

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: MARCH 14, 2017
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
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TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #9: 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 August 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 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 medical 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.

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. This staff report is the third status update.

Conclusion from Previous Status Report

The following is a portion of the conclusion section from the previous status update:

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 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 emergency medical response, 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.

FY 2015-16 Audit and Fiscal Indicators

District staff provided LAFCO with its FY 2015-16 year-end estimates for the previous status update. 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.

As shown below, the District enjoyed a healthy increase in park revenues, resulting in revenues exceeding expenditures by roughly \$72,000. Other factors contributing to the increase in fund balance include: the former General Manager again took a decrease in pay going from \$36,000 per year to \$30,000 per year and the District was once again able to send out strike teams resulting in \$129,000 of gross revenue for the District (with an increase in expenditures for the strike team labor and supplies). This combined income covered many unanticipated expenses with repairs to aging buildings (electrical work, roof) and fire equipment (\$30,000 engine overhaul).

| MORONGO VALLEY CSD | | | | | | |
|---------------------------|------------------------------------|-------------------|--------------------|---------------------|-------------------|-------------------|
| | | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| | | Actual | Audit | Audit | Audit | Audit |
| Revenues: | | | | | | |
| Property tax | | 366,739 | 365,836 | 363,061 | 373,931 | 398,627 |
| Fire assessment | | 286,528 | 292,076 | 313,913 | 300,825 | 316,702 |
| Grant income | | 31,971 | 10,425 | 11,517 | 18,184 | 2,044 |
| Park revenue | | 3,332 | 4,280 | 9,398 | 5,703 | 71,872 |
| Other | | 22,290 | 6,799 | 5,500 | 1,410 | 7,361 |
| Fire service | | 1,542 | 14,941 | 35,274 | 124,103 | 144,670 |
| | Total Revenues | \$ 712,402 | \$ 694,357 | \$ 738,663 | \$ 824,156 | \$ 941,276 |
| Expenditures: | | | | | | |
| General government | | 169,161 | 181,719 | 189,608 | 148,133 | 91,928 |
| Park & recreation | | 22,315 | 33,523 | 46,520 | 36,205 | 58,782 |
| Streetlights | | 4,030 | 4,237 | 4,039 | 4,166 | 6,393 |
| Debt service | | 12,313 | 1,456 | 5,818 | 5,816 | 5,816 |
| Fire service | | 481,681 | 521,364 | 605,068 | 635,508 | 706,586 |
| | Total Expenditures | \$ 689,500 | \$ 742,299 | \$ 851,053 | \$ 829,828 | \$ 869,505 |
| | Revenues less Expenditures: | \$ 22,902 | \$ (47,942) | \$ (112,390) | \$ (5,672) | \$ 71,771 |

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. This activity is shown in the chart below. While this was known during the special study, the subsequent audits solidifies this circumstance, as shown below. For the past three years, the fire function experienced losses of roughly \$112,000, \$17,000, and \$1,300. On a positive note, the rate of loss is lessening to the point of \$1,300 in FY 2015-16.

It should be noted that the District took great measures to improve the park and recreation facilities as well as market its potential. As a result, the District brought in \$72,552 in park receipts. This is a positive sign for the District which shows a positive trend for its governmental functions (parks/recreation and streetlights). However, if it were not for the uptick in park and recreation revenue, then the district's overall situation would have been negative.

| FY 2013-14 | Fire | Park & Rec | Streetlights | Total |
|-----------------------------------|---------------------|-----------------------|---------------------|---------------------|
| 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 | Fire | Park & Rec | Streetlights | Total |
| 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) |
| FY 2015-16 | Fire | Park & Rec | Streetlights | Total |
| Revenues: | | | | |
| Property tax | 332,904 | 59,277 | 6,446 | 398,627 |
| Fire assessment | 316,702 | | | 316,702 |
| Other | 153,395 | 72,552 | | 225,947 |
| Total Revenues | \$ 803,001 | \$ 131,829 | \$ 6,446 | \$ 941,276 |
| Expenditures: | | | | |
| Salaries & wages | 721,743 | 33,592 | | 755,335 |
| Benefits | 17,683 | 4,471 | | 22,154 |
| Operations expense | 59,088 | 20,719 | 6,393 | 86,200 |
| Debt service | 5,816 | | | 5,816 |
| Total Expenditures | \$ 804,330 | \$ 58,782 | \$ 6,393 | \$ 869,505 |
| Revenues less Expenditures | \$ (1,329) | \$ 73,047 | \$ 53 | \$ 71,771 |

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. Importantly, assessed value has increased for three 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.

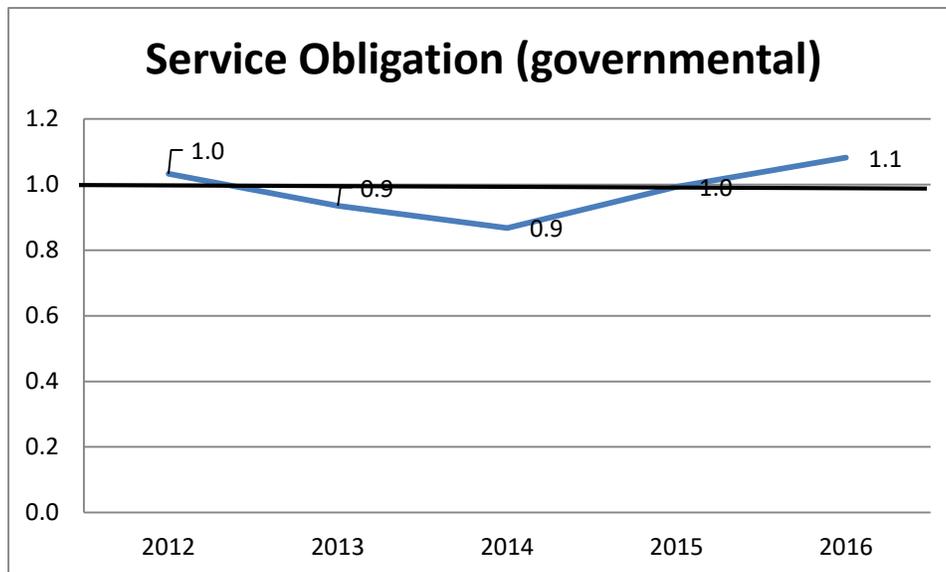
| Year | Assessed Value | | Tax Received | | Assessment Received | |
|---|----------------|----------|--------------|----------|---------------------|----------|
| | Valuation | % change | Total Tax | % change | Total | % change |
| 2007-08 | \$ 219,980,152 | 16.8% | \$ 438,520 | 15.2% | \$ 214,573 | 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% | \$ 398,627 | 6.6% | \$ 316,702 | 5.3% |
| 2016-17 | \$ 204,281,299 | 1.6% | | | | |
| 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 2014-15. LAFCO staff has added FY 2015-16 to the District's Service Obligation and Liquidity indicators.

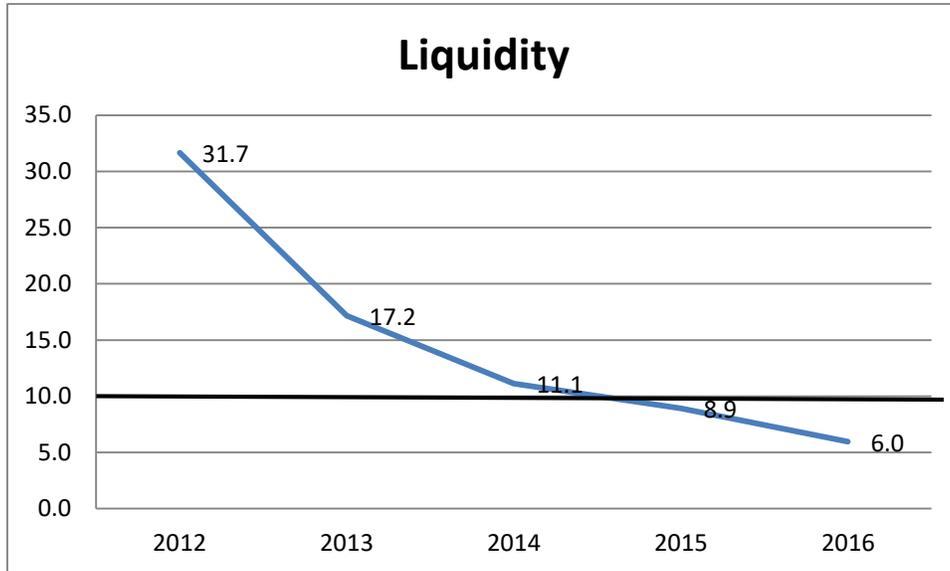
Service Obligation

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.



FY 2016-17 Mid-Year Update

Through the Mid-Year

The District provided its income and expense reports through the mid-year as well as through January. The data presented below shows a balanced budget. However, through the mid-year, even though revenues are tracking slightly ahead of the 50% mark, expenditures are at 60%. It is expected that full-year and one-time costs occur in the first half. Yet expenditures exceeded revenues by roughly \$45,298. Given its financial history, failed tax election, and low undesignated reserves, the viability of the District is yet again thrust to the forefront.

| MORONGO VALLEY CSD | | | | | | | |
|------------------------------------|-------------------|-------------------|-------------------|--------------------|------------|---------|--------------------|
| | 2014-15 | 2015-16 | 2016-17 | 2016-17 | 2016-17 | 2016-17 | 2016-17 |
| | Audit | Audit | Budget | thru | % thru | | thru |
| | | | | Mid-Year | Mid-Year | | Jan |
| Revenues: | | | | | | | |
| Property tax | 373,931 | 398,627 | 412,415 | 190,289 | 46% | | 220,677 |
| Fire assessment | 300,825 | 316,702 | 308,233 | 151,574 | 49% | | 176,625 |
| Grant income | 18,184 | 2,044 | 10,000 | 1,000 | 10% | | 1,000 |
| Park revenue | 5,703 | 71,872 | 5,820 | 2,240 | 38% | | 3,065 |
| Other | 1,410 | 7,361 | 5,346 | 7,691 | 144% | | 7,694 |
| Fire service | 124,103 | 144,670 | 40,671 | 429,691 | 1057% | | 65,666 |
| Total Revenues | \$ 824,156 | \$ 941,276 | \$ 782,485 | \$ 417,060 | 53% | | \$ 474,727 |
| Expenditures: | | | | | | | |
| General government | 148,133 | 91,928 | 126,603 | 72,977 | 58% | | 87,020 |
| Park & recreation | 36,205 | 58,782 | 34,700 | 34,168 | 98% | | 36,732 |
| Streetlights | 4,166 | 6,393 | 4,110 | 1,952 | 47% | | 2,277 |
| Debt service | 5,816 | 5,816 | 5,816 | 2,937 | 50% | | 3,422 |
| Fire service | 635,508 | 706,586 | 600,028 | 350,324 | 58% | | 388,145 |
| Total Expenditures | \$ 829,828 | \$ 869,505 | \$ 771,257 | \$ 462,358 | 60% | | \$ 517,596 |
| Revenues less Expenditures: | \$ (5,672) | \$ 71,771 | \$ 11,228 | \$ (45,298) | | | \$ (42,869) |

source: Morongo Valley CSD, reformatted by LAFCO staff

Second Half

The District has provided additional information for activities in the second half of the year. They indicate that the District will receive a total of \$115,593 in OES reimbursement for the fiscal year. After compensation and other expenses, there will be a remaining amount of \$75,107. These funds will be used to offset the outstanding balance of approximately \$34,998. This will leave a surplus of approximately \$40,109 for this fiscal year.

The General Manager's anticipated retirement occurred, and the District filled the position from within. The former general manager is consulting with the District at a nominal cost during this transition, and it is to be hoped that this structure will provide continuity in the District's operations.

As for fire staffing, two full-time employees have left the district. In mid-January the Fire Chief resigned, and the district promoted from within (from a captain) and provided a salary increase as that person performs chief and some captain duties. Overall, the personnel shift is a net reduction in expenses because the captain position will remain unfilled. Additionally, one firefighter engineer resigned in February, and the position is not anticipated to be filled.

Even with the decrease in fire personnel, according to the District, a three man crew still responds to a call. Although the District has eliminated the Captain positions, there is one company officer/engineer or the working Fire Chief and one paramedic per shift, along with

a reserve. The District anticipates adding an intern to each shift once an agreement is reached with Copper Mountain College, anticipated by FY 2017-18. The addition of an intern will increase shift personnel from three to four (two district personnel, reserve, and intern). LAFCO staff understands that the duties of an intern are limited for liability reasons. Below is a chart identifying fire staffing since 2013-14 through the mid-year.

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 Budget | 2016-17 Reorg. |
|------------------------------------|---------|---------|---------|-------------------|-------------------|
| Chief | 1 | 1 | 1 | 1 | 1 |
| Deputy Chief | 0 | 0 | 0 | 0 | 0 |
| Division Chief | 0 | 0 | 0 | 0 | 0 |
| Captain | 2 | 3 | 3 | 2 | 1 |
| Company officer/engineer | 0 | 0 | 0 | 0 | 1 |
| Full-time fire fighters/paramedics | 3 | 3 | 3 | 3 | 3 |
| Part-time fire fighters/paramedics | 0 | 0 | 0 | 0 | 0 |
| Full-time engineers | 3 | 3 | 3 | 3 | 2 |
| Part-time engineers | 0 | 0 | 0 | 0 | 0 |
| Emergency Medical Coordinator | 1 | 1 | 1 | 1 | 1 |
| Reserves | 2 | 2 | 2 | 1 | 1 |

Lastly, the district states that it is working on a staffing plan for the 2017-18 Fiscal Year to further reduce staff in order to remain solvent. LAFCO staff points out that should response crews reduce from three to two, then receipt of mutual aid for emergency medical calls could reduce because: (1) state mutual aid laws pertain to fire response, and (2) a two man crew would not equate to the County's three man crew.

Fire Discussion

We now return to the same topic in each of LAFCO's reports regarding the CSD. 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 formed an ad hoc citizen committee to provide options to the District Board on the alternatives for fire service. According to the general manager, although formed, the committee never materialized due to lack of participation. Moving forward, the general manager will be presenting options for consideration to the community. As LAFCO staff understands the situation, the District is mulling three options:

1. Annex to County Fire and its FP-5 service zone. This option would:
 - a. Divest the CSD of its fire protection function (and related services)
 - b. Annex the CSD area to County Fire and its South Desert and FP-5 service zones
 - c. Remove the CSD Fire and Paramedic Assessment, annual average of \$150 per parcel
 - d. Extend the FP-5 special tax over the area, currently \$148.23 per parcel annually
 - e. Park and recreation would remain with the CSD

2. LAFCO staff understands that the District is also considering issuing a Request for Proposals for another entity to contract with, such as CalFire. However, any such

contract would be subject to LAFCO review and approval under the provisions of Government Code Section 56134.¹

3. Lastly, the District can continue to reduce the level of its fire protection service until it reaches a sustainable level.

The next status report should include more definite information on the district's direction on this matter.

CONCLUSION:

The District attempted to increase its revenues to accommodate its existing 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 emergency medical response, 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. The current year budget appeared to be stable, but the mid-year data is indicating a return to expenditures exceeding revenues.

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, or (3) any other major expense.

Staff is recommending that the Commission receive this report and set the next status report for the August 2017 hearing. That update will include the unaudited FY 2016-17 year-end and FY 2017-18 budget. Additionally, an update on the information presented by the ad hoc committee should reveal the direction the CSD will be taking for its fire protection service.

KRM/MT

Attachments:

1. 2015-16 Financial Statements
2. 2016-17 Mid-Year Financials

¹ Beginning January 1, 2016, LAFCOs have been charged with the responsibility for reviewing and taking action on fire protection contracts that either: transfers more than 25 percent of the service area of an affected public agency or changes the employment status of more than 25 percent of the employees of an affected public agency pursuant to Government Code Section 56134.