

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: JULY 11, 2018
FROM:  SAMUEL MARTINEZ, Executive Officer
MICHAEL TUERPE, Project Manager
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #4: Unaudited Year-end Financial Report for FY 2017-18

RECOMMENDATION:

Staff recommends that the Commission take the following actions:

1. Note receipt of this report and file.
2. Approve the transfer of \$5,294 from Reserve Account 6000 (Contingency) to Expenditure Account 2043 (Electronic Equipment Maintenance).

BACKGROUND:

Staff is presenting the Commission with its FY 2017-18 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. Attachment #1 to this report is a spreadsheet summarizing the unaudited financial activity for the period July 1, 2017 through June 30, 2018. The spreadsheet identifies that total expenditures were within appropriation authority for all fund categories and total revenues were below projections.

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 former Executive Officer's contract. These legal charges are not directly related to a proposal; therefore, they are not recoverable. Charges totaled \$67,376 for FY 2017-18. At this time, staff anticipates no further costs associated with non-recoverable legal expenses based upon the proposal being heard.
- Receipt of proposals have significantly reduced, which results in fewer revenue receipts.

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 \$1,414,978 (91% of Final Budget).

1. Salaries and Benefits (1000 series)

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$757,022 for the year, representing 99% of budget authority. No unusual activity related to salaries and benefits occurred during the year.

2. Services and Supplies (2000 and 5000 series)

Expenditures for Services and Supplies (2000 and 5000 series of accounts) ended the year at \$657,957, or 83% of Budget authority.

This year experienced a lower 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:

- The staff office move incurred costs of \$115,609 during the year.
- Costs related to the Hesperia Fire Protection District annexation into County Fire for the hearing (mainly legal related to retirement matters) totaling roughly \$11,000 to date. The applicant provided deposits for these activities. An additional \$7,583 has been billed to the applicants for cost recovery.

- The consulting contract with Robert Aldrich – the Commission approved the contract extension for Fiscal Year 2017-18. Total costs for the year were \$78,000.

Additionally, the significant unanticipated legal costs described above total \$67,376 for the fiscal year. Spanning four fiscal years, the legal costs for this matter total \$86,432. These legal charges are not directly related to a proposal; therefore, they are not recoverable.

3. Contingency and Reserves (6000 series)

In February 2018, the Commission transferred \$25,229 from the General/Litigation Reserve to the Legal Counsel Expenditure Account to cover non-recoverable legal charges.

In April 2018, the Commission decreased the Contingency Reserve by \$76,039 to \$63,077 to cover the deficit due to the increased legal charges coupled with a lack of proposal receipts.

This staff report recommends an additional transfer from the Contingency Reserve of \$5,294 to cover the year-end deficit of the same amount. Year-end projections anticipated receipt of a proposal, but this proposal and its revenues are now anticipated for receipt in FY 2018-19.

The transfer from Contingency Reserve would be to Expenditure Account 2043 (Electronic Equipment Maintenance). The reason for choosing this account is that certain costs related to the move were anticipated to be processed in FY 2016-17 but were processed in FY 2017-18, following adoption of the budget - which did not have a budgeted amount for this account.

Revenue and Proposal Activity

1. Revenues at Year-end

The unaudited Total Revenues at year's end of \$1,896,828 is below amended budget projections by roughly 8%. Receipt of proposals have significantly reduced, which results in fewer revenue receipts. 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 157% of budget. For FY 2017-18 there were 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 44% of its budgeted revenue (\$117,354). Of this amount, 83% is related to proposals, 16% to service contracts, and 1% for refunds of deposits over costs.

2. Proposal Activity

The figure below identifies the number of proposals, service contracts, and protest hearing deposits received during the year. The figure identifies that proposals received were six, a relatively low activity. This does not count the two withdrawn proposals for reorganization that included the Inland Empire Utilities Agency and San Bernardino Valley Municipal Water District (refund of \$10,064). Service contracts received (eight) matched budget projections. 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	11	6	55%
Service Contracts - Commission approval	2	2	100%
Service Contracts - Commission approval for exemption	0	2	--
Service Contracts - Admin (E.O.) approval	6	4	67%
Protest Hearing Deposits	5	2	40%

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 3217 (sphere)/3218 (reorganization) – Hesperia Fire Protection District inclusion within the San Bernardino County Fire Protection District – Protest hearing scheduled for August 23, 2018.
- LAFCO 3226 – Activation of Authorized Services for the East Valley Water District – Protest hearing scheduled for August 28, 2018.
- Four out-of-agency service contracts were presented for Commission consideration – two were contract reviews based upon being development related and two were exemptions 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

2018) and the continuing governance education programs. As reported in the prior mid-year and third quarter reports, the three education programs were well attended and received.

As for service reviews:

- The *Countywide Service Review for Water* was completed July 2017. As an outgrowth, the Commission directed staff to continue to monitor four agencies. The next update is scheduled for August 2018.
- The *Countywide Service Review for Wastewater* was processed during the fiscal year and is scheduled for presentation to the Commission at its August 2018 hearing.
- Staff has begun processing the *Countywide Service Review for Fire Protection/Emergency Medical Response/Ambulance*.

Cash in Treasury

As of June 30, 2018, the Commission's cash in the County Treasury was \$481,849. A breakdown of this amount is shown below. After accounting for liabilities, and committed and assigned funds, the estimated deficit into FY 2018-19 is \$5,294. Year-end projections anticipated receipt of a proposal, but this proposal and its revenues are now anticipated for receipt in FY 2018-19. This staff report recommends a transfer from the Contingency Reserve of \$5,294 to cover the year-end deficit of the same amount.

June 30, 2018 Balance		\$481,849
Balance is composed of the following:		
<i>Liabilities (Accounts Receivable)</i>		
Deposits Payable (Receivable)		(14,091)
<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)		57,783
General Reserve (Account 6025)		200,000
Additional Carryover or (Deficit)		(\$0)

CONCLUSION:

This fiscal year has been profound in that:

- The staff office moved to the Santa Fe Depot. 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.
- We have incurred significant unanticipated legal costs. These legal charges are not directly related to a proposal; therefore, they are not recoverable. Charges totaled \$67,376 for FY 2017-18.
- Receipt of proposals have significantly reduced, which results in fewer revenue receipts.

On a positive note, one development-related service contract has been received in the new fiscal year. Additionally, a significant reorganization proposal (formation of a community services district with dissolution of a county service area) is anticipated for receipt.

Staff recommends that the Commission take the actions identified on page 1 of this report and 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.

SM/MT

Attachments:

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