


LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: OCTOBER 10, 2018 
FROM: SAMUEL MARTINEZ, Executive Officer
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TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #7: First Quarter Financial Review for Period
July 1 through September 30, 2018

RECOMMENDATION:

Staff recommends that the Commission note receipt of this report and file.

BACKGROUND:

The first quarter of Fiscal Year 2018-19 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.

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.

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 31% 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 \$244,190 through the first quarter, representing 29% of Approved Budget authority. The increase of four percentage points over the 25% benchmark is primarily explained by:

- July having three pay dates, as opposed to two.
- The former executive officer's contract continued through the first quarter, ceased September 30, 2018.

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 \$164,316, or 35% 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, a number of invoices received in June were not able to be processed by the year-end cutoff. The invoices, totaling \$9,733, were processed in July and are included in the FY 2018-19 First Quarter activity.

The first quarter included unanticipated or unbudgeted legal activity totaling \$26,511, which are outlined below. This has pushed the Legal Counsel Account 2400 to 112% of budget authority. However, LAFCO is indemnified by the applicants for these matters, and the reimbursements received have been deposited. At this time staff is not recommending any budget adjustments; rather, as a part of the mid-year financial review staff will recommend the appropriate budget adjustments (an increase in revenues with a corresponding increase in expenditures).

- 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 \$19,078.

- Legal Counsel charges related to LAFCO 3218: Hesperia Fire Protection District annexation into County Fire. This proposal experienced a unique pension-related matter. LAFCO is indemnified by the Hesperia Fire Protection District and County Fire for these cases. Payments made through the first quarter total \$7,433.

B. Second Quarter Anticipated Expenditures

Anticipated activities for the second quarter include significant expenditures, identified as:

- In July the Commission authorized \$15,000 to scan the backlog of closed files. These costs will be incurred during the second quarter, and an update of the project is discussed later in this report.
- Full-year payments for the annual financial audit (\$11,018). This is the third 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).
- Governance Training Program, a total cost not to exceed \$7,500. An update of the project is discussed later in this report.
- CALAFCO Annual conference expenses (hotel and travel for two staff and three Commissioners).
- Significant payments for the processing of proposals and countywide fire service review (legal costs, advertising and mailing) are anticipated.

Additionally, during the recruitment process related to the current Executive Officer's employment, the Commission expressed interest for a strategic planning workshop. Agenda Item #8 on this month's agenda recommends that the Commission: (1) authorize a strategic planning workshop, and (2) review and approve a contract for a consultant to facilitate the workshop. Staff estimates that the total cost should not exceed \$5,000, to include: consultant contract, facility fee and insurance, and food/drink. At this time staff is not recommending any budget adjustments; rather, as a part of the mid-year financial review staff will recommend the appropriate budget adjustments, if necessary.

C. Status of Ongoing Commission-approved Projects

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

Governance Training Program:

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 CALAFCO and California Special Districts Association (CSDA) – see chart below. The budget allocates \$7,500 total for payments to CALAFCO or CSDA, per the agreed upon cost.

Governance Training Program Fiscal Year 2018-19		
Training Session	Collaboration	Date
<i>Policy and Procedure Writing</i>	California Special Districts Association	December 2018
<i>LAFCO 101</i>	CALAFCO	January/February 2019
<i>Customer Service in the Public Sector</i>	California Special Districts Association	March 2019

Scanning of Closed Files

LAFCO is mandated by State Law to maintain its files in perpetuity, and the law includes a provision that allows for the files to be maintained in digital form. LAFCO’s closed files are in digital form, but a backlog exists in scanning the recently closed files. In July the Commission authorized \$15,000 to scan the backlog of closed files.

The project has three phases: (1) document check and preparation, (2) scan and import to viewing program, and (3) ship paper file to storage. Staff is nearing completion of Phase 1, and the scanning vendor is anticipated to begin scanning in November (Phase 2). Originally, staff anticipated that scanning would be done in-house by temporary services; however, previous concerns related to the files have been alleviated and the scanning can be outsourced.

3. Reserves (6000 series)

With the Assistant Executive Officer position being unfilled, in July the Commission increased the following Reserve accounts:

- Contingencies by \$34,852 from \$15,148 to \$50,000; and
- General/Litigation Reserve by \$64,392 from \$85,608 to \$150,000

No spending activity has been requested by staff or authorized by the Commission to take place in the Reserve accounts during the first quarter. At this time staff is not recommending any budget adjustments; rather, as a part of the mid-year financial review staff will recommend the appropriate budget adjustments, if necessary.

Revenues

1. Revenues through First-Quarter

The Commission has received 93% of Adopted Budget revenues through the first quarter. The items below outline the revenue activity:

- Interest (Account 8500) – Interest rates have steady increased over the past two years, albeit still providing a minimal cash amount. \$3,011 in interest revenue was earned from the Commission’s cash in the County Treasury reflecting the final quarter of Fiscal Year 2017-18 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 40% of its budgeted revenue (\$56,388). This amount is made up of a combination of service contract filing fees and legal cost recovery.
- Carryover from Prior Year (Account 9970)

Prior Year Contingency and Reserve funds have been carried forward, \$495,941.

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 seven service contracts were received in the first quarter. As a part of the *Countywide Service Review for Wastewater* in August, the Commission initiated a sphere of influence amendment for the City of Adelanto. 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 September	
		No.	% of Budget
Proposals - applicant initiated	9	0	0%
Proposals - Commission initiated	--	1	--
Service Contracts - Commission approval	2	4	200%
Service Contracts - Commission approval for exemption	0	2	--
Service Contracts - Admin (E.O.) approval	4	1	25%
Protest Hearing Deposits	6	0	0%

Proposals thought to have been received in the first quarter are anticipated for submission in the second quarter. The second quarter anticipates the receipt of at least a CSD formation and two annexations.

In the first quarter the Commission completed *the Countywide Service Review for Wastewater*, encompassing over 50 wastewater systems across four regions. The remainder of the year anticipates processing of the *Countywide Service Review for Fire/Emergency Medical Services/Ambulance/Dispatch*.

Fund Balance

As of September 30, the Commission's cash in the County Treasury was \$1,252,341. A breakdown of this amount is shown below.

September 30, 2018 Balance		\$1,252,341
Cash Balance is composed of the following:		
<i>Committed (constrained to specific purposes)</i>		
Net Pension Liability Reserve (Account 6010)		184,963
Compensated Absences Reserve (Account 6030)		97,377
<i>Assigned (intended for specific purposes)</i>		
Contingency (Account 6000)		50,000
General Reserve (Account 6025)		150,000
<i>Remaining Budgeted Expenditures</i>		894,691
<i>Remaining Budgeted Revenues (shown as negative)</i>		(124,690)

CONCLUSION:

The bridge between the last quarter of 2017-18 and the first quarter of 2018-19 has concluded with a new executive officer and completion of the overlapping contract with the former executive officer.

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 are no fire proposals on file with LAFCO and staff continues to process the proposals and service contracts on file, as well as the Fire/EMS/Ambulance/Dispatch service review.

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

Staff will be happy to answer any questions from the Commission prior to or at the hearing regarding the items presented in this report.

SM/MT

Attachments:

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