

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: AUGUST 10, 2016
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
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TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #10: Status Report on 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 February 2017 hearing.

BACKGROUND:

At the July 2015 hearing, the Commission completed the special study of the Morongo Valley Community Services District ("District") LAFCO 3189. The special study was an outgrowth of the request of a district board member expressing concerns related to the financial and governance practices of the district. The direction of the Commission to staff 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.

At the conclusion of the special study, the District took painful measures (reduction of the general manager's salary, and others) 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. Any deviation would force the razor-thin surplus to evaporate.

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 monitor and update the Commission biannually for the next three years regarding the district's financial position. The following provides a narrative discussion of LAFCO staff's monitoring of the District.

Conclusion from Previous Status Report

The first status update from February 2016 included a review of the FY 2014-15 audit along with LAFCO's fiscal indicators and FY 2015-16 mid-year status. The following is a portion of the conclusion section from that report:

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...

...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.

Special Tax Election

The District placed a special tax measure related to its fire protection and emergency response services on the June 7 ballot, which required two-thirds approval to pass. If successful, the \$350 special tax would replace the current benefit assessment (which would have been a substantial increase for all property owners). Of note, the measure did not include a cap on the annual adjustment for inflation, such as 3% or 5%, which was a concern. The measure, as shown in the District's Resolution No. 1-1-2016, read 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?"

The measure failed with roughly 40% voting yes (425 Yes; 651 No). Therefore, the current assessment remains in place and the delivery of this service remains challenged.

Recap of Audits

As the special study and the first status report identified, the District made drastic budget adjustments in 2014-15 and 2015-16 to stabilize the district. The chart below shows the audited year-end for the past three audit years (2012-13 through 2014-15). As shown, Expenditures exceeded Revenues by roughly \$48,000, \$112,000, and \$5,700, respectively.

	2012-13	2013-14	2014-15
	Audit	Audit	Audit
Revenues:			
Property tax	365,836	363,061	373,931
Fire assessment	292,076	313,913	300,825
Grant income	10,425	11,517	18,184
Park revenue	4,280	9,398	5,703
Other	6,799	5,500	1,410
Fire service			
Cost Recovery	1,110	1,818	4,003
OES Reimbursement	7,602	22,270	94,769
Fire Inspections	510	1,394	2,494
Donations	2,193	9,792	4,161
Other	3,526	-	18,676
Total Fire Service	14,941	35,274	124,103
Total Revenues	\$ 694,357	\$ 738,663	\$ 824,156
Expenditures:			
General government	181,719	189,608	148,133
Park & recreation	33,523	46,520	36,205
Streetlights	4,237	4,039	4,166
Debt service	1,456	5,818	5,816
Fire operations			
Operating Supplies	17,725	15,812	12,359
Training & Safety	24,467	35,592	19,686
Administration	21,497	41,001	29,837
Apparatus	59,309	64,253	73,167
Compensation	398,366	448,410	500,459
Total Fire Operations	521,364	605,068	635,508
Total Expenditures	\$ 742,299	\$ 851,053	\$ 829,828
Revenues less Expenditures:	\$ (47,942)	\$ (112,390)	\$ (5,672)
Fund Balances, Beginning	517,511	469,569	357,179
Fund Balances, Ending	\$ 469,569	\$ 357,179	\$ 351,507
* 12-13 Fund Balance adjustment to Beginning Balance of (\$47,836)			
Fund Balance:			
Non spendable	1,758	1,669	2,400
Restricted	11,348	13,569	26,930
Unassigned (Unreserved)	456,463	341,941	322,177
Total Fund Balances	\$ 469,569	\$ 357,179	\$ 351,507

FY 2015-16 Unaudited Year-End

As shown on the table below, the District ended the year basically in a break-even scenario, with an increase of \$8,700 to the fund balance. During the year, the District incurred a large expense of \$30,000 related to its fire truck. The budget was able to absorb this unanticipated expense due to revenue gained from strike team work via its contract with the State Office of Emergency Services.

As for revenues, the receipts from sending strike teams at OES request for the past three years is \$22,000, \$95,000, and \$129,000. The receipt of these funds is what is keeping the fire service afloat. Even though these revenues have increased and continue, this is not a stable, nor guaranteed, revenue source. The frequency of the service is dependent upon OES, which could choose to end the contract or use the District less.

MORONGO VALLEY CSD		
	2015-16	2016-17
	Unaudited	Proposed
	Year-end	Budget
Revenues:		
Property tax	398,627	412,415
Fire assessment	316,702	308,233
Grant income	2,043	10,000
Park revenue	6,703	5,820
Other	11,541	5,346
Fire service		
Cost Recovery	4,483	3,500
OES Reimbursement	129,055	25,000
Fire Inspections	2,474	2,400
Donations	6,276	9,771
Other	296	-
Total Fire Service	142,584	40,671
Total Revenues	\$ 878,200	\$ 782,485
Expenditures:		
General government	128,790	126,603
Park & recreation	41,899	34,700
Streetlights	4,106	4,110
Debt service	5,816	5,816
Fire operations		
Operating Supplies	11,325	7,500
Training & Safety	18,039	12,000
Administration	29,024	27,069
Apparatus	72,554	43,200
Compensation	557,951	510,259
Total Fire Operations	688,893	600,028
Total Expenditures	\$ 869,504	\$ 771,257
Revenues less Expenditures:	\$ 8,696	\$ 11,228

Reserves

On a positive note, the District did not use reserve funds in 2015-16, and the current year budget does not propose to use reserves to fund any operating expenses or to balance the budget. A breakdown of fund balance as of June 30, 2016 is as follows:

Operating Reserve	\$ 53,409
Contingency Reserve	\$ 27,012
Undesignated Reserve	\$283,025
Restricted Reserve	\$ 32,052
Covington Park: Tennis	\$ 2,417
Covington Park: Library	\$ 802
Covington Park: Memorial	\$ 200
Covington Park: General	\$ 2,062
Map Project	\$ 436
Dollar a Day Campaign	\$ 3,093
Fire Truck	\$17,711
Fire Dept: General	\$ 5,331
Fund Balance, 30 June 2016	\$395,497

The fund balance identified above of \$395,497 at the end of FY 2015-16 is on a cash-basis - an increase of \$43,990 from the FY 2014-15 audit. The variance is explained by two reasons: (1) the District received \$27,012 from a property sale and designated those funds directly into a new Contingency Reserve, not reflected in the operating budget shown on the previous page, and (2) the FY 2015-16 audit will include accruals, reversals, and cash liabilities which will likely reduce the Undesignated amount.

Importantly, the \$283,025 in Undesignated fund balance is needed to fund operations until the first receipt of property taxes in November. Therefore, these funds in fact are designated funds that should not be used for another purpose.

Looking at the Operating Reserve, the reserve level does not meet the minimum recommended level of 10% of expenditures. However, if the Contingency Reserve is included the District meets the 10% reserve minimum. Additionally, as discussed below for the property sale, an additional \$38,871 was received after the close of the fiscal year and has been added to the Contingency Reserve in FY 2016-17, for a total of \$65,883.

FY 2016-17 Budget

The chart above also includes the FY 2016-17 Proposed Budget. Due to the failure of the June 2016 special tax election and what appears to be an understanding of the need to return to a sustainable service level for fire and emergency medical response services, the FY 2016-17 proposed budget provides for a reduction in expenditures for fire operations.

The District continues its never ending discussion about what level of fire service is desired in the community - how to pay for it, how to reduce costs, and at what level. In an attempt

to get community input the District has proposed an ad hoc committee to discuss the matter which is discussed in more detail below.

As a function of the current budget review process, the District has reduced its fire force by eliminating a Captain position (previously three; now budgeted for 2), and reducing reserves to one (previously 2 from the FY 2015-16 budget). The table below shows the staffing for the past three years with the budgeted staffing for FY 2016-17. As identified below, the updated MOU with CalFire allows for CalFire to assist the District when requested, (such as providing a duty captain when called upon) which in turn anticipates a reduction in the District's overtime costs.

	2013-14	2014-15	2015-16	2016-17
Chief	1	1	1	1
Deputy Chief	0	0	0	0
Division Chief	0	0	0	0
Captain	2	3	3	2
Full-time fire fighters/paramedics	3	3	3	3
Part-time fire fighters/paramedics	0	0	0	0
Full-time engineers	3	3	3	3
Par-time engineers	0	0	0	0
Emergency Medical Coordinator	1	1	1	1
Reserves	2	2	2	1

Fire Truck Replacement

As LAFCO staff previously reported, the margin of error remains thin for the budget year and any major unanticipated expense would stress the already tight budget. One continuing issue is the age and condition of the main fire engine. In FY 2015-16 the truck received a refurbished engine, but a refurbished engine on an old body and transmission. A primary goal of the District is to obtain a used fire truck for an estimated \$200,000, with an estimated \$100,000 down payment; however, the district currently has \$17,711 reserved for this down payment. The remainder \$100,000 would be financed. Being that the district has roughly \$9,000 in outstanding financing debt, the addition of \$100,000 in debt is the preferred choice of the District.

Property Sale

The District recently sold property that was formerly used as a women's club. The property was no longer used, and ongoing maintenance and liability resulted in the District's decision to sell the property. The first payment of \$27,012 was placed in a Contingency Reserve (see Reserves above). The remaining \$38,871 was received after the close of the fiscal year and will be added to the Contingency Reserve in FY 2016-17, for a total of \$65,883.

Updated MOU with CalFire

For the past few years, the District has had a MOU with CalFire to send strike teams when requested by CalFire. In turn, CalFire provides a brush truck, back-up when requested

which reduces the District's overtime, and reimbursement when teams are sent to respond to fire areas. The District's reimbursement rate is \$700/day. Effective July 2016, the District can backfill the Yucca Valley CalFire station when its teams are deployed. This backfill activity is now eligible for reimbursement at the same rate. As of the date of this report, over 10 strike team days have occurred – a gain of \$7,000 (or 28% of the budget revenue for OES reimbursement).

Ad Hoc Committees

The District lacks a current or valid plan for fire protection and emergency medical response. Realizing the need to return to sustainable service levels, the District is forming an ad hoc committee to formulate a five-year plan. According to the general manager, the five-year plan would provide for a definition of a sustainable service levels and a guide for the funding sources necessary to support that level of service.

CONCLUSION:

Generally, in tough financial situations a business, household, or government agency must increase revenues, cut expenses, or both. In this case the District attempted to increase its revenues to accommodate its service levels; however, its measure for a special tax failed. The only option moving forward is to cut the expenses, thus the service level, for the delivery of fire protection and EMR, is impacted. The District has worked hard to keep itself afloat and should be recognized for these efforts. However, that position is tempered by staff's ongoing concern for its future.

As a result of the failure of the special tax election by such a large margin, it appears to staff that the District realizes a need to move towards realistic expenditures and staffing. This is evidenced by its adopted FY 2016-17 budget and the formation of an ad hoc committee to formulate a five-year plan for fire protection and emergency medical response. Therefore, the District is stabilizing – but with a reduction in budgeted staffing and a further reduction of the general manager's salary.

As LAFCO staff has stated before, but must reiterate here, the margin for error in budgeting for the Morongo Valley CSD remains thin. Should any of the following occur then the district's short-term viability would be in jeopardy: (1) immediate replacement of the current fire truck, (2) OES cancels the contract or recalls the wild land fire truck, (3) replacement of the current general manager, or (4) any other major expense.

Staff is recommending that the Commission receive this report and set the next status report for the February 2017 hearing, where staff will present the FY 2015-16 audit and mid-year report for FY 2016-17.

KRM/MT

Attachments:

1. [FY 2015-16 Unaudited Year-End](#)
2. [FY 2016-17 Budget](#)