

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

215 North D Street, Suite 204, San Bernardino, CA 92415-0490
(909) 388-0480 • Fax (909) 885-8170
E-MAIL: lafco@lafco.sbcounty.gov
www.sbclafco.org

DATE: MARCH 7, 2017
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #8: Mid-Year Financial Review for Period July 1 through December 31, 2016

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of this report and file.
2. Provide direction to staff on items of concern for the balance of the fiscal year.

BACKGROUND:

Staff is presenting the Commission with the FY 2016-17 mid-year financial report, which includes a discussion of:

1. A review of the mid-year financial activities and the presentation of a spreadsheet (Attachment #1) on expenditures and reserves, revenues received, an update on special project activities, and a breakdown of the fund balance through the mid-year. The spreadsheet also provides a forecast of anticipated expenditures and revenues through the end of the fiscal year. Due to this report being presented in March due to the cancelation of the February hearing, data through February is presented in lieu of mid-year for: listing of proposal activity and cash balance discussion. This information is shown in the following narrative as "remaining activity".
2. Scheduled for discussion were recommendations for fund transfers to address increased revenues and expenditures due to factors related to the relocation of the staff office. However, as discussed in more detail below, staff will present the

Commission with the necessary budget adjustments in the coming months when a more accurate schedule of costs (amounts and timing) are known to staff.

MID-YEAR REVIEW

The following information includes a description of expenditures and reserves, revenue and proposal activity, an update on special project activities, and a breakdown of the fund balance.

Expenditures and Reserves

Expenditures are comprised of two categories of accounts: 1) Salaries and Benefits, and 2) Services and Supplies. Through the mid-year, total expenditures are at 47% of Approved Budget authority.

1. Salaries and Benefits (1000 series)

A. Mid-Year Activity

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$373,150 through the mid-year, representing 47% of Approved Budget authority.

The variance of three percent from the benchmark of 50% is primarily explained by the medical leave and separation of the Clerk to the Commission. In August the Clerk was placed on medical leave under the Commission's short-term disability program which paid 45% of her base salary during that period. The Clerk separated in October, and the position remained unfilled through the mid-year, resulting in salary and benefits savings.

The Commission authorized changes to the compensation for the contract Executive Officer as follows: (1) a contract increase for the Executive Officer retroactive to January 2016 for salary and benefits; and (2) 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. These payments were included in the Accounts 1010 (Salary) and 1310 (ID Allowance Cafeteria).

B. Remaining Activity

The Clerk position was filled in February, resulting in savings of salary and benefits expenses for roughly four months. Termination payments for the previous Clerk were nominal due to the leave balances being utilized for compensation during her medical leave.

2. Services and Supplies (2000 and 5000 series)

A. *Mid-Year Activity*

For the mid-year, the Services and Supplies accounts (2000 and 5000 series) had expenditures of \$319,594 or 48% of Approved Budget authority. There have been no major unanticipated expenditures during this time period.

Unique events that are either Commission-approved or budgeted accounted for during the first two quarters of the Fiscal Year are as follows:

- Payment of \$100,000 deposit for tenant improvements for the renovation of the Santa Fe Train Depot for use as the new LAFCO Office was made in August 2016.
- Costs related to processing the West Valley Mosquito and Vector Control District reorganization requiring individual notice to landowners due to the extension of an existing special tax totaled roughly \$25,000.
- Processing for the Formation of the Wrightwood CSD, totaling roughly \$11,000 to date.

B. *Projected Remaining Activity*

Budgeted and anticipated activities for the second half of the Fiscal year include significant expenditures, identified as:

- \$122,350 estimated for the relocation of staff office (various accounts). This includes estimates of office furnishing costs, move costs, and relocation of utilities for internet and phone services.
- \$15,000 budgeted for a new server, timing contingent upon office move.
- Significant individual notice costs of roughly \$26,000 for the reorganization to include annexation of the City of Upland to County Fire that includes the extension of a special tax. The applicant was required to provide a deposit to cover these costs. A breakdown is shown below:
 - Account 2310 (Postage) - \$10,662 each for the Commission and protest hearings totaling \$21,324.
 - Account 2323 (Reproduction/Printing) - \$2,482 each for the Commission and protest hearings totaling \$4,964.
- Remaining payments of roughly \$37,200 for the consulting contract with Bob Aldrich – the Commission approved the contract extension for Fiscal Year 2016-17. Staff anticipates utilizing the full authority of this contract.

As the budget currently stands, assuming all the expenditures related to the move are processed in this fiscal year, the Services and Supplies series of accounts would end the year at 102% of budget authority. The increase is due in part to the moving costs and the individual noticing costs for the three proposals identified above: West Valley Mosquito and Vector Control District reorganization, Wrightwood CSD formation, and County Fire reorganization (City of Upland).

However, not all the costs related to the office relocation may process this year due to timing issues for the completion of renovations. Therefore, staff anticipates returning to the Commission at the April hearing during the Third Quarter review to request the appropriate budget adjustments, at which time the timing and costs for the items outlined above should be better known.

C. Status of Ongoing Commission-approved Projects

The following provides an update on expenditures and progress on projects or studies previously approved 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 space as the LAFCO office. Terms of the lease required an initial payment of \$100,000 to the San Bernardino Associated Governments (now called the San Bernardino County Transportation Authority "SBCTA") 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 renovations of \$100,000 was processed during the first quarter. Staff continues to coordinate with SBCTA on the improvements required to occupy the space as well as construction scheduling.

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*, occurred in partnership with CALAFCO and Riverside LAFCO.

The first two sessions were well attended and the surveys indicate that they were well received. The third event is scheduled for March 22. Staff will update the Commission at the hearing on the attendance and survey results of this session.

Educational Training Program Timeline		
Training Session	Collaboration	Date
<i>Overview of Special District Laws</i>	California Special Districts Association	December 8, 2016 Mojave Water Agency
<i>LAFCO 101</i>	CALAFCO, Riverside LAFCO, San Bernardino LAFCO	January 24, 2017 Norton Regional Event Center
<i>Partnering with Community Based Organizations for More Inclusive Public Engagement</i>	Institute for Local Government	March 22, 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 half of the fiscal year.

Per Commission policy, the newly hired Clerk is eligible for LAFCO to recognize her previous vacation time from the County. To do so, a transfer payment from the County to LAFCO for the in-kind amount was received in March. The necessary budget adjustment to recognize the increase to the Compensated Absences Reserve will be presented to the Commission for action at the April hearing during the Third Quarter review.

Revenues and Proposal Activity

1. Revenues

A. *Mid-Year Activity*

The Commission has received 94% of Approved Budget revenues through the mid-year. The items below outline the revenue activity:

- Interest (Account 8500) – 79% of the budgeted interest has been received from the Commission’s cash in the County Treasury. However, the bulk of LAFCO’s revenues are received during the first quarter of the fiscal year through receipt of the annual apportionment. Interest rates have increased, albeit by a minimal amount.

- 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 mid-year, the Fees and Deposits series of accounts received 55% of its budgeted revenue (\$113,750). Of this amount, 91% is related to proposals and 9% to service contracts.

B. *Projected Remaining Activity*

This LAFCO has historically taken a conservative approach to projecting revenues. Keeping with this practice, staff is projecting \$69,130 in revenue for the second half, to include:

- Receipt of limited interest payments for the remaining two quarters (\$4,600).
- Re-filing of a proposal by the Hesperia Fire Protection District to annex to County Fire (\$37,950).
- Receipt of two proposals (\$19,000).
- Receipt of three service contracts (\$5,550).

Based upon the recommended Amended Budget, Total Revenues are projected to end the year at 97% of budget authority.

2. Proposal Activity

The figure below identifies the number of proposals and service contracts received through the end of February 2017. The figure identifies that four proposals and seven service contracts were received through February. This does not count the withdrawn proposals of the Hesperia Fire Protection District annexation into County Fire (refund of \$15,736) and Consolidation of the Inland Empire Utilities Agency and Chino Basin Water Conservation District (refund of \$6,756). For the former, Hesperia FPD is anticipated to resubmit a proposal in the coming months.

Attachment #2 to this report includes a chart showing the yearly comparison of proposals, service contracts, and completed service review activity. Staff is anticipating the receipt of three additional proposals, to bring the anticipated year-end total to seven proposals.

Activity	Budget	Through Feb	
		No.	% of Budget
Proposals	10	4	40%
Service Contracts - Commission approval	4	3	75%
Service Contracts - Commission approval for exemption	0	1	--
Service Contracts - Admin (E.O.) approval	4	3	75%
Protest Hearing Deposits	5	3	60%

The remainder of the year anticipates the processing of the second cycle service reviews for:

- Water (wholesale, retail, and recycled) – estimated to be presented to the Commission at its June 21, 2017 hearing
- Sewer (collection, treatment, and reclamation) – staff work to resume in May

It has been the Commission’s direction to staff to prioritize its activities to address the fire proposals submitted as the top priority, other jurisdictional changes next, and service reviews to follow. This has impacted the processing of the service reviews outlined above and delayed their presentation and/or processing.

Cash in Treasury

As of February 28, 2017, the Commission’s cash in the County Treasury was \$1,103,912. A breakdown of this amount is shown below: Taking into account expenditure and revenue projections, staff is projecting that all of the Reserves and Contingencies will carry forward into FY 2017-18.

February 28, 2017 Balance		\$1,103,912
Balance is composed of the following:		
Committed (constrained to specific purposes)		
Net Pension Liability Reserve (Account 6010)		117,097
Compensated Absences Reserve (Account 6030)		87,222
Assigned (intended for specific purposes)		
Contingency (Account 6000)		155,501
General Reserve (Account 6025)		284,917
Remaining Revenues, Estimate (shown as negative)		(69,430)
Remaining Expenditures, Estimate		528,605

CONCLUSION

While revenues and expenditures are generally on-target as of the date of this report, uncertainty remains regarding the timing and final costs of the office relocation. These have a direct impact on the projections for the year-end activities. Therefore, staff is holding off on presenting the Commission with any recommendations for budget adjustments until the timing and costs as presented by SBCTA staff related to the office relocation are known. It is anticipated that more detail will be available at the time the Third Quarter Review/Proposed Budget Review for FY 2017-18 takes place at the April 19, 2017 hearing.

No action is required of the Commission other than to note receipt of the report and to provide any comments on other areas of concern as outlined on page 1 of this report. Staff will be happy to answer any questions from the Commission prior to or at the hearing.

KRM/MT

Attachments:

1. Spreadsheet of Mid-Year Expenditures, Reserves, and Revenues
2. Chart Illustrating Yearly Proposal, Service Contract, and Service Review Activity