

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
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TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #8(b)(i): Mid-Year and Third Quarter Financial Review for
Period July 1 through March 31, 2017

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:

At the March hearing, the Commission continued the mid-year financial report to the April hearing. However, the third quarter has now closed as well. Therefore, staff is presenting the Commission with a FY 2016-17 combined mid-year and third quarter financial report, which includes a discussion of:

1. A review of the 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 third quarter. The spreadsheet also provides a forecast of anticipated expenditures and revenues through the end of the fiscal year.
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 to accommodate the relocation of the staff office at the May hearing when a more accurate schedule of costs (amounts and timing) are known.

MID-YEAR REVIEW AND THIRD QUARTER 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 were at 47% of Approved Budget authority and through the third quarter are at 69%.

1. Salaries and Benefits (1000 series)

A. Mid-Year and Third Quarter 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. Through the third quarter, expenditures are at \$555,083, or 69% of Approved Budget authority.

The variance of six percent from the third quarter benchmark of 75% 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 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.

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. These payments were included in the Accounts 1010 (Salary) and 1310 (ID Allowance Cafeteria). Also included is implementation of the 2% longevity pay increase pursuant to the Commission's adopted Human Resources Policy (2 employees).

B. Projected Activity to Year-End

There are no significant or unbudgeted items anticipated for the fourth quarter.

2. Services and Supplies (2000 and 5000 series)

A. Mid-Year and Third Quarter 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. Through the third quarter, expenditures are at \$447,530 or 68% of Approved Budget authority.

There have been no major unanticipated expenditures during this time period.

Unique events that are either Commission-approved or budgeted through the third quarter 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.
- Costs related to the City of Upland annexation into County Fire for the hearing (printing and mailing) totaling roughly \$13,000 to date.

B. Projected Activity to Year-End

Budgeted and anticipated activities for the remainder of the 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 \$13,000 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 for the protest hearing.
 - Account 2323 (Reproduction/Printing) - \$2,482 for the protest hearing.
- Remaining payments of roughly \$27,000 for the consulting contract with Robert 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 104% of budget authority, or \$28,640 more than authorized. The Commission cannot end its Fiscal Year without addressing this issue.

The increase is due in part to the renovation and moving costs for the staff. However, not all the costs related to the office relocation may process this fiscal year due to timing issues for the completion of renovations. Therefore, staff anticipates returning to the Commission at the May Final Budget hearing to request the appropriate budget adjustments, at which time the timing and costs for the items outlined above should be better known. Should all these expenses come to fruition this fiscal year, then staff would recommend a transfer from Contingency (Account 6000) to accommodate this change.

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. 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 estimated 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 has received notice that the City of San Bernardino has approved the renovation plans and that bids for construction were due on April 7 with evaluation to take place the week of April 10. Staff continues to coordinate with SBCTA on the improvements required to occupy the space as well as construction scheduling. Updates, if any, will be provided at the hearing.

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.

All sessions were well attended and the surveys indicate that they were well received.

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, Los Angeles LAFCO, 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 three quarters of the fiscal year. However, as noted above, there may be a request for use of Contingency funds to address the expenses associated with the office move.

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 May hearing during the final budget review.

Revenues and Proposal Activity

1. Revenues

A. *Mid-Year Activity*

The Commission has received 94% of Approved Budget revenues through the mid-year, increasing to 95% through the third quarter. The items below outline the revenue activity:

- Interest (Account 8500) – 129% 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 third quarter, the Fees and Deposits series of accounts received 72% of its budgeted revenue (\$149,414). Of this amount, 93% is related to proposals and 7% to service contracts.

B. *Projected Activity to Year-End*

This LAFCO has historically taken a conservative approach to projecting revenues. Keeping with this practice, staff is projecting \$26,080 in revenue for the remainder of the year, to include:

- Receipt of limited interest payments for the remaining quarter (\$2,000).
- Receipt of two proposals (\$19,405).
- Receipt of two service contracts (\$5,050).

However, Total Revenues are projected to end the year at 97% of budget authority, or \$67,337 below budget target. This impacts the Expenditure side of the budget.

2. Proposal Activity

The figure below identifies the number of proposals and service contracts received through the end of March 2017. The figure identifies that six proposals and nine service contracts were received through March. This does not count the withdrawn proposal for the Consolidation of the Inland Empire Utilities Agency and Chino Basin Water Conservation District (refund of \$6,756).

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 two additional proposals, to bring the anticipated year-end total to eight proposals.

Activity	Budget	Through March	
		No.	% of Budget
Proposals	10	6	60%
Service Contracts - Commission approval	4	3	75%
Service Contracts - Commission approval for exemption	0	1	--
Service Contracts - Admin (E.O.) approval	4	5	125%
Protest Hearing Deposits	5	3	60%

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

- Water (wholesale, retail, and recycled) – Report estimated to be presented to the Commission at its June 21 or July 19 hearing
- Sewer (collection, treatment, and reclamation) – staff work to resume in May 2017 with report presentation deferred to Fiscal Year 2017-18.

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 March 31, 2017, the Commission’s cash in the County Treasury was \$1,009,053. A breakdown of this amount is shown below. Taking into account expenditure and revenue projections, staff is projecting that all of the Reserves will carry forward into FY 2017-18. It is anticipated that should the all outlined costs come to fruition, then staff would recommend a transfer from Contingencies (Account 6000) to cover the shortage (at this time estimated to be roughly \$33,593) since Total Expenditures would exceed Total Revenues.

March 31, 2017 Balance		\$1,009,053
Balance is composed of the following:		
<i>Liabilities</i>		
	Deposits Payable (Receivable) from open applications, est year end	15,000
<i>Committed (constrained to specific purposes)</i>		
	Net Pension Liability Reserve (Account 6010)	117,097
	Compensated Absences Reserve (Account 6030)	88,438
<i>Assigned (intended for specific purposes)</i>		
	Contingency (Account 6000)	155,501
	General Reserve (Account 6025)	284,917
	Remaining Revenues, Estimate (shown as negative)	(28,080)
	Remaining Expenditures, Estimate	409,772
Amount over (under), estimated as of March 31		(\$33,593)

However, as noted throughout the report, not all the costs related to the office relocation may process this fiscal year due to timing issues for the completion of renovations. Therefore, staff anticipates returning to the Commission at the Final Budget Review at the May hearing to request the appropriate budget adjustments. It is anticipated that the timing and costs should be better known at that time.

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 and mailing costs for proposal processing. 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 better defined. It is anticipated that more detail will be available when the Final Budget Review for FY 2017-18 takes place at the May 17, 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 Expenditures, Reserves, and Revenues through the Third Quarter
2. Chart Illustrating Yearly Proposal, Service Contract, and Service Review Activity