

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: APRIL 11, 2018

FROM: 
KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #5: Third Quarter Financial Review for Period
July 1, 2017 through March 31, 2018

RECOMMENDATION:

Staff recommends that the Commission take the following actions:

1. Note receipt of this report and file.
2. Approve the transfer from Contingencies as follows:
 - a) Decrease Contingencies Reserve (Account 6000) by \$76,039 to \$63,077.
 - b) Increase Miscellaneous Expense (Account 2090) by \$10,000 to \$121,683.
 - c) Increase Legal Counsel Expenditures (Account 2400) by \$66,039 to \$196,153.
3. Authorize the Executive Officer to select a vendor to modify the front door of the LAFCO office for safety purposes, for an amount not to exceed \$10,000, and direct the Executive Officer to return to the Commission at a later hearing for Commission approval.
4. Provide direction to staff on items of concern for the balance of the fiscal year.

BACKGROUND:

At the February hearing, staff presented the Mid-Year financial report to the Commission. Staff identified that as of that time, a \$40,597 deficit was projected for the year-end. It was identified that this fiscal year has been profound in that:

- The staff office moved to the Santa Fe Depot, providing a base for up to 15 years. 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. Total cash payments for the renovation and move total \$225,609 over two years, all budgeted activity.
- We have incurred significant unanticipated legal costs. For the past three years, there has been 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 March, charges totaled \$67,468 for FY 2017-18. Since this date, the costs have been minimal – related to outstanding items from legal counsel. At this time, staff anticipates no further costs associated with non-recoverable legal expenses based upon approved settlement agreements.
- Receipt of proposals have significantly reduced, which results in fewer revenue receipts.

At the February hearing on the mid-year review, staff did not make any recommendations for a transfer of reserve funds to cover the gap. Instead, staff stated that as a part of the Third Quarter Budget Update/Preliminary Budget Review in April (this hearing), it would provide an updated figure with a recommendation for Commission action. Based upon this update, future actions would be required for the Commission to close this gap.

Third Quarter Update on Deficit

Unfortunately, since the February hearing, the deficit has increased by an additional \$35,442, to \$76,039. The additional \$35,442 is attributed to the following:

- Determination by staff that a proposal related to the Town of Apple Valley would most likely be received in FY 2018-19 and not FY 2017-18. The anticipated revenues for this proposal are budgeted in FY 2018-19. (\$13,270)
- Withdrawal of two proposals (reorganization with sphere amendment) by the dual applicants, San Bernardino Valley Municipal Water District and Inland Empire Utilities Agency, requiring a partial refund. (\$10,064)
- Staff has determined that the office front door requires additional safety measures in order to ensure a safe working environment. This report discusses in more detail a request for Commission approval to appropriate funds for this need. (\$6,500)

- Costs related to the legal advertisements for the Notice of Vacancy for the Public Member and Alternate Public Member seats on the Commission was not included in the year-end projections. (\$2,035)
- Additional expenditure activity (\$3,573).

At year's end the budget is required to be balanced, and due to the deficit a transfer from reserves is necessary to account for the gap. Staff recommends a transfer from the Contingencies Account as follows:

a) Decrease Contingencies Reserve (Account 6000) by \$76,039 to \$63,077

This is the total amount of the deficit, which would be transferred from Contingencies to the appropriate Expenditure accounts to fill the appropriations gap.

b) Increase Miscellaneous Expense (Account 2090) by \$10,000 to \$121,683

It has become apparent to LAFCO staff that additional security measures are needed for the office front door to ensure a safe working environment. During the planning for the move, additional security for the door was not raised because the grounds have 24-7 security. As the year progressed, it became apparent to staff that a front door with access control is necessary due to two unfortunate incidents within the office. Staff has contacted vendors, and there are constraints on modifying the door due to the building's historical status.

To address the situation, staff has solicited quotes from three vendors and discussed the issue with SBCTA staff. At this time, staff is recommending that the Commission authorize the Executive Officer to choose a vendor, for an amount not to exceed \$10,000, and direct the Executive Officer to return to the Commission at a later hearing for contract approval.

c) Increase Legal Counsel Expenditures (Account 2400) by \$66,039 to \$196,153

While the description at the opening of this report outlines the cessation of significant non-recoverable legal activity, this activity is a main component of this year's deficit. At the Mid-Year review, the Commission approved the transfer of \$25,229 from the General/Litigation Reserve to the Legal Charges expenditure account to partially cover the non-recoverable legal charges.

An additional \$66,039 is recommended to cover the bulk of the non-recoverable legal charges.

Third Quarter Review:

Through the third quarter, Total Expenditures incurred are 76% 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) identifying their anticipated activity to year end. 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

1. Salaries and Benefits (1000 series)

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)

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

- Additional legal charges related to LAFCO 3216 – Upland/County Fire Reorganization (~\$4,800). Any such future charges would be indemnified by the City of Upland and County Fire with the Commission recovering these expenses; however, the receipt of funds will occur in the next fiscal year,.
- 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 \$12,000 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.

3. Status of Ongoing Commission-approved Projects

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

Educational Training 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.

This year's program is complete, with the most recent session conducted on March 28. The first and second sessions were on December 7 and January 29. All the sessions were well attended, the surveys indicate they were well received, and the costs are below the budgeted amount.

Service Reviews

Below is the status of the service reviews that the Commission has authorized:

- In the first quarter the Commission completed the Countywide Service Review for Water, encompassing over 100 water systems across four regions. The Commission directed continued monitoring on four retail water systems. The next update to the Commission is scheduled for August.
- The Countywide Service Review for Wastewater, encompassing over 55 wastewater systems across four regions, is tentatively scheduled for presentation at either the June or July hearing. The meetings with the stakeholder groups to review the draft is anticipated in mid-May.
- This April, staff will begin the groundwork for the Countywide Service Review for Fire Protection/Emergency Medical Response/Ambulance services.

Expenditures within the 2000 Series are anticipated to end the Fiscal Year, with the modifications proposed above, at 89% of expenditure authority.

4. Contingency and Reserves (6000 series)

The non-recoverable legal matter identified above required a transfer from General/Litigation Reserve (Account 6025) to Legal Charges (Account 2400) in order to accommodate existing and anticipated expenditures. At the February 2018 hearing, the Commission approved the transfer of \$25,229. This action reduced 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 the Third Quarter

The Commission has received 90% of Approved Budget revenues through the end of the third quarter. Interest gains are above the budgeted amount and 100% of the mandatory apportionment payments from the County, cities, and independent special districts were received.

The budget projected the receipt of 11 proposals. Five proposals were received though the third quarter; however, two proposals were withdrawn by the applicants. As a result, only three proposals are being processed this year with proposal revenue only at 30% of the budget projection. The figure below identifies the number of proposals (three) and service contracts (five) received through March. 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 March	
		No.	% of Budget
Proposals	11	3	27%
Service Contracts - Commission approval	2	1	50%
Service Contracts - Commission approval for exemption	0	2	--
Service Contracts - Admin (E.O.) approval	6	2	33%
Protest Hearing Deposits	5	2	40%

2. Projected Revenues for the Fourth Quarter

This LAFCO has historically taken a conservative approach to projecting revenues. Keeping with this practice, staff is projecting \$17,645 in revenue for the final quarter, to include:

- Receipt of limited interest payments for the remaining quarter (\$3,000).
- Receipt of one proposal with the full complement of fees and deposits (\$13,310). This is a tangible proposal with an imminent initiation by the applicant. If the proposal is not received by year's end, it would be received shortly after the start of FY 2018-19.
- Receipt of one proposal that is a boundary correction (\$3,050). By Commission policy, this proposal would only be charged deposits for direct outside costs and not the LAFCO Fee.

- Refund of \$10,064 to the San Bernardino Valley Municipal Water District for its withdrawal (as well as the withdrawal by the other co-applicant the Inland Empire Utilities Agency) of a reorganization proposal and its companion sphere of influence proposal.

Based upon the recommended Amended Budget, Total Revenues are projected to end the year at 92% of the current budget authority.

Fund Balance

As of March 31, the Commission’s cash in the County Treasury was \$732,408. A breakdown of this amount is shown below. As shown, at this time a \$76,039 deficit is projected for year-end. This report includes a recommendation for the Commission to transfer funds from the Contingency Reserve to close this gap.

March 31, 2018 Balance		\$732,408
Balance is composed of the following:		
<i>Liabilities (Accounts Receivable)</i>		
Deposits Payable (Receivable), est. year-end		(21,978)
<i>Committed (constrained to specific purposes)</i>		
Net Pension Liability Reserve (Account 6010)		148,450
Compensated Absences Reserve (Account 6030)		89,708
<i>Assigned (intended for specific purposes)</i>		
Contingency (Account 6000)		139,116
General Reserve (Account 6025)		200,000
<i>Remaining Activity, Projected</i>		
Expenditures		270,796
Revenues (shown as a negative)		(17,645)
Additional Carryover or (Deficit)		(\$76,039)

CONCLUSION:

This year’s budget has encountered activities, or lack of, that have stressed the Commission’s finances. First, 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.

Third, the receipt of proposals dropped precipitously to a low level, which results in fewer revenue receipts. The budget anticipated 11 proposals for the year; however, through March, five proposals have been received, but two were withdrawn by the applicants which required a partial refund. Based upon talks with agencies, staff projects an additional two proposals in the remaining months, for a total of five 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, to include:

1. Approve the transfer from Contingencies as follows:
 - a) Decrease Contingencies Reserve (Account 6000) by \$76,039 for a final appropriation of \$63,077.
 - b) Increase Miscellaneous Expense (Account 2090) by \$10,000 to \$121,683.
 - c) Increase Legal Counsel Expenditures (Account 2400) by \$66,039 to \$196,153.

2. Authorize the Executive Officer to select a vendor to modify the front door of the LAFCO office for safety purposes, for an amount not to exceed \$10,000, and direct the Executive Officer to return to the Commission at a later hearing for Commission approval.

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](#)