


# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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**DATE:** OCTOBER 12, 2016   
**FROM:** KATHLEEN ROLLINGS-McDONALD, Executive Officer  
MICHAEL TUERPE, Project Manager  
**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item #6: First Quarter Financial Review for Period  
July 1 through September 30, 2016

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## **RECOMMENDATION:**

Staff recommends that the Commission take the following actions:

1. Note receipt of this report and file.
2. Recognize the increase in Cash Carryover from FY 2015-16 of \$17,927 by:
  - a) Increasing Expenditure Account 2090 (Miscellaneous Expense: Costs related to move) by \$10,000 to \$179,260.
  - b) Increasing Reserve Account 6010 (Net Pension Liability Reserve) by \$7,927 to \$117,097.
  - c) Increasing Revenue Account 9970 by \$17,927 for a total of \$294,895 [Total for Revenue Account 9970 (all carryovers to include reserves) increases to \$965,566].

## **BACKGROUND:**

The first quarter of Fiscal Year 2016-17 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 increase in Cash Carryover from Fiscal Year 2015-16.

## **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 30% of Approved Budget authority. There has been no request made by staff for authorization to utilize funds maintained in the Contingency and Reserve accounts during the first quarter. A more detailed analysis of the categories is as follows:

### 1. Salaries and Benefits (1000 series)

#### *A. First Quarter Activity*

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$215,818 through the first quarter, representing 27% of Approved Budget authority. The increase of two percentage points is primarily explained by the following:

- The month of August had three pay dates, as opposed to two.
- In August, the Commission approved a pay increase for the Executive Officer, retroactive to January 2016.
- In September, the Commission authorized a merit acknowledgement payment of \$15,000 to the Executive Officer for extraordinary service in completing the three fire reorganizations – LAFCO 3198, 3200 and 3206.

Additionally, during this period the Clerk to the Commission was on medical leave under the Commission's short-term disability program which paid a portion of her salary during that period.

#### *B. Anticipated Activity*

Based upon the resignation of the Clerk to the Commission, effective October 11, 2016, termination payments will be processed during the second quarter.

## 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 \$221,109, or 34% 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), the Commission's property and liability insurance and the annual payment to SBCERA for GASB 68 processing. These one-time and full-year expenditures are generally on target for the fiscal year.

Additionally, unique events that are either Commission-approved or budgeted have increased expenditures significantly, as follows:

- \$100,000 payment occurred for the Commission-approved down payment for renovation of the Santa Fe Train Depot.
- Legal costs of roughly \$5,600 related to the executive officer contract.
- Costs related to processing the West Valley Mosquito and Vector Control District proposal requiring individual notice to landowners due to the extension of an existing special tax totaled roughly \$14,000.
- Protest Process for the Formation of the Wrightwood CSD, totaling roughly \$5,500 to date.

### B. *Anticipated Expenditures*

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

- CALAFCO Annual conference expenses (hotel and travel for staff and Commissioners)
- Full-year payments for the annual financial audit (\$15,090). This is the first year of a four year contract with the firm Davis Farr LLP.
- Subscription to the County Street Network (\$10,500) for maintenance of digital mapping and Google Earth Subscription (\$3,000).
- Significant payments for the processing of proposals and water service review (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 approved by the Commission or special studies initiated by the Commission.

**OFFICE MOVE AND RENOVATION OF SANTA FE TRAIN DEPOT:**

In July, the Commission approved the lease for the Harvey House space at the Santa Fe Depot. This approval included the authorization for payment of an amount not to exceed \$230,000, to fund the necessary renovations and improvements to allow for staff’s use of the Harvey House space as the LAFCO office. Terms of the lease required an initial payment of \$100,000 to the San Bernardino Associated Governments prior to the commencement of construction and the balance of \$130,000 to be amortized over the initial five year lease term. The initial payment for the renovation of the Santa Fe Depot Harvey House location of \$100,000 was processed during the first quarter. Staff continues to coordinate with SANBAG on the construction of the needed improvements.

**EDUCATIONAL TRAINING PROGRAM FOR SPECIAL DISTRICTS:**

The Commission is continuing its efforts to provide governance training for the special districts within the County. As a part of this year’s budget, staff developed an education program in coordination with the California Special Districts Association (CSDA) and the Institute for Local Government (ILG) – see chart below. The budget allocates \$5,000 total for payments to CSDA and ILG, per quotes from the entities. Additionally, a course to educate local agencies and the public on LAFCO, titled *LAFCO 101*, is scheduled in partnership with CALAFCO and Riverside LAFCO.

<b>Educational Training Program Timeline</b>		
<b>Training Session</b>	<b>Collaboration</b>	<b>Date</b>
<i>Overview of Special District Laws</i>	California Special Districts Association	December 8, 2016 10:00 a.m. Mojave Water Agency
<i>LAFCO 101</i>	CALAFCO, Riverside LAFCO	est. Jan or Feb 2016 Location TBD
<i>Partnering with Community Based Organizations for More Inclusive Public Engagement</i>	Institute for Local Government	est. March or May 2017 Cucamonga Valley WD Frontier Project

### 3. Contingency and Reserves (6000 series)

No activity has been requested by staff or authorized by the Commission to take place in the Contingency or Reserve accounts during the first quarter.

## **Revenues**

### 1. Revenues through First-Quarter

The Commission has received 91% of Adopted Budget revenues through the first quarter. The items below outline the revenue activity:

- Interest (Account 8500) – Interest rates have increased, albeit by a minimal amount. \$2,116 in interest revenue was earned from the Commission’s cash in the County Treasury reflecting the final quarter of Fiscal Year 2015-16 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 19% of its budgeted revenue (\$39,050). Of this amount, 92% is related to proposals and 8% service contracts.
- Carryover from Prior Year (Account 9970)

The fund balance at the prior fiscal year’s closure was carried forward into FY 2016-17 (\$942,579), and is composed of the following:

- All of the Contingency and Reserve funds identified in the FY 2015-16 budget have been carried forward, \$605,865.
- Additional cash carryover of \$336,714 composed of the following:
  - Carryover of \$276,968 into FY 2016-17 to provide for payment of expenses during the first quarter of the year until apportionment payments are received and to balance the overall budget.
  - Liabilities of \$41,819 include deferred revenue related to open applications and accounts payable.

- Unrecognized and unassigned carryover from FY 2015-16 of \$17,927. 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 \$17,927.
- In September the City of Hesperia withdrew its application for fire reorganization and a refund, based upon existing Commission policy, was provided in the amount of \$15,736. This event reduced the carryover funds into Fiscal Year 2016-17.

## 2. Proposal Activity

The figure below identifies the number of proposals and service contracts received through the first quarter. The figure identifies that three proposals and two service contracts were received in the first quarter. As identified above, the receipt of these proposals has brought in roughly \$39,000. 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 Sept	
		No.	% of Budget
Proposals	10	3	30%
Service Contracts - Commission approval	4	1	25%
Service Contracts - Commission approval for exemption	0		--
Service Contracts - Admin (E.O.) approval	4	1	25%
Protest Hearing Deposits	5		0%

The remainder of the year anticipates the completion of the second cycle service reviews for water (wholesale, retail, and recycled) and sewer (collection, treatment, and reclamation). By action taken at the September 2015 hearing, the Commission has directed staff to prioritize its activities to address any fire proposals submitted as the top priority, other jurisdictional changes next, and service reviews to follow. Staff is aware that several fire providers are awaiting the completion of the November elections to take formal actions to initiate applications for potential reorganizations.

## **Fund Balance**

As of September 30, the Commission's cash in the County Treasury was \$1,585,701. A breakdown of this amount is shown below.

<b>September 30, 2016 Balance</b>		<b>\$1,585,701</b>
<b>Balance is composed of the following:</b>		
<b>Liabilities</b>		
	Deposits Payable (Receivable) from open applications	10,353
<b>Committed (constrained to specific purposes)</b>		
	Net Pension Liability Reserve (Account 6010)	109,170
	Compensated Absences Reserve (Account 6030)	87,222
<b>Assigned (intended for specific purposes)</b>		
	Contingency (Account 6000)	155,501
	General Reserve (Account 6025)	284,917
	Remaining Budgeted Expenditures	1,014,203
<b>Revenues needed through year-end (assumes full budget expenditures)</b>		<b>(\$75,665)</b>

## **CONCLUSION:**

As we closed Fiscal Year 2015-16, a year of above normal and complex activity that directly impacted the quality of life of hundreds of thousands of residents of our County, the outlook for Fiscal Year 2016-17 is one of continuing that trend. The continuation of the consultant contract for supplemental staffing continues to assist in addressing this ongoing issue. However, the resignation of the Clerk to the Commission will require that a recruitment process be undertaken in the second quarter of the fiscal year to replace this statutorily mandated position. With that noted, the activities of the first quarter are generally within markers of first quarter activity.

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. At this time, there are no fire proposals on file with LAFCO; however, staff is aware of ongoing discussions with a number of agencies in the County related to the potential transition of fire services to County Fire.

In response to the information presented in this report, staff recommends that the Commission take the actions identified on page 1 of this report. These actions include:

- Recognition of the increase in Cash Carryover from Fiscal Year 2015-16 of \$17,927 by:
  - Increasing Expenditure Account 2090 (Miscellaneous Expense: Costs related to move) by \$10,000 to \$179,260.

- Increasing Reserve Account 6010 (Net Pension Liability Reserve) \$7,927 to \$117,097.
- Increasing Revenue Account 9970 by \$17,927 for a total of \$294,895 [Total for Revenue Account 9970 (all carryovers to include reserves) increases to \$965,566].

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](#)