

**LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY**

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DATE: JULY 12, 2017 
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
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TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #4: Unaudited Year-end Financial Report for FY 2016-17

RECOMMENDATION:

Staff recommends that the Commission note the receipt of and file the Unaudited Year-End Financial Report for Fiscal Year 2016-17.

BACKGROUND:

Staff is presenting the Commission with its FY 2016-17 year-end review of finances which includes unaudited expenditures, reserves, revenues; an update on activities during the year; and a breakdown of the fund balance. The financial position based on the unaudited data shows that the Commission continues to operate in a fiscally prudent manner, retaining its reserves for transfer into the new Fiscal Year. Attachment #1 to this report is a spreadsheet summarizing the unaudited financial activity for the period July 1, 2016 through June 30, 2017. The spreadsheet identifies that total expenditures were within appropriation authority for all fund categories and total revenues were slightly below projections. Additional information, in narrative form regarding the year-end review, is below.

Expenditures and Reserves

Expenditures comprise two categories of accounts: 1) Salaries and Benefits and 2) Services and Supplies. The unaudited Total Expenditures at June 30 was \$1,309,258 (90% of Final Budget); the difference of \$151,871 between the final budget and Unaudited Year-End is explained below. No transfers from contingencies were approved during the year; the entirety of Contingencies and Reserves carry forward into FY 2017-18.

1. Salaries and Benefits (1000 series)

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$729,589 for the year, representing 91% of budget authority.

The variance of nine percent from 100% 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.

2. Services and Supplies (2000 and 5000 series)

Expenditures for Services and Supplies (2000 and 5000 series of accounts) are at \$579,668 for the year, or 88% of Budget authority. However, based on the construction schedule for the office renovation, the bulk of the costs will occur in FY 2017-18. The funds allocated for the renovation and move costs within the Fiscal Year 2016-17 budget unexpended will be carried over to Fiscal Year 2017-18. Staff will provide to the Commission an accounting of the costs as a part of the First Quarter Review in October.

This year continues a normal activity level, but also one with complex proposals which could directly impact the quality of life of hundreds of thousands of residents of our County. Unique events during the year that are either Commission-approved or budgeted 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.
- Legal counsel charges related to East Valley Water District (questions related to authorized services and powers, public records act request, declaration) total roughly \$9,000. Additional charges of roughly \$8,000 will process in July 2017. These charges are not recoverable.
- Legal counsel charges related to questions on the budget and contracting for the position of Executive Officer of \$306 were incurred. However, the bulk of the legal charges, roughly \$9,000, will process in July 2017. These charges are not recoverable.
- Costs related to the City of Upland annexation into County Fire for the hearing (printing and mailing) totaling roughly \$26,000 to date. The applicant provided deposits for these activities. An additional \$3,500 has been billed to

the applicant for cost recovery. Additional legal costs associated with the processing, totaling \$3,800 for the year have been included.

- The consulting contract with Robert Aldrich – the Commission approved the contract extension for Fiscal Year 2016-17. Total costs for the year were \$84,000.

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 year.

Per Commission policy, the newly hired Clerk was 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 (\$1,216). These funds are accounted for in the FY 2017-18 budget.

The remainder of Contingencies (\$155,501) and the entirety of Reserves (\$490,452) are carrying forward into FY 2017-18.

Revenue and Proposal Activity

1. Revenues at Year-end

The unaudited Total Revenues at year's end of \$2,060,787 is below amended budget projections by roughly 2%. The items below outline the revenue activity for the year:

- Interest (Account 8500) – Interest earnings projected for the year received by the County Treasury are 177% of budget. For FY 2016-17 there were a number of significant proposals requiring additional processing deposits from the applicants. As a result, even with meager interest rates additional interest was earned during the period.
- 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) – The Fees and Deposits series of accounts has received 97% of its budgeted revenue (\$201,509). Of this recovery amount, 92% is related to proposals and 8% to service contracts. Refunds of deposits over costs was provided in the amount of \$8,800.

2. Proposal Activity

The figure below identifies the number of proposals, service contracts, and service review deposits received during the year. The figure identifies that proposals received were 9, one shy of the budget projection of 10. 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). Service contracts received (11) exceeded budget projections (8).

Attachment #2 to this report is a chart showing the yearly comparison of proposal, service review, and completed service review activity.

Activity	Budget	Through June	
		No.	% of Budget
Proposals	10	9	90%
Service Contracts - Commission approval	4	3	75%
Service Contracts - Commission approval for exemption	0	1	--
Service Contracts - Admin (E.O.) approval	4	7	175%
Protest Hearing Deposits	5	3	60%

What this does not show is the complexity of proposals received and processed by the Commission during the year. The following provides a highlight of the activities during the year:

- LAFCO 3202 – Formation of the Wrightwood CSD. Completed May 25, 2017, effective July 1, 2017.
- LAFCO 3208 (sphere)/3209 (reorganization) – Annexations to the West Valley Mosquito and Vector Control District. Completed and effective November 21, 2017.
- LAFCO 3215 (sphere)/3216 (reorganization) – City of Upland inclusion within the San Bernardino County Fire Protection District – Protest hearing scheduled for July 11, 2017.
- Four out-of-agency service contracts were presented for Commission consideration – three were contract reviews based upon being development related and one was an exemption for contracts between public agencies.
- Staff continued with its on-going programs for maintenance of the Fiscal Indicators program (update available on the Commission website January 2017) and the continuing governance education programs. As reported in prior mid-year and third quarter report, the three education programs were well attended and received.

Processing for one fire proposal (Hesperia FPD—LAFCO 3217 (sphere)/

3218 (reorganization) continues into FY 2017-18. This proposal has required significant pre-review discussions with County Fire, the Hesperia Fire Protection District, County Administration and City of Hesperia administration. It is anticipated that this proposal will be presented to the Commission during the third quarter of FY 2017-18.

The current year (FY 2017-18) continues processing of the second cycle service reviews for:

- Water (wholesale, retail, and recycled) – Report scheduled for presentation to the Commission at its July hearing.
- Sewer (collection, treatment, and reclamation) – staff work resumed in June 2017 with report presentation estimated for the winter of 2018.

Cash in Treasury

As of June 30, 2017, the Commission’s cash in the County Treasury was \$752,744. A breakdown of this amount is shown below.

June 30, 2017 Balance		\$752,744
Balance is composed of the following:		
Liabilities		
	Deposits Payable (Receivable) from open applications, est year end	5,108
Committed (constrained to specific purposes)		
	Net Pension Liability Reserve (Account 6010)	117,097
	Compensated Absences Reserve (Account 6030)	88,438
	Encumbered for purchase of office furniture	73,082
Assigned (intended for specific purposes)		
	Contingency (Account 6000)	155,501
	General Reserve (Account 6025)	284,917
	Carryover into FY 2017-18, additional funds allocated for office move	28,601

After accounting for liabilities, committed (to include encumbered contract for office furniture), and assigned funds, the estimated carryover into FY 2017-18 is \$28,601. These funds are allocated for costs related to the office relocation (moving company, telecommunications work).

CONCLUSION:

In sum, the financial position based on the unaudited data shows that the Commission continues to manage its operations in a fiscally prudent manner, securing its reserves for the future. The Commission-approved office relocation has incurred \$100,000 (upfront construction payment) to date and encumbered \$73,082 for office furniture. Staff will provide to the Commission an accounting of the costs as a part of the First Quarter Review in October.

Total expenditures were within appropriation authority for all fund categories, and total revenues were slightly below projections. Contingencies and Reserves carry forward into FY 2017-18.

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

KRM/MT

Attachments:

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