

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

1170 West Third Street, Unit 150, San Bernardino, CA 92415-0490
(909) 388-0480 • Fax (909) 388-0481
lafco@lafco.sbcounty.gov
www.sbclafco.org

DATE: JANUARY 9, 2019 
FROM: SAMUEL MARTINEZ, Executive Officer
MICHAEL TUERPE, Project Manager
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #9: Mid-Year Financial Review for Period
July 1 through December 31, 2018

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of this report and file.
2. Provide direction to staff on items of concern for the second half.

BACKGROUND:

The first two quarters of Fiscal Year 2018-19 have concluded and staff is presenting the Commission with its second 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 for the first half of the year.

MID-YEAR 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.

Expenditures and Reserves

Expenditures are comprised of two categories of accounts: 1) Salaries and Benefits, and 2) Services and Supplies. Through the mid-year, total expenditures are at 54% 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. Mid-Year Activity

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$439,076 through the mid-year, representing 52% of Approved Budget authority. The increase of two percentage points over the 50% benchmark is primarily explained by the former executive officer's contract continuing through the first quarter, and ceasing 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. Mid-Year Activity

For the first and second quarters, the Services and Supplies series of accounts (2000 and 5000 series) had expenditures of \$264,490, or 57% of Approved Budget authority. The first half includes full-year and one-time payments such as the Commission's property and liability insurance.

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 Commission also previously authorized increased security measures for the office front door, which totaled \$6,491.

The first half included unanticipated or unbudgeted legal activity totaling \$29,219, which are outlined below. This has pushed the Legal Counsel Account 2400 to 137% 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 third quarter 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 mid-year total \$19,120.

- 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 matters. Payments made through the mid-year total \$9,019.

B. Second Half Anticipated Expenditures

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

- Office lease and related costs totaling \$54,021.
- In July the Commission authorized \$15,000 to scan the backlog of closed files. The project is nearing completion, with a total cost of \$10,431. These costs will be incurred during the third quarter, and an update of the project is discussed later in this report.
- Full-year payments for the annual financial audit (\$11,018). This total cost includes the independent auditor and costs passed on from SBCERA related to GASB 68 reporting. This is the third year of a four-year contract with the firm Davis Farr LLP.
- Governance Training Program, the remaining costs should not exceed \$2,500. An update of the project is discussed later in this report.
- Significant payments for the processing of proposals and countywide fire service review (legal costs, advertising and mailing) are anticipated.
- Strategic Planning Workshop. Total costs for consultant contract, commissioner stipends, legal counsel, facility fee, and food/drink should not exceed \$8,500.

At this time staff is not recommending any budget adjustments; rather, as a part of the third quarter 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.

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 files have been scanned and imported into the digital archive program. The last phase is to ship the boxes to storage. The total cost for the project is \$10,431. In the end, the deliverable was on-time and under budget.

*Countywide Service Review for Fire/Emergency Medical Response/
Ambulance/Dispatch:*

The third service review of the second round is underway. Staff has formulated a project charter outlining: goals, the scope and format of the deliverable, strategy and methodology, personnel and roles, milestones, budget, communication plan, and constraints, assumptions, risks, and dependencies. Significant portions of the report have been written to include: introduction and methodology, review of all fire reorganizations since 2008, and financial review.

To date, staff has met with the following entities:

- San Bernardino County Fire Chiefs Association. At the request of LAFCO staff, the Fire Chiefs Association has formed an advisory group to guide LAFCO staff through the technical aspects of the service. In early February, LAFCO staff will send a survey/questionnaire to each fire agency.
- Inland Counties Emergency Medical Agency. LAFCO and ICEMA staffs have met and another session is scheduled for late January.
- San Bernardino County Dispatch Review Committee. LAFCO staff met with the Dispatch Committee to discuss the service review. No additional meetings are anticipated.

The next few months will focus on the services that the individual agencies provide, to be followed by observations and recommendations.

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. The first course, *Customer Service in the Public Sector*, was taught to a packed house at the Frontier Project in Rancho Cucamonga. Staff has canceled the *LAFCO 101* course, originally scheduled for January 24, due to low enrollment. We will attempt to reschedule the session at a more opportune time.

The remaining program schedule for 2018-19 is as follows:

Policy and Procedure Writing

March 13, 2019
10am – noon

Mojave Water Agency
13846 Conference Center Drive
Apple Valley, CA 92307

A well-written policy and procedure manual can improve your agency by establishing clear guidelines, setting goals, and communicating organizational knowledge. This presentation will assist staff members to construct their own policies and procedures to meet today's ever-changing statutory requirements.

Fiscal Indicators:

The annual update to the fiscal indicators program has commenced. LAFCO staff has received each agency's audit and work has begun inputting the data into the program.

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 through the mid-year. At this time staff is not recommending any budget adjustments; rather, as a part of the third quarter financial review staff will recommend the appropriate budget adjustments, if necessary.

Revenues

1. Revenues through Mid-Year

The Commission has received 94% of Adopted Budget revenues through the mid-year. 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. \$6,193 in interest revenue was earned from the Commission's cash in the County Treasury. 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. One district inadvertently paid twice, and LAFCO will issue a refund in January.
- Fees and Deposits (Accounts 9545 – 9800) – Through the first quarter, the Fees and Deposits series of accounts have received 43% of its budgeted revenue (\$61,329). 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. Projected Remaining Activity

Staff has been in discussion with potential applicants regarding significant reorganizations, to include a CSD formation with CSA dissolution, two proposals with district annexation with CSA dissolution, and three service contracts. The total for these applications totals \$57,200.

3. Proposal Activity

The figure below identifies the number of proposals and service contracts received through the mid-year. The figure identifies that zero proposals and ten service contracts were received in the first half. The Commission has initiated two proposals: (1) zero sphere designation for County Service Area 120, and (2) as a part of the *Countywide Service Review for Wastewater* in August, 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 December | |
|---|--------|------------------|-------------|
| | | No. | % of Budget |
| Proposals - Agency/LO/RV initiated | 9 | 0 | 0% |
| Proposals - Commission initiated | -- | 2 | -- |
| Service Contracts - Commission approval | 2 | 5 | 250% |
| Service Contracts - Commission approval for exemption | 0 | 2 | -- |
| Service Contracts - Admin (E.O.) approval | 4 | 3 | 75% |
| Protest Hearing Deposits | 6 | 0 | 0% |

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

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 Response/Ambulance/Dispatch*.

Fund Balance

As of December 31, the Commission's cash in the County Treasury was \$970,221. A breakdown of this amount is shown below. The projections result in a deficit of roughly \$27,000. As a part of the third quarter budget update in April, staff will refine this figure with an update on activity. Based upon this refinement, future actions may be required for the Commission to close this gap.

However, in July 2018, the Commission approved increases to the Contingency account of \$34,852 and General Reserve of \$64,392. The funds placed into Contingency are available for general operations should the deficit remain at year's end.

| | |
|---|-------------------|
| December 31, 2018 Balance | \$970,221 |
| 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), <i>July 2018 increase of \$34,852</i> | 50,000 |
| General Reserve (Account 6025), <i>July 2018 increase of \$64,392</i> | 150,000 |
| <i>Projected Expenditures</i> | 581,672 |
| <i>Projected Revenues (shown as negative)</i> | (61,010) |
| <i>Accounts Payable/(Receivable)</i> | (5,845) |
| Carryover or (Deficit) | (\$26,936) |

CONCLUSION:

Through the first half of the year, expenditures are generally in line with first half activities, but revenues have not met mid-year targets. To date, zero proposals have been received. Based upon talks with agencies, staff projects three significant proposals for the second half.

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](#)