

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: OCTOBER 11, 2017 
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
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TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #6: First Quarter Financial Review for Period
July 1 through September 30, 2017

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 2016-17 of \$32,808 by:
 - a) Increasing Expenditure Account 2090 (Relocation Expense) by \$32,808 to \$111,683.
 - b) Increasing Revenue Account 9970 (Carryover from Prior Year) by \$32,808 for a total of \$101,683 [Total for Revenue Account 9970 (all carryovers to include reserves) increases to \$771,307].

BACKGROUND:

The first quarter of Fiscal Year 2017-18 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. Additionally, a discussion follows which outlines the County's efforts to transition to a new financial system and its effect on LAFCO's bookkeeping and accounting.

FIRST QUARTER REVIEW:

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 2016-17.

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 29% of Approved Budget authority. No request is being presented, at this time, by staff for authorization to utilize funds maintained in the Contingency or Reserve accounts. 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 \$202,208 through the first quarter, representing 26% of Approved Budget authority. The increase of one percentage point over the 25% benchmark is primarily explained by August having three pay dates, as opposed to two.

B. Anticipated Activity

The remainder of the year is anticipated to maintain the adopted budget.

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 \$205,704, or 33% of Approved Budget authority. The first quarter includes full-year and one-time payments. Payments that are typical to the first quarter that have taken place include: 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, costs related to the move paid in the first quarter total \$34,030. Many of these invoices were received in the prior year, but the County ceased

payment processing early due to the transition to its new financial system. These costs are Commission-approved, of which \$28,601 is accounted for by the excess carryover from prior year.

The first quarter included unanticipated or unbudgeted activity which includes:

- Legal Counsel charges from litigation of two cases regarding LAFCO 3216 City of Upland annexation to San Bernardino County Fire Protection District et al filed by the San Antonio Heights Property Owners Association. LAFCO is indemnified by the City of Upland and County Fire for these cases. Payments made through the first quarter total \$2,934.
- Legal Counsel charges related to exposure to litigation, which these charges are not recoverable. Through the first quarter charges total \$45,957. At the mid-year review in January, staff is anticipating a recommendation for a transfer of funds from reserves to account for these expenditures.

B. Second Quarter 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 (\$11,783). This is the second 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 countywide wastewater service review (legal costs, advertising and mailing) are anticipated.
- Remaining costs related to the move totaling \$79,210. These charges are covered by funds that carried forward from 2016-17 into 2017-18. These include the charges for the office furniture, window blinds, and printing charges related to the address change.

C. Status of Ongoing Commission-approved Projects

The following provides an update on expenditures and progress on projects approved by the Commission.

EDUCATIONAL TRAINING PROGRAM FOR SPECIAL DISTRICTS:

The Commission is continuing its efforts to provide governance training for special districts, as well as other levels of government, 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), Special Districts Risk Management Authority (SDRMA), and the Institute for Local Government (ILG) – see chart below. The budget allocates \$7,500 total for payments to CSDA, SDRMA, or ILG, per the agreed upon cost.

Educational Training Program Timeline		
Training Session	Collaboration	Date
<i>Technology & the Public Records Act: Recent Legal Developments & Current Challenges</i>	California Special Districts Association	December 2017 10:00 a.m. Cucamonga Valley WD Frontier Project
<i>Financial Management for Special Districts</i>	Special Districts Risk Management Authority	est. Jan or Feb 2018 Mojave Water Agency
<i>Transparency Strategies</i>	Institute for Local Government	est. March or April 2018 Mojave Water Agency

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. At the mid-year review in January, staff is anticipating the need to recommend a transfer of funds from reserves to account for legal expenditures related to ongoing litigation related activities for which indemnification is not available.

Revenues

1. Revenues through First-Quarter

The Commission has received 89% of Adopted Budget revenues through the first quarter. The items below outline the revenue activity:

- Interest (Account 8500) – Interest rates have increased by roughly 50% compared to first quarter last year, albeit still providing a minimal cash amount. \$3,066 in interest revenue was earned from the Commission’s cash in the County Treasury reflecting the final quarter of Fiscal Year 2016-17 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 4% of its budgeted revenue (\$10,442) is made up of a combination of a service contract filing fee and cost recovery. Proposals thought to have been received in the first quarter are anticipated for submission in the second quarter.
- Carryover from Prior Year (Account 9970)

The fund balance at the prior fiscal year's closure was carried forward into FY 2016-17 (\$753,144), and is composed of the following:

- Liabilities of \$5,508 include deferred revenue related to open applications and accounts payable. The budget identifies deferred revenue of \$23,671. However, staff was able to clear a good portion of this liability by the close of the fiscal year.
- Cash carryover from prior year of \$101,683 for move-related costs.

The budget identified that \$68,875 would carry over into 2017-18 to cover costs related to the office relocation.

An additional \$32,808 carried forward into 2017-18; funds which were allocated for other move-related costs. Many of these invoices were received in the prior year, but paid in 2017-18. 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 \$32,808. Of note, the Notice of Hearing for this item identifies \$28,601, not \$32,808, as the amount.

- All of the Contingency and Reserve funds identified in the FY 2016-17 budget have been carried forward, \$645,953.

2. Proposal Activity

The figure below identifies the number of proposals and service contracts received through the first quarter. The figure identifies that zero proposals and one service contract were received in the first quarter. 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 1st Q	
		No.	% of Budget
Proposals	11	0	0%
Service Contracts - Commission approval	2	0	0%
Service Contracts - Commission approval for exemption	0	1	--
Service Contracts - Admin (E.O.) approval	6	0	0%
Protest Hearing Deposits	5	0	0%

In the first quarter the Commission completed the Countywide Service Review for Water, encompassing over 100 water systems across four regions. The remainder of the year anticipates the completion of the Countywide Service Review for Wastewater and the commencement of the fire protection/emergency medical response service review.

Fund Balance

As of September 30, the Commission's cash in the County Treasury was \$1,371,104. A breakdown of this amount is shown below.

September 30, 2017 Balance		\$1,371,104
Balance is composed of the following:		
Committed (constrained to specific purposes)		
Net Pension Liability Reserve (Account 6010)		148,450
Compensated Absences Reserve (Account 6030)		89,708
Assigned (intended for specific purposes)		
Contingency (Account 6000)		139,116
General Reserve (Account 6025)		225,229
Remaining Budget		
Expenditures		983,249
Revenues (does not include deposits receivable)		(214,647)

NEW FINANCIAL SYSTEM:

LAFCO contracts with the County for a range of financial bookkeeping and accounting functions. These include, but are not limited to, payroll, invoice processing, use of the County Treasury as its depository, use of its purchasing contracts, tax filings, year-end trial balance, etc.

Effective October 2017, the County has transferred to a new, all encompassing, financial bookkeeping and accounting system. The purpose of the new system is to improve fiscal operations and introduce more efficient business processes. However, this has

resulted in replacement of familiar programs and processes, which includes new fund identification and chart of accounts.

While the County works through its implementation hiccups, LAFCO staff is formulating implementation procedures for its workflow. Even though the financial processes and procedures are changing, LAFCO staff does not believe this to have an effect on the Commission's finances. However, during the transition of systems there may be some delay in the payment of the Commission's obligations.

CONCLUSION:

The bridge between the last quarter of 2016-17 and the first quarter of 2017-18 continues activity related to the office relocation and legal counsel representation on matters in litigation. The funds previously allocated for office relocation have carried forward into 2017-18, and the budget accounts for the activity. For legal counsel charges, at the mid-year in January staff anticipates recommending a transfer from reserves to account for these charges.

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 is one fire proposal 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. The continuation of the consultant contract for supplemental staffing continues to assist in addressing this ongoing issue.

With that noted, the remaining activities of the first quarter are generally within markers for first quarter activity.

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 the recognition of the increase in Cash Carryover from FY 2016-17 of \$32,808 by:

- a) Increasing Expenditure Account 2090 (Relocation Expense) by \$32,808 to \$111,683.
- b) Increasing Revenue Account 9970 (Carryover from Prior Year) by \$32,808 for a total of \$101,683 [Total for Revenue Account 9970 (all carryovers to include reserves) increases to \$771,307].

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