

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: APRIL 10, 2019
FROM: SAMUEL MARTINEZ, Executive Officer
MICHAEL TUERPE, Project Manager
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #11: Third Quarter Financial Review for FY 2018-19

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of this report and file.
2. Authorize the Executive Officer to submit payment of \$184,963 from Account 6010 (Net Pension Liability Reserve) to the San Bernardino County Employees Retirement Association by June 30, 2019 as a credit towards LAFCO's Net Pension Liability.
3. Provide direction to staff on items of concern for the remainder of the year.

BACKGROUND:

The first three quarters of Fiscal Year 2018-19 have concluded and staff is presenting the Commission with its third financial report. This report includes a review of the financial activities and the presentation of a spreadsheet showing the line item expenditures and receipts for the first half of the year. But first, the opportunity is now available to reduce LAFCO's Net Pension Liability.

NET PENSION LIABILITY:

In 2014 LAFCO inquired with the San Bernardino County Employees Retirement Association ("SBCERA") whether LAFCO could contribute funds to reduce its Net Pension Liability ("NPL"). At that time, the response was that the mechanisms were not in place for LAFCO to contribute outside of the per-pay period contribution. Nonetheless, the

Commission prudently adopted a Reserve Policy which included setting aside funds for future payment towards its NPL. The policy in part reads as follows:

The Commission will require the maintenance of three separate reserves which shall be funded as a part of the annual budget adoption process as follows:

...

C. A committed reserve account shall set aside funds for future payment of the Commission's net pension liability to the San Bernardino County Employees Retirement Association (SBCERA).

As a part of the FY 2019-20 budget process, LAFCO staff inquired with SBCERA once again. To LAFCO's benefit, SBCERA has responded that a mechanism is now in place for an agency to contribute an annual payment to SBCERA. It is staff's understanding that SBCERA's actuary runs the Unfunded Actuarial Accrued Liability ("UAAL") for the plan based on a June 30 measurement date. As long as SBCERA receives LAFCO's payment by June 30, for that plan year the actuary would recalculate LAFCO's NPL based upon the credits made.

Therefore, staff recommends that the Commission contribute the funds in the Net Pension Liability Reserve (currently \$184,963) to SBCERA by June 30, 2019. It would be best not to make an early contribution so LAFCO benefits from interest earnings. Thereafter, a contribution would be made annually by June 30 until the NPL is nil.

Staff also has requested the SBCERA Chief Financial Officer, Amy McInerny, to attend this month's hearing to respond to questions.

THIRD 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.

Expenditures and Reserves

Expenditures are comprised of two categories of accounts: 1) Salaries and Benefits, and 2) Services and Supplies. Through the third quarter, total expenditures are at 80% 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. Activity through Q-3

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$645,106 through the third quarter, representing 77% of Approved Budget authority. The increase of two percentage points over the 75% 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 anticipates maintaining the adopted budget.

2. Services and Supplies (2000 and 5000 series)

A. Activity through Q-3

For the first three quarters, the Services and Supplies series of accounts (2000 and 5000 series) had expenditures of \$397,030 or 86% of Approved Budget authority.

To date, unanticipated or unbudgeted legal activity totals roughly \$55,000, which are outlined below. This has pushed the Legal Counsel Account 2400 to 260% 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 year-end 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 third quarter total roughly \$46,000.
- 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 third quarter total roughly \$9,000.

B. Anticipated Activity

Outside of legal counsel activity, staff is not anticipating any additional significant activity. At this time staff is not recommending any budget adjustments; rather, as a part of the year-end 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:

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

The third service review of the second round is underway. Significant portions of the report have been written to include: introduction and methodology, review of all fire reorganizations since 2008, and financial review. Staff has met with the San Bernardino County Fire Chiefs Association, Inland Counties Emergency Medical Agency, and San Bernardino County Dispatch Review Committee. In March a questionnaire and survey were sent to all fire chiefs within the county. The report is incorporating the information received.

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

- *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. Staff is working towards a summer release date.

3. Reserves (6000 series)

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

Revenues

1. Revenues through the Third Quarter

The Commission has received 95% 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 nine proposals. One proposals were received though April 9. The figure below identifies the number of proposals (one) and service contracts (12) received through April 9.

Activity through April 9, 2019			
Activity	Budget	Through January	
		No.	% of Budget
Proposals - Agency/LO/RV initiated	9	1	11%
Proposals - Commission initiated	--	2	--
Service Contracts - Commission approval	2	7	350%
Service Contracts - Commission approval for exemption	0	2	--
Service Contracts - Admin (E.O.) approval	4	3	75%
Protest Hearing Deposits	6	0	0%

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 \$64,750 in revenue for the final quarter, to include:

- Receipt of limited interest payments for the remaining quarter (\$3,400).
- Receipt of four proposals with the full complement of fees and deposits (\$61,350). These are tangible proposals with an imminent initiation by the applicants. If the proposals are not received by year's end, they would be received shortly after the start of FY 2019-20.

Based upon the recommended Amended Budget, Total Revenues are projected to end the year at 98% of the current budget authority.

Fund Balance

As of March 31, the Commission's cash in the County Treasury was \$654,296. A breakdown of this amount is shown below. As shown, at this time a \$29,889 deficit is projected for year-end.

March 31, 2019 Balance	\$654,296
Cash Balance is composed of the following:	
Committed (constrained to specific purposes)	
Net Pension Liability Reserve (Account 6010)	184,963
Compensated Absences Reserve (Account 6030)	97,377
Assigned (intended for specific purposes)	
Contingency (Account 6000), July 2018 increase of \$34,852	50,000
General Reserve (Account 6025), July 2018 increase of \$64,392	150,000
Projected Expenditures	266,595
Projected Revenues (shown as negative)	(64,750)
Accounts Payable/(Receivable)	-
Carryover or (Deficit)	(\$29,889)

CONCLUSION:

This year's budget has encountered activities, or lack of, that have stressed the Commission's finances. First, significant legal charges were incurred, the vast majority of which are recoverable. Second, the receipt of proposals dropped precipitously to a low level, which results in fewer revenue receipts. The budget anticipated nine proposals for the year; however, through April 9, one proposal has been received. Based upon talks with agencies, staff projects an additional four proposals in the remaining months, for a total of five for the year.

At this time staff is not recommending any budget adjustments; rather, as a part of the year-end financial review staff will recommend the appropriate budget adjustments

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

Attachment:

Spreadsheet of Expenditures, Reserves, and Revenues

Spreadsheet of Expenditures, Reserves and Revenues

Attachment 1

4/8/2019

ACCT. #	ACCOUNT NAME	ADOPTED BUDGET MAY 2018	AMENDED BUDGET JULY 2018	MID-YEAR	JAN 3 pay periods	FEB	MAR	THRU 3rd Quarter	PERCENT OF BUDGET	PROJECTED REMAINING	PROJECTED YEAR-END	PERCENT OF BUDGET
SALARIES AND BENEFITS												
1010	Regular Salary and Bilingual	\$ 632,018	\$ 442,774	\$ 272,962	\$ 52,042.21	\$ 34,694.81	\$ 36,498.20	\$ 396,197	89%	\$ 108,644	\$ 504,841	114%
1030	Auto and Cell Phone Allowances	21,577	21,577	11,969	1,684.62	1,123.08	1,123.08	15,900	74%	3,923	19,823	92%
1035	Overtime											
1045	Termination Payment											
1110	General Member Retirement	216,127	216,127	85,763	19,704.00	13,136.00	13,780.64	132,383	61%	41,250	173,633	80%
1130	Survivors Benefits	268	268	90	20.40	13.60	13.60	138	51%	41	179	67%
1135	Retirement Subsidy (no longer active)			1,995				1,995			1,995	
1200	Health Insurance Subsidy	63,515	63,515	26,908	6,245.13	4,163.42	4,163.42	41,480	65%	11,685	53,165	84%
1205	Long-Term Disability	1,528	1,528	533	123.03	82.02	82.56	821	54%	248	1,069	70%
1207	Vision Care Insurance	986	986	393	89.85	59.90	59.90	602	61%	180	782	79%
1215	Dental Insurance Subsidy	1,476	1,476	615	141.90	94.60	94.60	946	64%	284	1,230	83%
1222	Short-Term Disability	5,866	5,866	2,431	586.83	392.58	395.06	3,805	65%	1,160	4,965	85%
1225	Social Security Medicare	7,883	7,883	3,506	630.70	420.46	430.43	4,988	63%	1,283	6,271	80%
1235	Workers' Compensation	6,551	6,551	3,019				3,019	46%	1,104	4,123	63%
1240	Life Insurance & Medical Trust Fund	10,371	10,371	4,551	1,082.52	721.68	724.78	7,080	68%	2,355	9,435	91%
1305	Medical Reimbursement Plan	8,183	8,183	1,950	450.00	300.00	300.00	3,000	37%	2,172	5,172	63%
1310	Annuitant Employee Medical (no longer active)	3,301	3,301	3,774				3,774	114%		3,774	114%
1314	457/401a LAFCO Contribution	3,687	3,687	1,316	317.40	211.60	214.00	2,059	56%	713	2,772	75%
1315	401k Contribution	45,268	45,268	17,303	4,099.14	2,732.76	2,785.58	26,921	59%	8,281	35,202	78%
TOTAL SALARIES & BENEFITS		\$ 1,028,605	\$ 839,361	\$ 439,076	\$ 87,217.73	\$ 58,146.51	\$ 60,665.85	\$ 645,106	77%	\$ 183,324	\$ 828,430	99%
	Staffing (Full time equivalent units)	5	5									
SERVICES AND SUPPLIES												
Services:												
2035	Communications											
2037	COMNET Charge (ISF)	\$ 3,504	\$ 3,504	\$ 1,553.76	\$ 291.33	\$ 291.33	291.33	\$ 2,428	69%	\$ 874	\$ 3,302	94%
2038	Long Distance Charges											
2040	Relocation Charges - Phone Service							-				
2041	Phone Service/Outside Company	8,813	8,813	3,583	1,638.88		1,475.41	6,697	76%	2,100	8,797	100%
2043	Electronic Equipment Maintenance	3,236	3,236	-			92.47	92	3%	-	92	3%
2075	Membership Dues	10,426	10,426	10,303				10,303	99%	-	10,303	99%
2076	Tuition Reimbursement	2,000	2,000	-				-	0%	-	-	0%
2080	Publications	3,187	3,187	1,444	218.08		436.16	2,098	66%	992	3,090	97%
2085	Legal Notices	17,250	17,250	15,443	523.60	858.83	523.60	17,349	101%	3,375	20,724	120%
2090	Building Expense	7,000	7,000	3,176	800.50	475.00	490.00	4,941	71%	1,751	6,692	96%
2115	Computer Software	3,277	3,277	1,313		1,741.32		3,054	93%	-	3,054	93%
2125	Inventoriable Equipment											
2130	Moving Expenses											
2180	Electricity for Office	4,356	4,356	931	969.93	516.84	521.88	2,939	67%	1,500	4,439	102%
2182	Electricity			959	(958.77)			-			-	
2195	Reimbursement Services and Supplies											
2245	Other Insurance	9,965	9,965	14,238				14,238	143%	50	14,288	143%

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	Supplies:											
2305	General Office Expense	5,834	5,834	2,949	1,054.32		678.22	4,681	80%	1,450	6,131	105%
2308	Credit Card Clearing Account			(2,269)	(1,273.50)	988.48	(988.48)	(3,542)			(3,542)	
2309	Visa Temp Card											
2310	Postage - Direct Charge	6,656	6,656	3,547	346.12	642.99	766.03	5,302	80%	2,100	7,402	111%
2315	Records Storage	715	715	298	59.62	197.22	123.99	679	95%	179	858	120%
2316	Surplus Handling											
2323	Reproduction Services			77				77			77	
2335	Temporary Services		15,000.00	354		345.00		699	5%	-	699	5%
	Consultant & Special Services:											
2400	Legal Counsel	39,300	39,300	54,025		21,012.87	12,127.76	87,166	222%	15,000	102,166	260%
2405	Auditing	11,019	11,019	-	6,500.00		1,500.00	8,000	73%	3,019	11,019	100%
2410	Data Processing	12,851	12,851	6,426	1,071.00	1,071.00	1,071.00	9,639	75%	3,213	12,852	100%
2415	COWCAP	10,109	10,109	5,055		2,527.25		7,582	75%	2,527	10,109	100%
2420	ISD Other IT Services	225	225	168	18.72	18.72	18.72	225	100%	225	450	200%
2421	ISD Direct	18,755	18,755	7,992	1,346.40	1,346.40		10,685	57%	4,039	14,724	79%
2424	Environmental Consultant	7,350	7,350	5,770	50.00		2,820.00	8,640	118%	1,850	10,490	143%
2444	Security Services	468	468	234		123.00		357	76%	117	474	101%
2445	Other Professional Services	43,561	118,561	49,590	17,254.68	6,127.33	8,463.00	81,435	69%	8,332	89,767	76%
2449	Outside Legal (Litigation & Special Counsel)			3,216				3,216		-	3,216	
2450	Application Development Support	200	200	-				-	0%	-	-	0%
2460	GIMS Charges	16,170	16,170	13,518				13,518	84%	-	13,518	84%
	Lease/Purchases:											
2895	Rent/Lease Equipment (copier)	4,800	4,800	2,704	885.43	459.27	434.93	4,483	93%	1,350	5,833	122%
2905	Office/Hearing Chamber Rental	99,212	99,212	49,272	23,894.80	405.00	405.00	73,976	75%	24,975	98,952	100%
	Travel Related Expenses:											
2940	Private Mileage	6,010	6,010	2,700	956.75	365.32	236.43	4,259	71%	869	5,128	85%
2941	Conference/Training	5,330	5,330	4,446		720.00		5,166	97%	720	5,886	110%
2942	Hotel	7,920	7,920	4,945	301.28	156.38		5,402	68%	1,260	6,662	84%
2943	Meals	1,735	1,735	285	35.54		30.06	351	20%	405	756	44%
2944	Car Rental	200	200	-				-	0%	-	-	0%
2945	Air Travel	800	800	259	248.96			508	63%	500	1,008	126%
2946	Other Travel	400	400	62	41.50			104	26%	200	304	76%
	Other Charges:											
5012	Services Out (Staples)	1,200	1,200	264.94			18.35	283	24%	300	583	49%
	TOTAL SERVICES & SUPPLIES	\$ 373,835	\$ 463,835	\$ 268,829	\$ 56,275.17	\$ 40,389.55	\$ 31,535.86	\$ 397,030	86%	\$ 83,271	\$ 480,301	104%
	TOTAL EXPENDITURES	\$ 1,402,440	\$ 1,303,196	\$ 707,905	\$ 143,492.90	\$ 98,536.06	\$ 92,201.71	\$ 1,042,136	80%	\$ 266,595	\$ 1,308,731	100%

4/8/2019

ACCT. #	ACCOUNT NAME	ADOPTED BUDGET MAY 2018	AMENDED BUDGET JULY 2018	MID-YEAR	JAN 3 pay periods	FEB	MAR	THRU 3rd Quarter	PERCENT OF BUDGET	PROJECTED REMAINING	PROJECTED YEAR-END	PERCENT OF BUDGET
	RESERVES											
6000	Contingency	\$ 20,442	\$ 50,000	\$ -				\$ -	0%			
6010	Net Pension Liability Reserve	184,963	184,963	-				-	0%			
6025	General Reserve - Litigation	85,608	150,000	-				-	0%			
6030	Compensated Absences Reserve	97,377	97,377	-				-	0%			
	TOTAL CONTINGENCIES & RESERVES	\$ 388,390	\$ 482,340	\$ -	\$ -	\$ -	\$ -	\$ -	0%	\$ -	\$ -	0%
	TOTAL APPROPRIATION	\$ 1,790,830	\$ 1,785,536	\$ 707,905	\$ 143,492.90	\$ 98,536.06	\$ 92,201.71	\$ 1,042,136	58%	\$ 266,595	\$ 1,308,731	73%

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CONTRIBUTION REVENUES												
Use of Money:												
8500	Interest	\$ 11,000	\$ 11,000	\$ 6,193	\$ 5,600.63			\$ 11,794	107%	\$ 3,400	\$ 15,194	138%
Mandatory Contribution from Governments:												
8842	Local Government -- For FY 2018-19 apportionment to County, Cities, and Independent Special Districts (\$368,499 total for each category)	1,105,497	1,105,497	1,110,687	(5,190.00)			1,105,497	100%		1,105,497	100%
Fees and Deposits (Current Services):												
9545	Individual Notice	6,700	6,700	3,816	700.00	1,000.00		5,516	82%	4,700	10,216	152%
9555	Legal Services	18,000	18,000	36,294	1,161.00	9,073.95	4,129.44	50,658	281%	8,000	58,658	326%
9595	Protest Hearing	7,200	7,200	-	1,500.00			1,500	21%	1,500		0%
9655	GIMS Fees	6,370	6,370	-	825.00			825	13%			0%
9660	Environmental	7,000	7,000	5,219	700.00	700.00		6,619	95%	4,400	11,019	157%
9800	LAFCO Fees	96,830	96,830	16,000	1,000.00	1,000.00		18,000	19%	42,750	60,750	63%
Total Fees and Deposits		142,100	142,100	61,329	5,886.00	11,773.95	4,129	83,118	58%	61,350	140,643	99%
TOTAL CONTRIBUTION REVENUES		1,258,597	1,258,597	1,178,209	6,296.63	11,773.95	4,129.44	1,200,409	95%	64,750	1,261,334	100%
OTHER REVENUES												
9910	Prior Year Activity (refunds, collections)	\$ 13,999	\$ 13,999	(373)				(373)	-3%		(373)	-3%
9930	Miscellaneous Revenues	2,000	2,000	10	44.62			55	3%		55	3%
9970	Carryover of Open Proposals/Projects	15,000	15,000	(50)				(50)	0%		(50)	0%
9970	Carryover from Prior Year, Assigned			50				50			50	
9973	State-dated Checks					400.00		400			400	
TOTAL OTHER REVENUES		30,999	30,999	(363)	44.62	400.00	-	82	0%	-	82	0%
TOTAL REVENUES		\$ 1,289,596	\$ 1,289,596	\$ 1,177,846	\$ 6,341.25	\$ 12,173.95	\$ 4,129.44	\$ 1,200,491	93%	\$ 64,750	\$ 1,261,416	98%
RESERVES FROM PRIOR YEAR, as of July 1												
9970	Contingency	63,077	57,783	57,783				57,783	100%		57,783	100%
9970	Net Pension Liability Reserve	148,450	148,450	148,450				148,450	100%		148,450	100%
9970	General Reserve - Litigation	200,000	200,000	200,000				200,000	100%		200,000	100%
9970	Compensated Absences Reserve	89,708	89,708	89,708				89,708	100%		89,708	100%
TOTAL RESERVES FROM PRIOR YEAR		\$ 501,235	\$ 495,941	\$ 495,941	\$ -	\$ -	\$ -	\$ 495,941	100%	\$ -	\$ 495,941	100%
TOTAL REVENUE AND RESERVES		\$ 1,790,831	\$ 1,785,537	\$ 1,673,787	\$ 6,341.25	\$ 12,173.95	\$ 4,129.44	\$ 1,696,432	95%	\$ 64,750	\$ 1,757,357	98%
Note: Spreadsheet utilizes the cash basis of accounting and does not include accrual/reversal data which do not affect fund balance.												