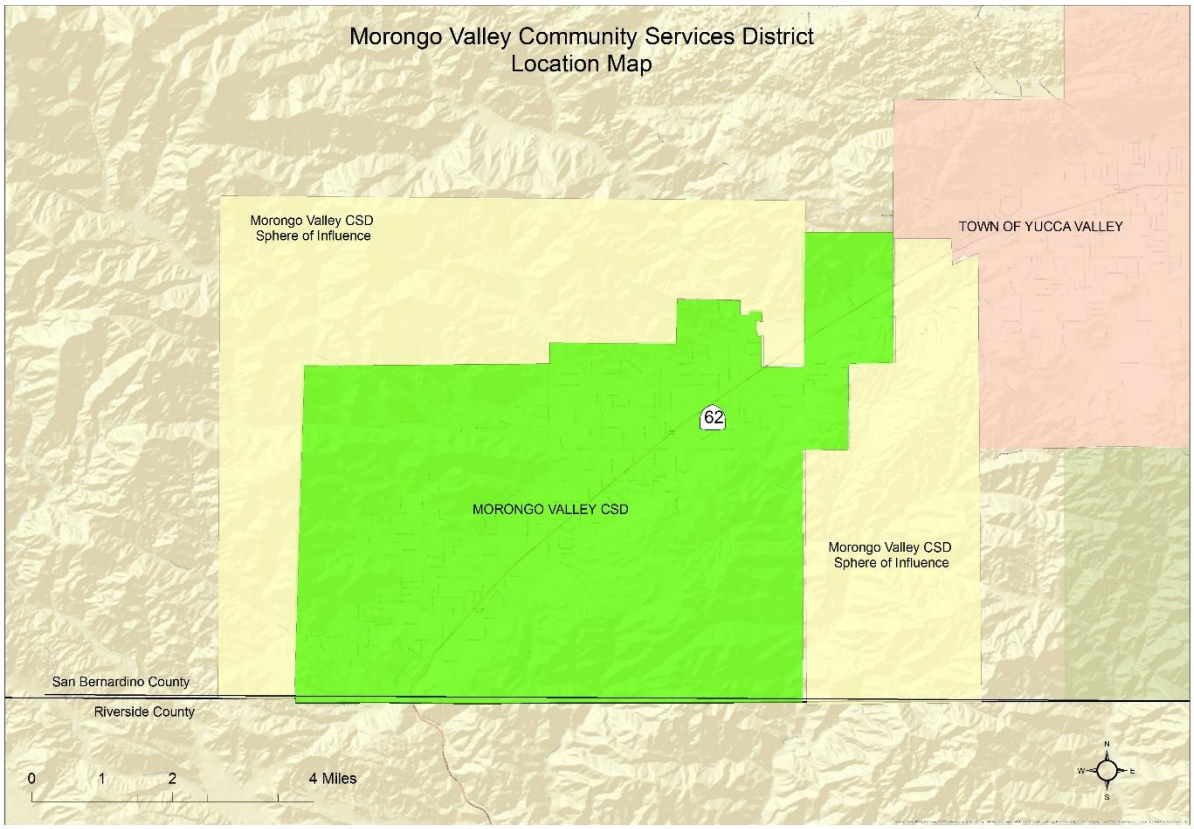
DESCRIPTION:

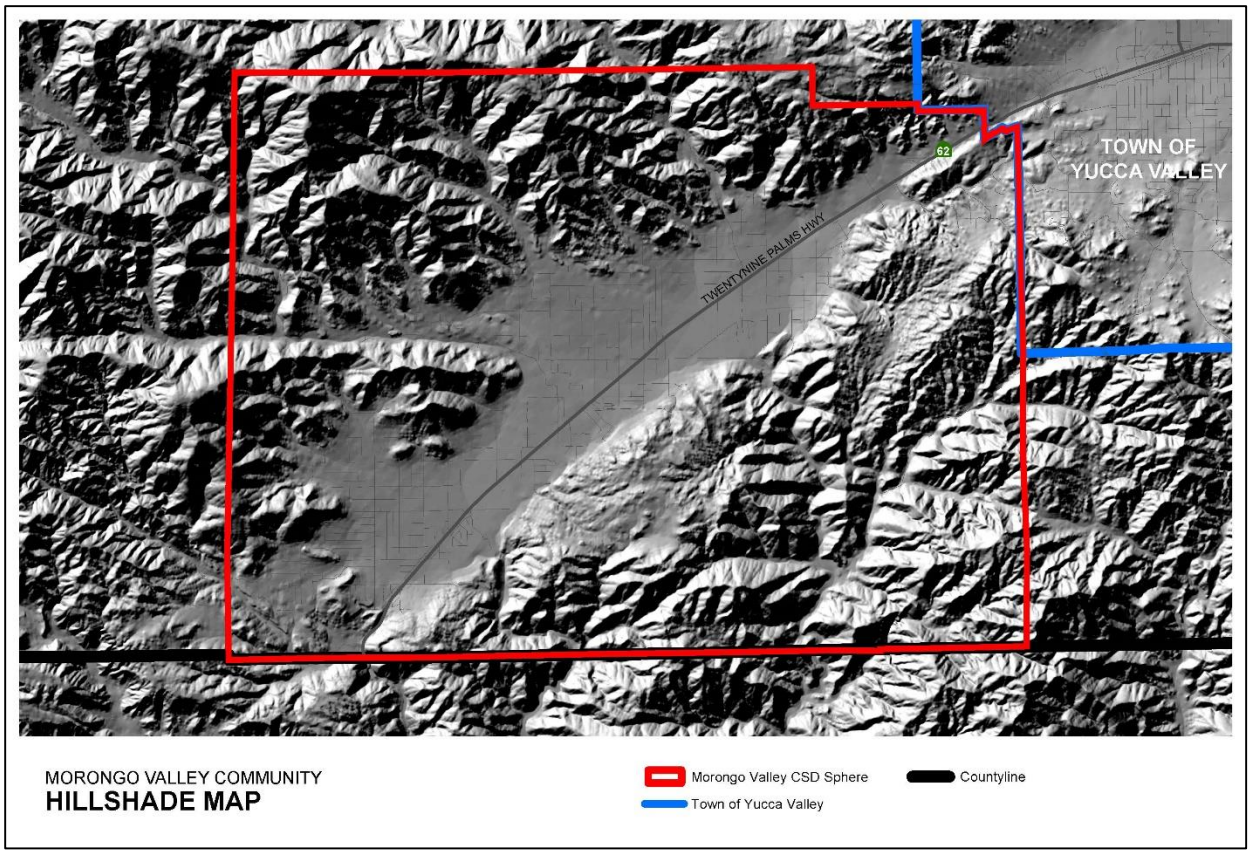
Location

The special study area is generally situated in the Commission's defined South Desert Region at the southwestern end of the Morongo Basin, approximately 58 miles east of San Bernardino and 23 miles north of Palm Springs by car. State Route 62 (Twentynine Palms Highway) traverses through the community which is south of the Sawtooth Mountains, southwest of the LAFCO defined Yucca Valley community, westerly of the Joshua Tree National Park, north of the Riverside county line, and east of the San Bernardino Mountain

Range. The study area encompasses approximately 27 square miles and includes portions of the San Gorgonio Wilderness and the Big Morongo Canyon Preserve.

A map of the District is shown below. The second map is a relief map which illustrates the topographic constraints that form the Morongo Valley. Morongo Valley is basically a rural community with scattered development on large parcels of land. Development consists mostly of residential single-family homes with little commercial development. The community has wilderness and recreational areas within and surrounding the community.





Morongo Valley CSD

In 1958 the voters approved the formation of the Morongo Valley Community Services District. The CSD is an independent special district with a five-member board of directors elected at-large and operates under Community Services District Law, Government Code Section 61000 et seq. Currently, the CSD is authorized by LAFCO to provide the functions of streetlighting, fire protection, park and recreation, and library service pursuant to the *Rules and Regulations of the Local Agency Formation Commission of San Bernardino County Affecting Functions and Services of Special Districts*. Currently, the district does not actively provide library service.

Special Tax

In 2002, in response to declining numbers of volunteer firefighters and community concerns regarding lengthy response times by the ambulance service assigned to the area, the District proposed, and the electorate approved, the Morongo Valley Fire and Rescue Assessment pursuant to Government Code Sections 50078 et seq. The total cost of the service is allocated to each property based on the relative benefit to a property in relation to a single family home, the type of property, and its size, adjusted for inflation capped at 3% each year. Each year the District's contracted engineering firm conducts a "fire suppression count", essentially auditing the parcel list for the assessment. According to the ballot measure, the assessment provides funding to:

- Ensure a minimum of two paid fire personnel on duty 24 hours a day, 7 days a week,
- Upgrade Emergency Medical Service from EMT/Firefighter (Basic Life Support) to Paramedic/Firefighter (Advance Life Support),
- Significantly improve response times for Advance Life Support,
- Guard against possible increases in fire and home insurance by protecting the District's fire risk rating, and
- Work towards improving fire risk rating in areas with highest insurance rates by establishing a water haul system.

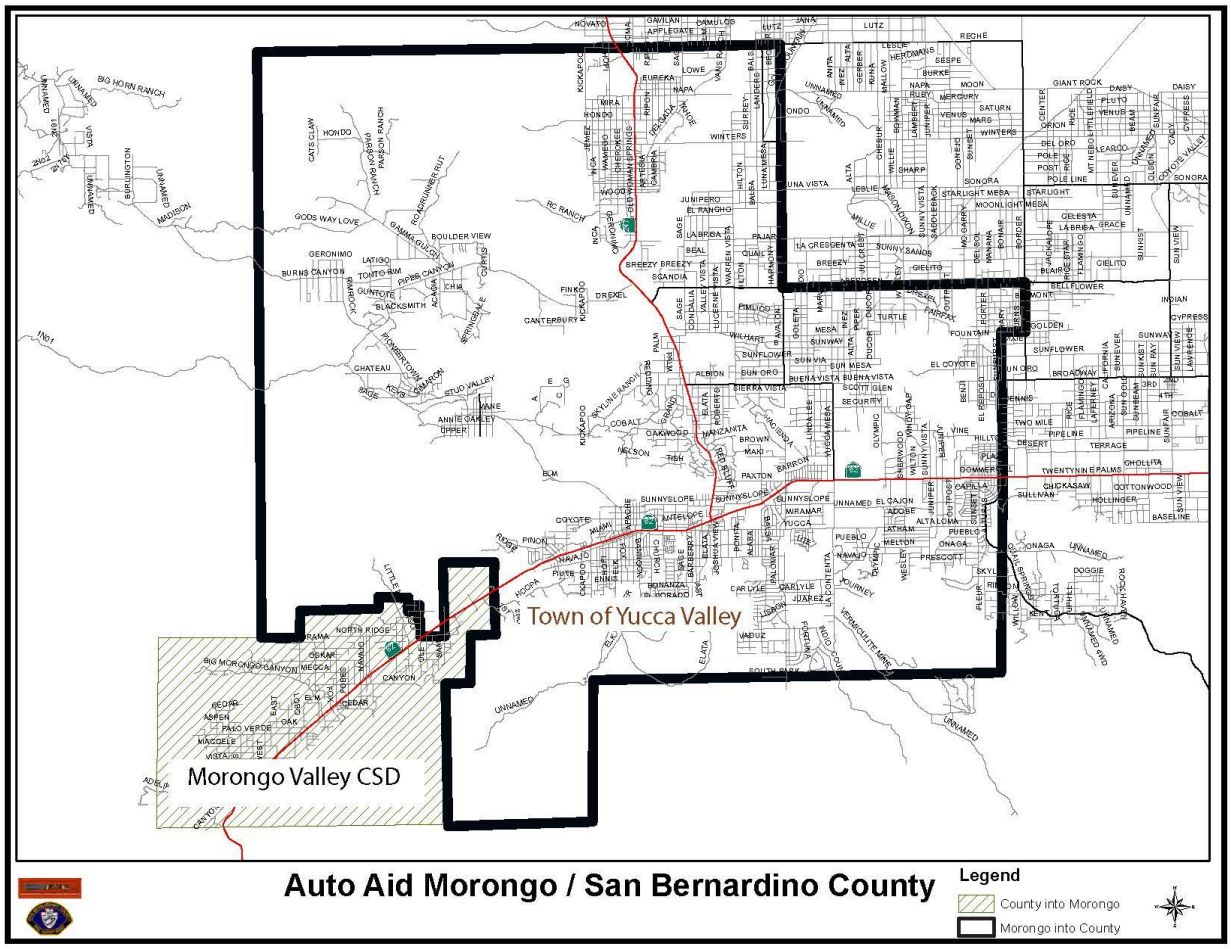
Agreement with ICEMA

The CSD (through its Fire Department) and the Inland Counties Emergency Medical Agency ("ICEMA")[1] entered into a non-financial agreement in 2008 authorizing the CSD to provide non-transport Advanced Life Support services within District's boundaries and sphere of influence.[2] The agreement was from February 2008 through January 2010 and is automatically renewed for successive two-year periods unless terminated or amended, with the current two-year term being through January 2016.

Agreement with County Fire

The CSD and County Fire have entered into an automatic aid/mutual aid agreement "to provide the most expeditious response to suppress fires and render other emergency services".[3] The agreement identifies that neither party shall be obligated to reimburse the other for its response. The term of the agreement is until June 30, 2017 with a 90-day termination notice. A map of the agreement areas is shown below:

[1] ICEMA is a joint powers authority composed of the Counties of San Bernardino, Mono, and Inyo with the San Bernardino County Board of Supervisors as the ex-officio ICEMA Board of Directors.
[2] Inland Counties Emergency Medical Agency, 5 Feb 2008, County Board Agenda Item 52.
[3] County of San Bernardino, Board of Supervisors, Agreement No. 12-284, 22 May 2012, Agreement No. 12-284, Agenda Item 79



Source: County of San Bernardino

2012 Sphere of Influence Expansion

As a part of the 2012 service review/sphere update, the Commission expanded the district's sphere to the west based upon discussion with the district that it provided fire and emergency response to the area under agreement with the County. It appears that there is no automatic agreement for this area and the response is simply that of mutual aid, which would not necessitate an expanded sphere. Unless this circumstance changes, as a part of the district's next service review a sphere reduction to reflect its service area will be evaluated.

State Responsibility Area

The entire community is within a State Responsibility Area, and thus is subject to the State Responsibility Area Fire Prevention Fee. Wildland fires are under the jurisdiction of the California Department of Forestry and Fire Protection (Cal Fire) and the U.S. Forest Service, both not subject to LAFCO jurisdiction. The closest fire stations beyond the Morongo Valley community are CDF's Yucca Valley Station (Station #121) and County Fire's Station #41 (Yucca Valley Station). Other stations nearby that could also respond are County Fire's Stations #36 (Joshua Tree Station) and #38 (Pioneer Town Station), the

National Park Service Black Rock Interagency Fire Center (Station #608), and the Riverside County Fire Department Stations #36 and #37 (Desert Hot Springs Fire Stations).

Disadvantaged Unincorporated Community

The Morongo Valley community is considered a disadvantaged unincorporated community – identified as communities that have an annual median household income that is less than 80 percent of the statewide annual median household income, which is under $48,305 for 2015 (defined by Government Code Section 56302). The district overlays parts of five Census Block Groups, whose annual median household incomes range from $34,311 to $$45,986.

WHAT THE DISTRICT DID NOT REVEAL DURING THE 2012 SERVICE REVIEW

2012 Service Review Determination

In 2012 LAFCO conducted a service review of the district and made the required determinations outlined in Government Code Section 56430. The following is an excerpt from the conclusion to Determination IV, Financial Ability of Agencies to Provide Services:

> In reviewing the District's financial statements, net assets have increased by 38% since FY 2006-07. During the past five years Total Assets have increased by 23% and Total Liabilities have decreased by 74%. From the Net Assets perspective, the financial heath the District overall has increased during the past five years. Additionally, the fund balance has increased by 124% since FY 2006-07 with Total Revenues increasing by 25% and Total Expenditures increasing by 63%. The CSD maintains unrestricted fund balance in its general fund of more than two months of regular general fund operating revenues or expenditures. Therefore, given the data provided by the CSD, the CSD is likely to be able to continue providing service at its current level through 2014-15.

Given the information provided to LAFCO at that time, the financial ability of the agency was not a concern.

Matters Revealed to LAFCO staff in 2015

The interviews conducted by LAFCO staff in January and April 2015 revealed management issues related to the district's operations and finances going back many years during the tenure of previous general managers. Items of significance 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. This circumstance artificially inflated the fund balance. To regain eligibility for grant funding required the closing of the previous grants, which meant that the district had to spend other funds (roughly $11,000) to comply with the original grant purpose.

- From 2009 through 2012, the District deferred capital and maintenance expenditures which artificially inflated the fund balance. Over the past two years roughly $34,500

has been spent on trimming trees and reroofing the maintenance shed, firehouse dorm, and park pavilion.

- Whistle blower and hostile work environment lawsuits which included undisclosed settlements. The breakdown of property liability claims for a ten year period from 2004-05 through 2013-14 is summarized below:

Claim Type	# of Claims	Total Incurred
General Bodily Injury	3	$ 22,852
Employment Practices Liability	3	$ 279,189
Auto Property Damage	1	$ 2,523
Auto Comprehensive	1	$ 755
Theft	2	$ 10,329
Total	**10**	**$ 315,648**

Based upon the district's loss history, the Special Districts Risk Management Authority ("SDRMA") increased the deductible for any employment practice claims occurring after July 1, 2014 from $5,000 to $25,000.

- In 2014, a SDRMA representative conducted a site-visit and issued a 63-page report on liability and risk exposure. The district states that it now complies with its OSHA issues which required roughly $11,500 to come into compliance.

- To balance the FY 2013-14 budget, the District used $105,000 from cash carried over from the prior year.

- FY 2014-15 began with a $105,000 deficit – the same deficit as the previous year.

It was agreed by all those at the January site visit that with all things remaining equal and constant that the district would exhaust all funds within two years.

POST 2011-12 AUDIT FINANCIAL REVIEW (2012-13 & 2013-14 AUDITS, 2014-15 BUDGET)

For FY 2010-11 and FY 2011-12 the district operated within its means, although on artificial terms as identified above. However, beginning FY 2012-13 the District began to operate with an annual deficit as operating expenses increased while revenues decreased. A copy of the FY 2012-13 audit is included as Attachment #2 to this report.

The first chart below shows the District's activities including revenue detail, expenditure detail, and fund balance. As shown, revenues have experienced minor fluctuations; however, expenditures related to fire operations, particularly compensation, have increased significantly, coupled with paying unbudgeted monies to rectify the proper closing of grants and OSHA issues.

As a result, the change in fund balance for the past three audited years has been 4.2%, (16.9%), and (23.9%). The adopted budget for 2014-15 began with roughly a $105,000 deficit – the same deficit as the previous year. A copy of the FY 2014-15 budget is included as Attachment #3 to this report.

The subsequent charts show fiscal data, each showing a downward trend.

MORONGO VALLEY CSD

	2011-12 Actual	2012-13 Actual	2013-14 Actual	2014-15 Budget
Revenues:				
Property tax	366,739	365,836	363,061	360,452
Fire assessment	286,528	292,076	313,913	300,535
Grant income	31,971	10,425	11,517	3,500
Fire service				
Cost Recovery	400	1,110	1,818	6,000
OES Reimbursement	-	7,602	22,270	15,000
Fire Inspections	325	510	1,394	2,500
Donations	817	2,193	9,792	400
Other	-	3,526	-	2,400
Total Fire Service	1,542	14,941	35,274	26,300
Park revenue	3,332	4,280	9,398	5,000
Other	22,290	6,799	5,500	11,834
Total Revenues	$ 712,402	$ 694,357	$ 738,663	$ 707,621
Expenditures:				
General government	169,161	181,719	189,608	120,123
Fire operations				
Operating Supplies	15,463	17,725	15,812	17,650
Training & Safety	5,626	24,467	35,592	33,550
Administration	23,474	21,497	41,001	34,525
Apparatus	94,365	59,309	64,253	64,900
Compensation	342,753	398,366	448,410	495,031
Total Fire Operations	481,681	521,364	605,068	645,656
Park & recreation	22,315	33,523	46,520	37,850
Streetlights	4,030	4,237	4,039	4,000
Debt service/replacement	12,313	1,456	5,818	5,816
Total Expenditures	$ 689,500	$ 742,299	$ 851,053	$ 813,445
Revenues less Expenditures:	**$ 22,902**	**$ (47,942)**	**$ (112,390)**	**$ (105,824)**
Fund Balances, Beginning	542,444	517,511*	469,569	357,179
Fund Balances, Ending	$ 565,346	$ 469,569	$ 357,179	$ 251,355
Change from prior year	4.2%	-16.9%	-23.9%	-29.6%

* 2012-13 Fund Balance had adjustment to Beginning Balance of ($47,836)

Assessed Value and Property Tax

As shown below, assessed value declined for five consecutive years which led to a corresponding decline in property tax revenues received. As this revenue source is relatively stable and lags about two years behind changes in market conditions, this indicator can potentially illustrate the level of stability of an agency's revenue base. However, this is particularly problematic when the overall tax base is capped at a maximum two percent growth under Proposition 13 (not to include property sales) and while districts experienced decreasing property values. Increases in costs for labor and benefits, training, replacement of equipment and facilities all have grown at a rate greater than two percent.

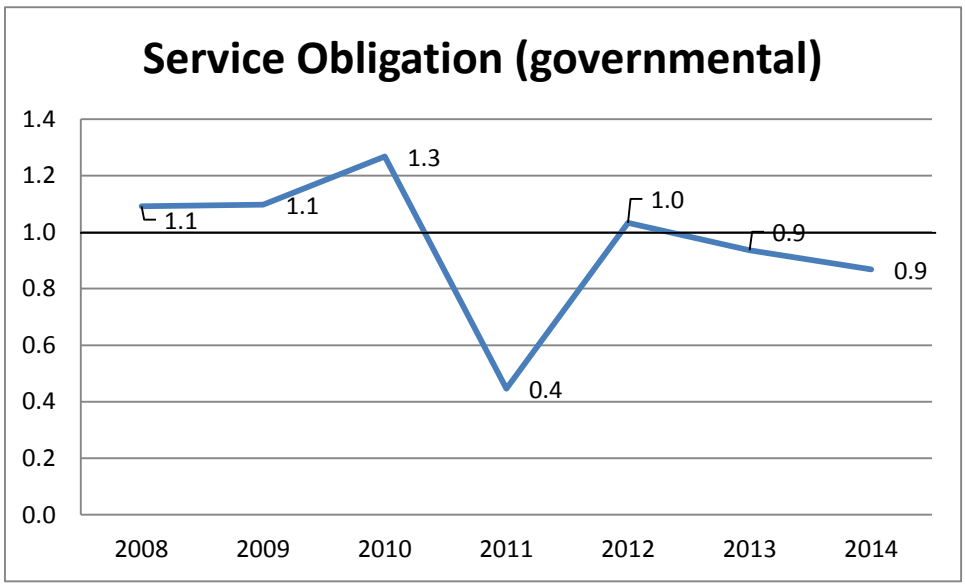
However, the fire assessment is not tied to assessed value and enjoyed annual gains over the same timeframe.

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%	$ 369,483	1.8%	$ 300,606	-4.2%

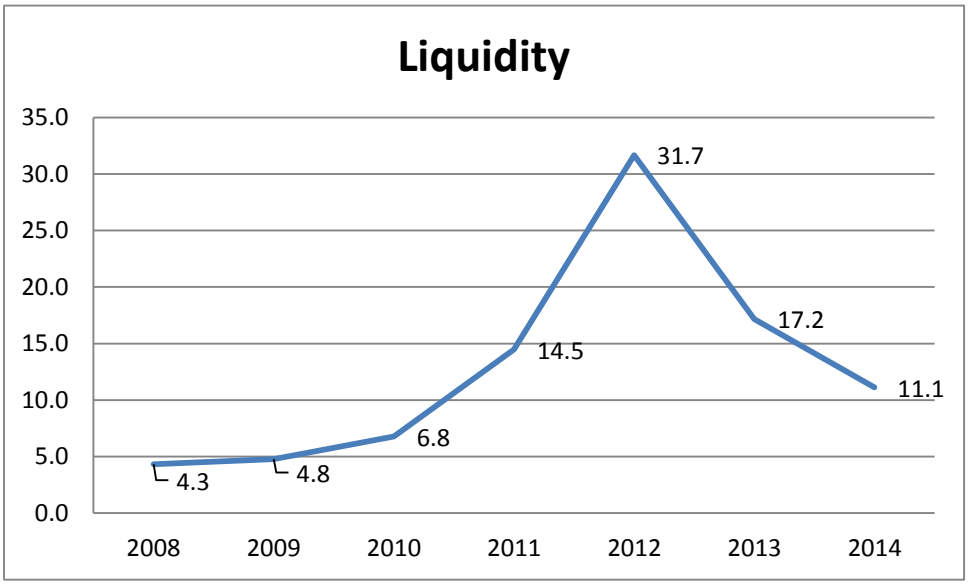
sources:
County of San Bernardino, Agency Net Valuations
Morongo Valley CSD audits, 2014-15 year-end estimate

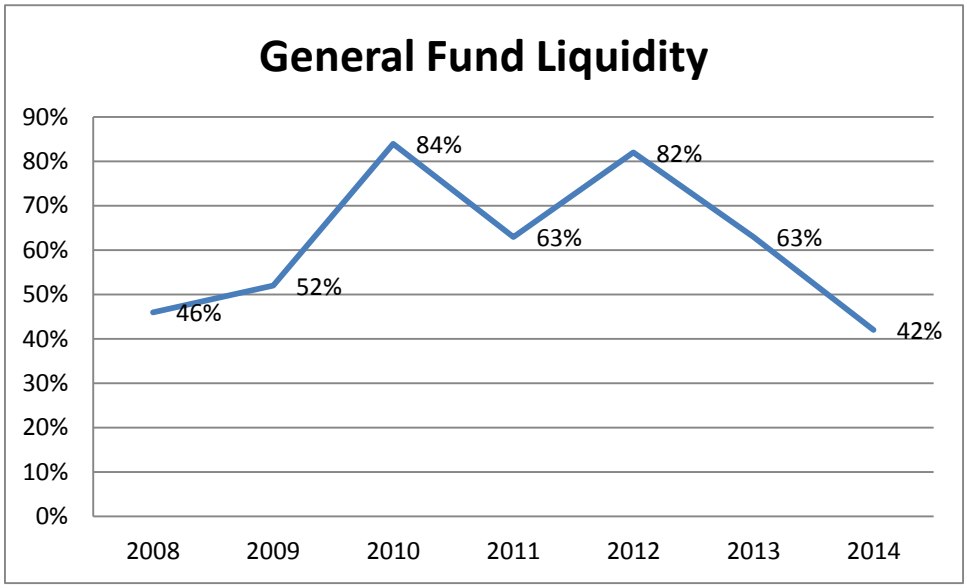
Service Obligation

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 is annual revenues.



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. The second figure isolates Liquidity for the General Fund of the agency (not to include fire operations).





Fire Department Staffing

Focusing on the staffing of the fire department, the district implemented a top-heavy staffing model, as shown in the figure below.

Position	2010-11	2011-12	2012-13	2013-14	2014-15
Chief	1	1	1	1	1
Deputy Chief	0	0	0	0	0
Division Chief	1	1	0	0	0
Captain	0	0	1	2	3
Full time fire fighters/paramedics	2	2	2	3	3
Part time fire fighters/paramedics	1	1	1	0	0
Full time engineers	2	2	2	3	3
Part time engineers	1	1	1	0	0
Emergency Medical Services Coordinator	0	0	0	1	1
Reserves	5	5	7	14	14
Personnel Cost	$276,682	$280,062	$ 300,222	$332,222	$404,051

The position voiced to LAFCO staff by some related to the district that higher fire call volume necessitated the increase in fire personnel. As shown in the chart below, overall response calls increased from 2011 to 2014 by 20%. Looking closer at the response data, the vast majority of the call increase is related to medical aid calls, which generally comes from district residents, rather than increased traffic as voiced by some in the community.

Call Type	2011	2012	2013	2014
Medical Aid	290	321	357	380
Traffic Collisions	64	51	63	58
Fire Residential	12	14	26	29
Fire Commercial	18	13	14	7
Fire Vehicle	9	16	16	13
Fire Debris	11	17	6	14
Fire Wildland	14	17	11	27
Fire Refuse	0	0	0	0
Public Assistance	34	41	34	29
Investigation	44	71	34	31
Hazard Materials	5	7	9	6
Other	3	4	15	9
TOTAL	**504**	**572**	**585**	**603**

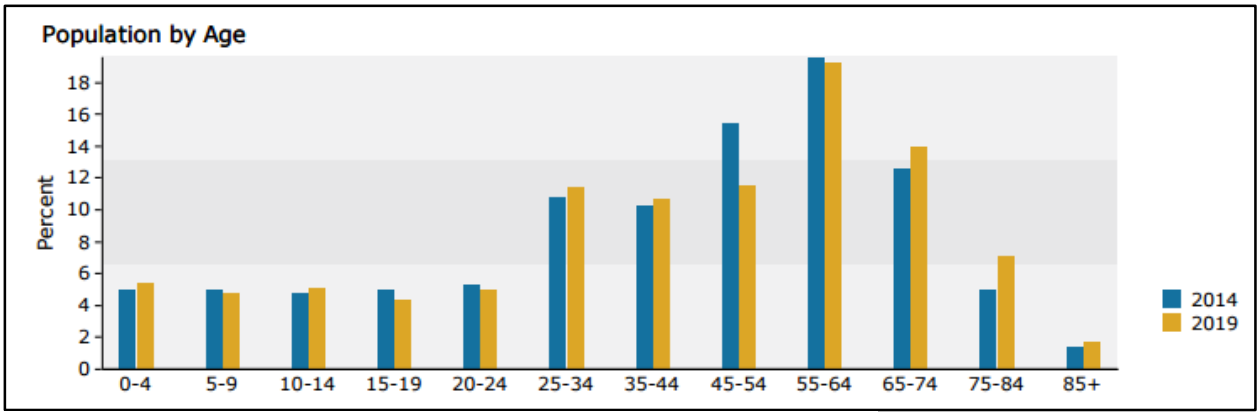
As to why medical call increased by 20% during this timeframe is not readily evident. A review of traffic count data from the State Department of Transportation identifies virtually no change in average daily traffic volume (20,500 daily trips) or hourly peak flow (2,050) since 2008 at the intersection of Highway 62 and Pioneer/East Drives.[4] Therefore, an increase in traffic has not been a factor in the increase of fire operations. The map included as Attachment #4 to this report illustrates the average daily traffic volume along Highway 62.

Further, from 2000 to 2014 the total population of Morongo Valley has increased less than one percent annually and nominally in raw numbers by 460. Population projections through 2019 continue at less than one percent annual growth rate. Therefore, population growth has not been a factor in the increase of fire operations.

Census			Estimate	Projection
1990	**2000**	**2010**	**2014**	**2019**
2,631	3,130	3,543	3,590	3,682

The population distribution by age, skewed towards ages 45-74, may signify the high number of medical calls but not necessarily the increase in medical calls. Nonetheless, even with the increase in medical aid calls, the increase in staffing has strained the resources of the district while revenues have not increased in kind.

[4] California Department of Transportation. Traffic Census. http://traffic-counts.dot.ca.gov. Accessed 21 April 2015.



Source: U.S. Census Bureau, Census 2010 Summary File 1. Esri forecasts for 2014 and 2019.

POST 2012 AUDIT FINANCIAL REVIEW (2014-15 YEAR-END ESTIMATE AND 2015-16 ADOPTED BUDGET)

District Taking Action

The District board in general and the general manager in particular have been aware of the financial situation and have taken measures to reduce costs during FY 2014-15. During the budget cycle for FY 2015-16, the most pressing issue to face the district for some time was to adopt a sustainable budget.

The general manager has voluntarily reduced the compensation of her position more than once as well as additional scrutiny of all expenditures. Further, the fire chief entered worker's compensation in the second half of the year, resulting in roughly two-thirds of the fire chief salary being paid from worker's compensation insurance. As for revenues, the district responded to calls from the State to engage in wild land fires; these responses resulted in reimbursement to the district of $94,769.

The district has acknowledged that the structure of its fire personnel has been top-heavy for the past few years. The figure below illustrates the fire personnel activity with cost since 2010-11 with the budgeted activity for 2015-16. As shown, the district has restructured its fire staffing. As a part of its 2015-16 budget, but implemented in April 2015, the district has moved from four personnel on all calls to three personnel.

Position	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Chief	1	1	1	1	1	1
Deputy Chief	0	0	0	0	0	1
Division Chief	1	1	0	0	0	0
Captain	0	0	1	2	3	0
Full time fire fighters/paramedics	2	2	2	3	3	3
Part time fire fighters/paramedics	1	1	1	0	0	0
Full time engineers	2	2	2	3	3	3
Part time engineers	1	1	1	0	0	0
Emergency Medical Services Coordinator	0	0	0	1	1	1
Reserves	5	5	7	14	14	7
Personnel Cost	$276,682	$280,062	$300,222	$332,222	$404,051	$327,540

It took all the expense cutting measures, the reduction in pay by the district for the fire chief due to worker's compensation, and the high amount of variable reimbursement by the State in order for the district to end 2014-15 with revenues over expenditures by an estimated $9,468. As for the upcoming 2015-16 budget year, the district has budgeted conservatively for revenues with expenditures returning near to 2011-12 levels. It appears that the district has adopted a sustainable budget for 2015-16.

MORONGO VALLEY CSD	2011-12 Actual	2012-13 Actual	2013-14 Actual	2014-15 Budget	2014-15 Year-end Estimate	*2015-16 Budget*
Revenues:						
Property tax	366,739	365,836	363,061	360,452	369,483	*369,483*
Fire assessment	286,528	292,076	313,913	300,535	300,606	*302,932*
Grant income	31,971	10,425	11,517	3,500	15,559	*10,000*
Fire service						
Cost Recovery	400	1,110	1,818	6,000	2,917	*4,000*
OES Reimbursement	-	7,602	22,270	15,000	94,769	*22,000*
Fire Inspections	325	510	1,394	2,500	1,702	*2,400*
Donations	817	2,193	9,792	400	3,882	-
Other	-	3,526	-	2,400	17,454	-
Total Fire Service	1,542	14,941	35,274	26,300	120,724	*28,400*
Park revenue	3,332	4,280	9,398	5,000	5,983	*5,000*
Other	22,290	6,799	5,500	11,834	5,648	*3,334*
Total Revenues	$ 712,402	$ 694,357	$ 738,663	$ 707,621	$ 818,003	*$ 719,149*
Expenditures:						
General government	169,161	181,719	189,608	120,123	142,157	*117,175*
Fire operations						
Operating Supplies	15,463	17,725	15,812	17,650	9,574	*11,650*
Training & Safety	5,626	24,467	35,592	33,550	11,768	*17,000*
Administration	23,474	21,497	41,001	34,525	27,697	*28,650*
Apparatus	94,365	59,309	64,253	64,900	60,320	*57,350*
Compensation	342,753	398,366	448,410	495,031	512,960	*446,458*
Total Fire Operations	481,681	521,364	605,068	645,656	622,319	*561,108*
Park & recreation	22,315	33,523	46,520	37,850	35,067	*31,050*
Streetlights	4,030	4,237	4,039	4,000	4,183	*4,000*
Debt service/replacement	12,313	1,456	5,818	5,816	4,849	*5,816*
Total Expenditures	$ 689,500	$ 742,299	$ 851,053	$ 813,445	$ 808,575	*$ 719,149*
Revenues less Expenditures:	**$ 22,902**	**$ (47,942)**	**$ (112,390)**	**$ (105,824)**	**$ 9,428**	***$ -***
Fund Balances, Beginning	542,444	517,511*	469,569	357,179	357,179	*366,607*
Fund Balances, Ending	$ 565,346	$ 469,569	$ 357,179	$ 251,355	$ 366,607	*$ 366,607*
Change from prior year	4.2%	-16.9%	-23.9%	-29.6%	2.6%	*0.0%*

* 2012-13 Fund Balance had adjustment to Beginning Balance of ($47,836)

LAFCO FIVE-YEAR FORECAST

Utilizing conservative revenue growth (two percent annual increase in property tax receipts) and inflation to categories sensitive to inflation, LAFCO staff provides a forecast for the next five years. As shown, the forecast for 2017 and 2018 does not result in even nominal annual revenue gains – the forecast is basically a break-even scenario. As identified for the

FY 2014-15 estimated year-end, it took painstaking measures and additional State reimbursement revenue to barely break-even for the year. In 2019 the outstanding loan for the fire admin vehicle matures and the roughly $5,800 annual burden is removed.

MORONGO VALLEY CSD	**2015-16 Budget**	***2016-17 LAFCO Forecast***	***2017-18 LAFCO Forecast***	***2018-19 LAFCO Forecast***	***2019-20 LAFCO Forecast***	***2020-21 LAFCO Forecast***
Revenues:						
Property tax	369,483	*376,873*	*384,410*	*392,098*	*399,940*	*407,939*
Fire assessment	302,932	*308,991*	*315,170*	*321,474*	*327,903*	*334,461*
Grant income	10,000	*10,000*	*10,000*	*10,000*	*10,000*	*10,000*
Fire service						
Cost Recovery	4,000	*4,000*	*4,000*	*4,000*	*4,000*	*4,000*
OES Reimbursement	22,000	*22,000*	*22,000*	*22,000*	*22,000*	*22,000*
Fire Inspections	2,400	*2,448*	*2,497*	*2,547*	*2,598*	*2,650*
Donations	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Fire Service	28,400	*28,448*	*28,497*	*28,547*	*28,598*	*28,650*
Park revenue	5,000	*6,000*	*6,500*	*7,000*	*7,000*	*7,000*
Other	3,334	*5,000*	*5,000*	*$ 5,000*	*$ 5,000*	*$ 5,000*
Total Revenues	$ 719,149	*$ 735,311*	*$ 749,578*	*$ 764,119*	*$ 778,441*	*$ 793,050*
Expenditures:						
General government	117,175	*119,519*	*121,909*	*124,347*	*126,834*	*129,371*
Fire operations						
Operating Supplies	11,650	*11,883*	*11,882*	*11,881*	*11,880*	*11,879*
Training & Safety	17,000	*17,340*	*17,687*	*18,041*	*18,401*	*18,769*
Administration	28,650	*29,223*	*29,807*	*30,404*	*31,012*	*31,632*
Apparatus	57,350	*58,497*	*59,667*	*60,860*	*62,077*	*63,319*
Compensation	446,458	*455,387*	*464,495*	*473,785*	*483,260*	*492,926*
Total Fire Operations	561,108	*572,330*	*583,538*	*594,970*	*606,631*	*618,525*
Park & recreation	31,050	*31,671*	*32,304*	*32,951*	*33,610*	*34,282*
Streetlights	4,000	*4,000*	*4,000*	4,250	4,250	4,250
Debt service	5,816	*5,816*	*4,362*	-	-	-
Total Expenditures	$ 719,149	*$ 733,336*	*$ 746,113*	*$ 756,518*	*$ 771,324*	*$ 786,427*
Revenues less Expenditures:	**$ -**	***$ 1,976***	***$ 3,464***	***$ 7,601***	***$ 7,117***	***$ 6,623***
Fund Balances, Beginning	366,607	*366,607*	*368,583*	*372,047*	*379,648*	*386,765*
Fund Balances, Ending	$ 366,607	*$ 368,583*	*$ 372,047*	*$ 379,648*	*$ 386,765*	*$ 393,388*
Change from prior year	0.0%	*0.5%*	*0.9%*	*2.0%*	*1.9%*	*1.7%*

Caveats

The projections identified in the figure above assume that funding, equipment, and personnel remain equal and constant. However, four variables can result in budget challenges for the district, ranging from severe to moderate.

1. Replacement of Current Fire Truck. According to the CSD's website, "Morongo Valley does not have enough financial resources to purchase a critically needed 4 x 4 all-terrain fire/medic engine to replace the current engine". The district fire truck is a 2001 model with roughly 100,000 miles, and the backup is a 1992 truck. The district does not have enough funds to outright purchase a truck and given its financial condition it would not be prudent to lease or enter into a purchase loan. Realizing its predicament, the district is holding funding campaigns as well as allowing advertisement on the trucks to gain additional revenue. Should the district gain significant additional funds from funding campaigns, advertisement, or reimbursement from the State for sending strike teams to wild land fires, the burden of a new fire truck would be lessened. ($500,000)

2. Wild land Fire Truck is Recalled. A federal program provides the district with a wild land fire truck (brush engine) for use in wild land fires. The terms of the arrangement stipulate that the district can request reimbursement for its response to wild land fires. Additionally, the district may only use the truck for domestic response (structure fires, medical) for only 20% of the truck's use. 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 voluntarily decreased her salary by roughly $15,000 in order to balance the budget. 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 and the recent actions to rectify deferred maintenance (trimming trees and reroofing of three facilities), it is a matter of when, not if, major expenses will occur.

As it is should have, the district did not adopt its 2015-16 budget anticipating variable revenues in large amounts. Rather, it prudently adopted what appears to be a sustainable budget. Should the demise of the fire truck necessitate action before adequate funds are available to either outright purchase or mitigate the financial effects of such a purchase, then the sustainability of the district and the adequacy of its fire protection and emergency response services would be of paramount concern.

Thinking Ahead

In addition to fund raising and possible advertisement on the trucks, the district is entering into discussions with Copper Mountain College in Joshua Tree whereby the college's fire

program would train and pay for entry level fire personnel for the district as part of a college credit/work program. If this possibility comes to fruition, it would add flexibility to the district's strained budget.

OPTIONS FOR FUTURE ACTION:

This special study does not include a service review or sphere of influence update. Therefore, there is no mandatory action for the Commission to take other than receive and file this report.

However, should the Commission choose, it can initiate a sphere of influence review to include analysis of designating of a zero sphere of influence, thereby 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:

- 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)

Realistically, assumption of fire protection and emergency medical response by County Fire may result in a decrease of service since the property tax generated within the district's boundary may not be adequate for County Fire to operate the Morongo Valley station as a full-time staffed station.

Rather, it is hoped that the district continues to govern with realistic service expectations. LAFCO staff's position is that the Commission continues to monitor the district's financial position and sustainability for the next three years by requesting the district to provide LAFCO with its adopted annual budget, mid-year financial report, and financial statements.

CONCLUSION:

The cost cutting measures taken by the district which included reorganization of the fire department staffing have staved off further declines in its fund balance. As it is should have, the district did not adopt its 2015-16 budget anticipating variable revenues in large amounts. Rather, it prudently adopted what appears to be a sustainable budget. Should the demise of the fire truck necessitate action before adequate funds are available to either outright purchase or mitigate the financial effects of such a purchase, then the sustainability of the district and the adequacy of its fire protection and emergency response services would be of paramount concern.

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. 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.

For this special study LAFCO staff recommends that the Commission:

- Continue to monitor the Morongo Valley Community Services 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

- Direct LAFCO staff to monitor and update the Commission biannually for the next three years regarding the district's financial position and sustainability.

As a part of the next scheduled service review for the district, LAFCO will review the district's progress on the matters identified in this special study. Further, as a part of the 2012 service review/sphere update, the Commission expanded the district's sphere to the west based upon discussion with the district that it provided fire and emergency response to the area under agreement with the County. It appears that there is no automatic agreement for this area and the response is simply that of mutual aid, which would not necessitate an expanded sphere. Unless this circumstance changes, as a part of the district's next service review a sphere reduction to reflect its service area will be evaluated.

KRM/MT

Attachments:

1. Letter to LAFCO dated August 11, 2014 from a Director of the Morongo Valley CSD
2. FY 2013-14 and 2012-13 Financial Statements
3. FY 2015-16 Adopted Budget
4. Traffic Count Map
5. LAFCO Resolution No. 3168 Reflecting Determinations for LAFCO 3151 from November 2012 - Service Review and Sphere of Influence Update for the Morongo Valley Community Services District