

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: FEBRUARY 14, 2018 
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, 2017

RECOMMENDATION:

Staff recommends that the Commission take the following actions:

1. Note receipt of this report and file.
2. Approve the Increase in Expenditure Account 2400 (Legal Counsel) by \$95,814 to \$130,114 by:
 - a) Transferring \$40,000 from Account 2310 (Postage),
 - b) Transferring \$25,229 from Reserve Account 6025 (Legal Reserve), resulting in a balance of \$200,000, and
 - c) Increasing Revenue Account 9555 (Legal Services) by \$30,585 to a total of \$40,185.
3. Provide direction to staff on items of concern for the balance of the fiscal year.

BACKGROUND:

At this time, staff is presenting the Commission with the FY 2017-18 mid-year financial report to identify the financial transactions and their impacts for the first half of the fiscal year. This fiscal year has been profound in that the staff office has been transitioned to the Santa Fe Depot, providing a base for up to 15 years, and we have incurred

significant unanticipated legal costs. The discussion which follows addresses these occurrences by providing:

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. This information is shown in the following narrative as “remaining activity”.
2. Transfer of funds and budget adjustments to address increased legal charges.

MID-YEAR REVIEW:

The following information includes a description of the financial transactions which relate to expenditures and reserves, revenue and proposal activity, an update on special project activities, and a breakdown of the Commission’s fund balance.

Expenditures and Reserves

Through the mid-year, Total Expenditures incurred are 57% of Approved Budget authority. The following includes detailed information for the primary accounting segments -- Salaries and Benefits (1000 series) and Services and Supplies (2000 series).

1. Salaries and Benefits (1000 series)

A. Mid-Year Activity

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$376,720 through the mid-year, representing 49% of Approved Budget authority.

B. Remaining Activity

The remainder of the year is anticipated to maintain the adopted budget with a projection to expend 99% of budget authority.

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 \$432,595 or 66% of Approved Budget authority. The single most significant event was the payment of the majority of the costs related to the move being processed during this fiscal year, totaling \$115,609. Many of these invoices were received in the prior year, but the County ceased payment

processing due to the transition to its new financial system affecting the timing of the expenses being included on the books.

In addition, the first two quarters included unanticipated activity related to legal counsel charges described as follows:

1. Litigation of two cases related to LAFCO 3216: City of Upland annexation to the 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; however, the costs are paid and subsequently reimbursed. Through January, LAFCO has received invoices totaling \$21,209, and these costs have been billed to both the City and County Fire.
2. Exposure to litigation related to a number of individual items: review of activation of latent powers, declaration statement related to litigation, subpoena issued to the Commission staff, and the Commission's authorization of the Executive Officer's contract. These legal charges are not directly related to a proposal; therefore, they are not recoverable. Through the mid-year, charges total \$66,974. During the month of December, staff became aware of a settlement between the City of San Bernardino and its Municipal Water Department, the San Bernardino Valley Municipal Water District, and the East Valley Water District which directly relates to the exposure to litigation. Since this date, there have been no further costs incurred associated with the Commission's exposure.

However, in order to account for the unanticipated legal expenditures and its impact on the budget, staff is recommending that the Commission:

- Approve an increase in legal revenues due to the receipt of indemnification payments to match legal expenditures (for recoverable activity – Item 1 above), and
- Approve a transfer of funds from reserves (\$25,000) and a transfer of expenditure authority from the Postage Expenditure Account 2310 (\$40,000) (for non-recoverable activity – Item 2 above).

The postage budget line item anticipated a proposal for annexation to County Fire and its special tax, which would have required significant individual notice. However, no such proposal is anticipated at this time; therefore, there is excess expenditure authority in the Postage account available for transfer.

B. Projected Remaining Activity

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

- Full-year payments for the annual financial audit (\$7,800). This is the second year of a four-year contract with the firm Davis Farr LLP.
- Additional legal charges related to LAFCO 3216 – Upland/County Fire Reorganization (~\$10,000). Any such future charges would be indemnified by the City of Upland and County Fire.
- Subscription to the County Street Network (\$10,500) for maintenance of digital mapping and Google Earth Subscription (\$3,000).
- Payments for the processing of proposals and countywide wastewater service review (legal costs, advertising and mailing) are anticipated. (~\$10,000)
- Remaining payments of roughly \$43,000 for the consulting contract with Bob Aldrich – the Commission approved the contract extension for Fiscal Year 2017-18. Staff anticipates utilizing the full authority of this contract to accommodate Executive Officer recruitment as well as ongoing staff support of proposals and the wastewater service review.

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, the Commission continued its education program, and staff developed the program in coordination with the California Special Districts Association (CSDA) and the Institute for Local Government (ILG). The budget allocates \$7,500 total for payments to the collaborators, per the agreed upon cost of up to \$2,500 per session.

The first and second sessions on December 7 and January 29, respectively, were well attended, the surveys indicate they were well received, and the costs for both are within range of budget authority at \$5,000. The third session is scheduled for March 28 in Apple Valley.

Educational Training Program Timeline		
Training Session	Collaboration	Date
<i>Fraud Detection and Prevention for Local Government Agencies</i>	California Special Districts Association	March 28, 2018 10:00 a.m. - Noon Mojave Water Agency, Apple Valley

Expenditures within the 2000 Series are anticipated to end the Fiscal Year, with the modifications proposed above, at 96% of expenditure authority.

3. Contingency and Reserves (6000 series)

No activity was requested by staff or authorized by the Commission to take place in the Contingency or Reserve accounts during the first two quarters.

However, the non-recoverable legal matter identified above requires a transfer from General/Litigation Reserve (Account 6025) to Legal Charges (Account 2400) in order to accommodate existing and anticipated expenditures. A transfer of \$25,229 would reduce the General/Litigation Reserve fund to the minimum \$200,000 balance required by Commission policy (Section II, Chapter 1, Policy 6).

Revenues

1. Revenues through Mid-Year

A. *Mid-Year Activity*

The Commission has received 89% of Approved Budget revenues through the mid-year. The items below outline this revenue activity:

- Interest (Account 8500) 67% 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 and are utilized to cover expenses. Interest earnings decrease during the year accordingly.
- Apportionment (Account 8842) - 100% of the mandatory apportionment payments from the County, cities, and independent special districts billed by the County Auditor were received by the due date.
- Fees and Deposits (Accounts 9545 – 9800) – Through the mid-year, the Fees and Deposits series of accounts have received 11% of its budgeted revenue (\$26,178). This is made up of a combination of a service contract

filing fee and cost recovery. Proposals thought to have been received in the first two quarters are anticipated for submission later in the fiscal year, with three proposals received in January 2018.

B. Projected Remaining Activity

This LAFCO has historically taken a conservative approach to projecting revenues. Keeping with this practice, staff is projecting \$112,050 in revenue for the second half, to include:

- Receipt of limited interest payments for the remaining two quarters (\$3,500).
- Receipt of six proposals (\$108,550).
 - Three proposals have been received in January with revenues totaling \$20,000.
 - Three additional proposals are anticipated in the coming months based upon staff discussions.

Based upon the recommended Amended Budget, Total Revenues are projected to end the year at 93% of the current budget authority.

2. Proposal Activity

The figure below identifies the number of proposals (four) and service contracts (four) received through January. Attachment #2 to this staff report includes a chart showing the yearly comparison of proposal, service contract, and completed service review activity.

Activity	Budget	Through January	
		No.	% of Budget
Proposals	11	4	36%
Service Contracts - Commission approval	2	1	50%
Service Contracts - Commission approval for exemption	0	1	--
Service Contracts - Admin (E.O.) approval	6	2	33%
Protest Hearing Deposits	5	1	20%

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/ambulance service review in late April/early May.

Fund Balance

As of December 31, the Commission's cash in the County Treasury was \$987,963. A breakdown of this amount is shown below. As shown, at this time a \$40,597 deficit is projected for year-end. As a part of the Third Quarter Budget Update/Preliminary Budget Review in April, staff will refine this number with an update on activity. Based upon this refinement, future actions will be required for the Commission to close this gap.

December 31, 2017 Balance		\$987,963
Balance is composed of the following:		
Liabilities		
	Deposits Payable (Receivable) from open applications, as of 1-28-18	(14,773)
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)	200,000
Remaining Activity, Projected		
	Expenditures	578,109
	Revenues (shown as a negative)	(112,050)
Additional Carryover or (Deficit)		(\$40,597)

CONCLUSION:

Through the first-half of the year, expenditures are above the mid-year mark and revenues have not met mid-year targets. The final costs related to the move have been processed, with the majority of the costs processed in this fiscal year. Additionally, significant legal charges were incurred, the vast majority of which are not recoverable. On a positive note, a settlement between outside parties has been reached on the exposure to the litigation matter and the legal charges have stemmed.

The budget anticipated 11 proposals for the year. Through January, four proposals have been received. Based upon talks with agencies, staff projects an additional three proposals in the remaining months, for a total of seven for the year.

In response to the information presented in this report, staff is recommending that the Commission take the actions identified on page 1 of this report which accounts for the unanticipated legal expenditures by Increasing Expenditure Account 2400 (Legal Counsel) by \$95,814 to a total of \$130,114 by:

- a) Transferring unused appropriation authority of \$40,000 from Account 2310 (Postage),
- b) Transferring \$25,229 from Reserve Account 6025 (Legal Reserve), resulting in a remaining reserve account balance of \$200,000, and
- c) Increasing Revenue Account 9555 (Legal Services) by \$30,585 to \$40,185 to account for indemnification revenues received to date.

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