

# AGENDA

## LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NORTON REGIONAL EVENT CENTER  
1601 EAST THIRD STREET, SAN BERNARDINO

REGULAR MEETING OF FEBRUARY 20, 2019

### 9:00 A.M. – CALL TO ORDER – FLAG SALUTE

1. Swear In Regular County Commissioner – Dawn Rowe
2. **PUBLIC COMMENTS ON CLOSED SESSION**
3. **CONVENE CLOSED SESSION** – Conference Room Adjacent to Event Center Auditorium:
  - Conference with Legal Counsel - Existing Litigation (Government Code Section 54956.9(d)(1)) -- San Antonio Heights Association v. County of San Bernardino et al, San Bernardino County Superior Court Case No CIVDS1715504
  - Conference with Legal Counsel - Existing Litigation (Government Code Section 54956.9(d)(1)) -- San Antonio Heights Association v. County of San Bernardino et al, San Bernardino County Superior Court Case No CIVDS1712771
  - Conference with Legal Counsel - Significant Exposure to Litigation (Government Code Section 54956.9(d)(2)) -- Number of Potential Cases: Five (5)
4. **RECONVENE PUBLIC SESSION**

### **CONSENT ITEMS:**

The following consent items are expected to be routine and non-controversial and will be acted upon by the Commission at one time without discussion, unless a request has been received prior to the hearing to discuss the matter.

5. [Approval of Minutes for Regular Meeting of January 16, 2019 and Strategic Planning Workshop of January 22, 2019](#)
6. [Approval of Executive Officer's Expense Report](#)
7. [Ratify Payments as Reconciled and Note Cash Receipts for Month of December 2018](#)
8. Consent Items Deferred for Discussion

### **DISCUSSION ITEMS:**

9. [Review and Accept Audit Report for Fiscal Year Ended June 30, 2018](#)

10. [Update on LAFCO 3187 -- Countywide Service Review for Water, Required Continued Monitoring for:](#)
  - a. [Daggett Community Services District](#)
  - b. [County Service Area 70 Zone W-4 \(Pioneertown\)](#)
  
11. [Update on LAFCO 3190 -- Countywide Service Review for Wastewater, Required Continued Monitoring for:](#)
  - a. [City of Victorville/Victorville Water District](#)
  - b. [Victor Valley Wastewater Reclamation Authority](#)
  
12. [Report on Strategic Planning Workshop of January 22, 2019](#)

**INFORMATION ITEMS:**

13. Legislative Update Oral Report
  
14. Executive Officer's Oral Report
  
15. Commissioner Comments  
(This is an opportunity for Commissioners to comment on issues not listed on the agenda, provided that the subject matter is within the jurisdiction of the Commission and that no action may be taken on off-agenda items unless authorized by law.)
  
16. Comments from the Public  
(By Commission policy, the public comment period is limited to five minutes per person for comments related to other items under the jurisdiction of LAFCO not on the agenda.)

The Commission may adjourn for lunch from 12:00 to 1:30 p.m. The Commission may take action on any item listed in this Agenda whether or not it is listed for Action. In its deliberations, the Commission may make appropriate changes incidental to the above-listed proposals.

Materials related to an item on this Agenda submitted to the Commission or prepared after distribution of the agenda packet will be available for public inspection in the LAFCO office at 1170 West Third Street, Unit 150, San Bernardino, during normal business hours, on the LAFCO website at [www.sbclafo.org](http://www.sbclafo.org), and at the hearing.

Current law and Commission policy require the publishing of staff reports prior to the public hearing. These reports contain technical findings, comments, and recommendations of staff. The staff recommendation may be accepted or rejected by the Commission after its own analysis and consideration of public testimony.

IF YOU CHALLENGE ANY DECISION REGARDING ANY OF THE ABOVE PROPOSALS IN COURT, YOU MAY BE LIMITED TO RAISING ONLY THOSE ISSUES YOU OR SOMEONE ELSE RAISED DURING THE PUBLIC TESTIMONY PERIOD REGARDING THAT PROPOSAL OR IN WRITTEN CORRESPONDENCE DELIVERED TO THE LOCAL AGENCY FORMATION COMMISSION AT, OR PRIOR TO, THE PUBLIC HEARING.

The Political Reform Act requires the disclosure of expenditures for political purposes related to a change of organization or reorganization proposal which has been submitted to the Commission, and contributions in support of or in opposition to such measures, shall be disclosed and reported to the same extent and subject to the same requirements as provided for local initiative measures presented to the electorate (Government Code Section 56700.1). Questions regarding this should be directed to the Fair Political Practices Commission at [www.fppc.ca.gov](http://www.fppc.ca.gov) or at 1-866-ASK-FPPC (1-866-275-3772).

A person with a disability may contact the LAFCO office at (909) 388-0480 at least 72-hours before the scheduled meeting to request receipt of an agenda in an alternative format or to request disability-related accommodations, including auxiliary aids or services, in order to participate in the public meeting. Later requests will be accommodated to the extent feasible.

1/29/19:as

**DRAFT - ACTION MINUTES OF THE  
LOCAL AGENCY FORMATION COMMISSION  
HEARING OF JANUARY 16, 2019**

**REGULAR MEETING**

**9:00 A.M.**

**JANUARY 16, 2019**

**PRESENT:**

**COMMISSIONERS:**

<b>Regular Member</b>	<b>Alternate Member</b>
<b>Jim Bagley</b>	<b>Louisa Amis</b>
<b>Kimberly Cox</b>	<b>Steven Farrell</b>
<b>James Curatalo, Vice Chair</b>	<b>Janice Rutherford</b>
<b>Robert Lovingood, Chair</b>	
<b>Larry McCallon</b>	
<b>Acquanetta Warren</b>	

**STAFF:**

**Samuel Martinez, Executive Officer  
Paula de Sousa Mills, LAFCO Legal Counsel  
Michael Tuerpe, Project Manager  
Jeffrey Lum, LAFCO Analyst  
La Trici Jones, Clerk to the Commission  
Angerose Schell, Administrative Assistant**

**ABSENT:**

**COMMISSIONERS:           None**

**CONVENE REGULAR SESSION OF THE LOCAL AGENCY FORMATION COMMISSION  
– CALL TO ORDER – 9:11 A.M. – NORTON REGIONAL EVENT CENTER**

Vice-Chair Curatalo calls the regular session of the Local Agency Formation Commission to order and leads the flag salute.

**ANNOUNCEMENT OF CONTRIBUTIONS**

Vice-Chair Curatalo requests those present who are involved with any of the changes of organization to be considered today by the Commission and have made a contribution of more than \$250 within the past 12 months to any member of the Commission to come forward and state for the record their name, the member to whom the contribution was made, and the matter of consideration with which they are involved.

There were none.

**ITEM 1.**           Swear in Regular City Commissioner – Acquanetta Warren, City of Fontana

Ms. La Trici Jones, Clerk to the Commission, administers the Oath of Office to City of Fontana Mayor Acquanetta Warren, Regular City Member. Ms. Warren will serve the unexpired Term of Office for Ms. Dianne Williams, expiring in May 2020.

**ITEM 2.** Selection of Chair to Complete the Term Ending May 2019

Executive Officer Samuel Martinez states that selection is to complete the term that Mr. Ramos vacated since he was elected to the State Assembly. Mr. Martinez opens the nominations for LAFCO Chair.

Commissioner Cox nominates Supervisor Lovingood. She states that it only seems fitting that since the position was vacated by a Supervisor that the Commission appoint another Supervisor to take the Chairmanship.

Commissioner Rutherford seconds the motion.

Vice-Chair Curatalo requests to close the nominations and for the question to be called on Supervisor Lovingood's nomination as LAFCO Chair.

Commissioner Cox moves the selection of Supervisor Lovingood as LAFCO Chair, Second by Commissioner Rutherford. There being no opposition, the motion passes with the following roll call vote: Ayes: Bagley, Cox, Curatalo, Lovingood, McCallon, Rutherford and Warren. Noes: None. Abstain: None. Absent: None

**CONSENT ITEMS – STAFF RECOMMENDATION APPROVED**

The following consent items are expected to be routine and non-controversial and will be acted upon by the Commission at one time without discussion, unless a request has been received prior to the hearing to discuss the matter.

**ITEM 3.** Approval of Minutes for Regular Meeting of December 5, 2018

**ITEM 4.** Approval of Executive Officer's Expense Report

**ITEM 5.** Ratify Payments as Reconciled and Note Cash Receipts for Month of November 2018

**ITEM 6.** Consent Items Deferred for Discussion

Chair Lovingood made an amendment to item #3. He states that the December 5, 2018 minutes reflect that he abstained on item #8, and the current notation has been marked as a yes instead of an abstention. He has requested that the minutes be corrected.

Commissioner Curatalo moves approval of the staff recommendation, Second by Commissioner Warren. There being no opposition, the motion passes with the following roll call vote: Ayes: Bagley, Cox, Curatalo, McCallon, Lovingood, Rutherford and Warren. Noes: None. Abstain: None. Absent: None

**PUBLIC HEARING ITEMS:**

**ITEM 7. CONSIDERATION OF: (1) CEQA STATUTORY EXEMPTION FOR LAFCO 3228; AND (2) LAFCO 3228 – REORGANIZATION TO INCLUDE ANNEXATION TO THE RUNNING SPRINGS WATER DISTRICT AND DETACHMENT FROM THE SAN BERNARDINO COUNTY FIRE PROTECTION DISTRICT AND ITS MOUNTAIN SERVICE ZONE (CONTINUED FROM OCTOBER 17, 2018 HEARING – CONTINUED TO HEARING ON MARCH 20, 2019)**

LAFCO conducts a continued public hearing to consider LAFCO 3228. Executive Officer Samuel Martinez presents the staff report, a complete copy of which is on file in the LAFCO office and made a part of the record by its reference here.

Executive Officer Martinez states that at the October hearing the item was continued primarily due to opposition presented by County Fire. He states that at that hearing, the Commission discussed options including County Fire continuing to overlay the area. He states that ultimately the Commission continued the item so staff could fully evaluate fire and emergency medical service delivery within the Pali-Mountain Camp and the hope that both agencies, County Fire and the Running Springs Water District, come to some sort of solution or an agreement.

Executive Officer Martinez states that in 2013, the property owners for Pali-Mountain requested sewer service from the Running Springs Water District and at the time, it was contemplated that the camp facility would annex into the District at some point in the future. He states that in early 2018, the property owner approached the District and asked to be annexed into the District, primarily because there would be a savings in their sewer bill of about six thousand dollars per year as a result of having a higher sewer rate when outside of the District. He states that the District shortly after adopted a resolution of application requesting that the area be annexed into the District. Mr. Martinez indicated that during the processing of the application, two additional parcels owned by the Crestline-Lake Arrowhead Water Agency were added to the overall reorganization area. He states that the Crestline-Lake Arrowhead Water District has since submitted its consent to the inclusion of the two parcels as part of the overall reorganization area.

Executive Officer Martinez states that after the October hearing, LAFCO staff organized a meeting with County Fire, Running Springs and property owner (who sent a representative). He states that meeting did not resolve any of the issues; however, both agencies agreed to leave the decision to the property owner and agreed to adhere to whatever decision the property owner would make, whether he wants to continue with County Fire or annex to Running Springs Water District. He also asked both agencies to provide information related to their service to the Pali-Mountain Camp site with regards to staffing and equipment as well as a listing of incident data for the last ten years,

Executive Officer Martinez also identified that during the previous County Fire reorganization in 2006, the County, on behalf of County Fire, did indicate its intent not to

oppose any annexations proposed within the respective spheres of existing independent districts as long as the normal property tax transfer takes place. He states that this area has been within the sphere of influence of the Running Springs Water District since, at least, the 1970s and is adjacent to the District's boundaries.

Executive Officer Martinez provides some additional background regarding the property tax exchange process, indicating that during the Departmental Review Committee Meeting for the proposal, the County Fire representative indicated, when asked by staff, that it would not be opposing the property tax transfer process, and that that County Fire would just identify its opposition to the proposal during the consideration of the item. This occurred at the October hearing. Mr. Martinez states that the proposal did go through the normal property tax transfer process, which was approved by the Board of Supervisors in August 2018. He states that the staff report includes an analysis of the fire service in the mountain region as well as a discussion of the mutual aid system that is currently in place. He states that LAFCO staff discusses the drive times from existing fire stations in the mountain region to the Pali-Mountain campsite.

Executive Officer Martinez discusses County Fire's response on its stations that would respond to the Pali-Mountain campsite including apparatus and staffing level information. He states that no incident data was provided by County Fire, however, it did acknowledge that all calls related to the Pali-Mountain campsite have been medical in nature. He then discusses Running Springs Water District's response. He states that the District provided a list of all its calls since 2008. He states that out of all 65 calls, 96% were medical related, and no calls were fire related.

Executive Officer Martinez outlines the fact that all mountain region fire agencies adhere to the State's Master Mutual Aid system and that all mutual aid requests go to the dispatch agency, ConFire, which is also the dispatch for County Fire, as well as the contract dispatch for Running Springs Water District.

He states that, for fire protection, while County Fire is the responsible agency, Running Springs Water District is always first on scene with County Fire providing back-up when necessary. He states that following annexation it will be the responsibility of Running Springs Water District which will continue to be first on scene and if additional help is needed, through mutual aid, County Fire will respond. He states that if County Fire cannot respond, CalFire, the US Forest Service and any other fire service agencies will respond. He states it will be the same exact response for emergency medical service. For ambulance service, he states that the reorganization area is already within the Exclusive Operating Area assigned to Running Springs Water District which will not change as a result of the reorganization. He also states that for dispatch, as identified earlier, both County Fire and Running Springs Water District uses ConFire, which will also not change as a result of the reorganization.

Executive Officer Martinez wrapped up his presentation by indicating that the property owner requested to be annexed to the Running Springs Water District and that LAFCO staff supports the reorganization request since the annexation is a logical boundary and is contiguous to the District. He states that County on behalf of County Fire indicated 12 years ago that it would not oppose the annexations within existing service providers as long as

said annexations were within existing spheres of influence for said agencies and that it would go through the normal property tax transfer process. He states that this is in the sphere of influence for the Running Springs Water District and has been since the 1970s and that the proposal went through the normal property tax transfer process. He states that in regard to the fire and emergency medical response services, there will be no change in service as a result of the reorganization since the District will continue to be the first on scene. He states that LAFCO staff is recommending that the Commission approve LAFCO staff's original recommendation for LAFCO 3228 as outlined in the staff report from October 2018 and outlined on page one of the staff report:

Chair Lovingood calls for Commissioner comment.

Commissioner Rutherford states that the 2006 letter was mentioned several times and would suggest that the County's position has changed since then as well as the entire model of fire service and emergency medical response. She states that the regional service model is perhaps inconsistent with the letter that was sent in 2006 and she believes that if the County had to rewrite the letter today, it would be worded differently, so she urges the Commission not to put all its eggs in that basket.

Vice-Chair Curatalo asks Executive Officer Martinez to explain in more detail the revenue that will move, and when it comes to certain services, like sewer services, can those rates be adjusted as needed or are they fixed?

Executive Officer Samuel Martinez states that because the camp is currently outside the District, the reason for the reduction in rates will be a result of the camp being annexed and therefore will now be charged the in-district rates. He states that usually rates already includes maintenance and the operation of the district. He states that the reduction in the sewer rates has nothing to do with the property tax transfer Running Springs Water District will receive through the property tax transfer.

Chair Lovingood states that he will open the hearing and hear from the agency representatives. He calls for Chief Hartwig's public comment.

Chief Hartwig states that this is a tough situation and issue because he feels as if the property owner is in a tough spot. He states he has realized, in conversation with the property owner, that this is not a fire and rescue or EMS issue. He states that this a sewer issue and there was never any concern from the property owner about fire, rescue and EMS. He states it was a desire to solidify better rates for sewer service. He states that this is completely understandable and he understands why the property owner would pursue this. He states that without taking the fire, rescue and EMS dollars that are dedicated for that regional service, the camp will not achieve the savings or have better rates for sewer service. He states that what it sets up is a conundrum for the fire district since this regional service model works well until you start moving revenue dedicated to that service to another pot or another service. He states that there is no current mutual aid agreement with the Running Springs Water District. He states that it was something that came up as County Fire was reviewing what it was doing. He states that mutual aid and dispatch is not a shared resource. He states that every agency is held to entering into agreements that provide mutual benefit to its neighbors and mutual aid agreements vary throughout the County of

San Bernardino and typically, it's based on a reciprocal offer of service. He states that one thing County Fire has found itself in the middle of is resources of County Fire being used inter-changeably without adherence to a mutual aid agreement, which puts him in a tough spot, to go back to the tax payers that are providing funding for that service, and explaining to them that it is the right thing to do. He states that the statement you can remove \$17,000 from the County Fire and expect the same service isn't a logical argument. He states that he is not going to tell the Commission that if children are injured or at risk, or lost; that County Fire wouldn't answer a call for help, but states there is a distinct difference between a responsibility to provide that service and being available for a request for service based on the availability of those services and, indicates that would be a change in service. He states that he does not believe that anyone disagreed in this process and in his conversations with his organization, his board and the property owner that there would be a significant change in the capability provided to the community and the camp at Pali-Mountain. He states that he understands the Commission is tasked with reorganizing to provide effective, efficient and capable public safety services. He states that this item does not appear, based on the fact that everything is good today the way it is, until you start shifting money and responsibility and it doesn't appear as if this proposal would do that.

Chair Lovingood calls for Chief Corley to address the Commission.

Chief Corley states that Running Springs Water District has been a full time fire department for over 50 years. He states that he feels as if the community is very happy with the service it provides. He states that Chief Hartwig talked about mutual aid and noted that the Running Springs Water District probably provides as much mutual aid to County Fire as County Fires does to the District. He states that the District has access to 3 snow cats and it has an MOU with CalFire, and explains that the engine that is not going to Pali-Mountain would now be going over there and this is the one at station #51, which is about 2 minutes away. He states that he does have the Chief of CalFire present with him today and he can speak about the MOU and the relationship that the District has with CalFire. He states that CalFire helps the District, and vice versa, and that CalFire goes to all responses within the District. He states that a typical response would include an engine, an ambulance and a squad for all incidents. He states that in the last 10 years, of the 65 incidents at Pali-Mountain; 63 of them were EMS/ambulance calls and the other 2 were investigations. He states that the District is able to respond to Pali Mountain, which is within its sphere of influence and he believes that nothing is going to change. He states that the District will still continue to provide the necessary emergency service in that area.

Chair Lovingood asks if there is additional public comment.

Commissioner Farrell states that in reading the staff report, there is a phrase on page 2 where the agencies met with a representative of the property owner, and the actual text says they agreed they would leave the decision to the property owner on whether fire protection and emergency medical response should stay with County Fire or transfer to Running Springs Water District. He states that he is wondering if that's an accurate representation of the meeting and the results of that because it that's the case the Commission is looking at a letter that says the property owner does want to move forward with the transfer.



Jason Balcome, property owner representative states that he has had the opportunity to talk with Chief Hartwig and Chief Corley. He states that the discussion is always safety because there are a lot of kids there and indicates that the camp wants to make sure it is taking care of the children. He states that the one thing it all came down to is response time versus response. He discusses the scenario of a lot of fire trucks come in 10 minutes or 1 fire truck getting there in 1 minute and is able to provide care. He states that ultimately it is their recommendation, being part of the community, to go ahead with the annexation to Running Springs Fire District. He states that they have been happy with the service from the County, but noted that when the Camp make that call; it is Running Springs Water District that is right there. He states that in discussion with the two agencies, they are confident in what Running Springs Water District will be able to provide.

Chair Lovingood asks if there is more public comment.

There is none.

Commissioner Rutherford states that it's a tough issue because she represents Running Springs and she loves the camp as she has a kid going to science camp in a couple weeks. She states that she wants him and his school mates to be safe. She states that this has been an issue of great contention in the community for many years and is primarily based around the water and sewer. She states that is how this application started and that's what this application is about. She states that fire has gotten lumped into it as an afterthought and this is not the primary interest of the property owner. She states that County Fire provides a regional fire service that provides emergency and rescue services across the entire mountain and needs to continue to be there and funded for that purpose for the safety of the kids at that camp. She states that she supports moving the water and the sewer services but leaving fire with County Fire and she is asking her colleagues for support of this.

Commissioner Cox states that she would like an understanding and explanation from staff or the chiefs for when Running Springs responds to these 65 calls at the camp, does County Fire compensate you for time and manpower?

Chief Corley states that the answer is no...He states that it's all based on mutual aid now; we help them and they help us.

Commissioner Cox asks Chief Corley would he estimate that they spend more than \$17,000 a year on their efforts to support the camp. She states that she understands that Chief Corley is in the fire department and not the sewer department, but asks what the district's sewer reserves are currently?

Ryan Gross, General Manager for Running Springs Water District comes to the podium and responds that the reserve fund balance for the sewer enterprise varies, but currently it's around \$450,000. He states that the \$17,000 property tax transfer that was already approved by the Board of Supervisors; will go to the fire service. He states that the District would have never applied for this proposal without fire service included. He states it was included from the beginning and if the Board decides to leave fire service out, he will need

to go back to his board, as he is sure they will want to withdraw the application all together and request a refund of the application fees that the property owner has already paid for.

Commissioner Cox asks how many sewer connections Running Springs has.

Mr. Gross states that it has just under 3,000.

Commissioner Cox asks what the annual revenue for sewer operations is.

Mr. Gross states for sewer operations is \$2.25 million for the sewer enterprise.

Commissioner Bagley asks if the \$17,000 property tax transfer is a general fund transfer or a dedicated transfer to fire service.

Executive Officer Samuel Martinez states that anytime taxes are transferred over, its general fund because it's an ad valorem tax.

LAFCO Legal Counsel Paula de Sousa Mills states that by policy the District can segregate and dedicate it if it so chooses.

Commissioner Bagley states that from the budgeting process, this just goes to the general fund, there's no specific allocation dedicated to fire services in perpetuity.

Executive Officer Martinez states that it is correct, but they also have their rates for their sewer for the enterprise funds. He states that the one thing he should emphasis in the reduction of fees, for the Pali-Mountain site is not as a result of them receiving the property tax transfer. He states that the property tax transfer is a result of the detachment, the reduction in fees is based on now, upon annexation, the camp will be charged the in-district fees. He states that it just so happens that they are getting additional monies based on the property tax transfer process.

Commissioner Cox states could there be a detachment from County Fire and the District forego the transfer of fees, therefore, County Fire's revenue stream would be kept whole, but Running Springs Water District would get the power to do what it is already doing.

Mr. Martinez states that as the County Fire Chief already stated, based on this analysis any reduction of fees, would be a reduction of service. Detachment would also mean that County Fire will not be the responsible agency. He states that this could happen anywhere and if this happens now, there would never be any annexation to any fire district since an annexation to a fire district will mean a detachment from County Fire and a detachment from County Fire will mean a reduction of service.

Commissioner Cox states, but there could be a transfer of service, without the tax revenue, correct?

Mr. Martinez states that because there is a detachment and Running Springs provides fire, it has to detach from the existing service provider.

Chair Lovingood asks if there are any other questions or statements from the Commission.

There is none.

Chair Lovingood states that he does not have any direct questions, but the way he looks at this is unique. He states that having been in this situation where he has seen first-hand and the requirement of really needing what County Fire has to provide to those in need that don't have the resources. He states that going through a couple real emergencies such as the incident on December 2<sup>nd</sup>, and County Fire took over the entire control scene. He states that if there is a true emergency, he appreciates everything that Running Springs does but it does not have the resources to manage it; not anything of such magnitude. He states that the staffing and personnel of County Fire is the closest and the biggest and the best services right next door. He states that these are his comments and he believes that Commissioner Rutherford had a motion.

Commissioner Rutherford states that she recommends that the Commission revise the staff recommendation and suggest that the Commission move forward with the annexation for sewer, but not the annexation of fire.

Executive Officer Martinez states that at the end of the staff report there is that option. He states that the Commission would modify LAFCO 3228, which would be the motion the Commission would have to make; removing the detachment from the San Bernardino County Fire Protection District and its Mountain Service Zone and continue the modified proposal to the Commission hearing on March 20, 2019 following the completion of the renegotiation of the property tax transfer process.

Commissioner Rutherford states then that would be her motion.

Commissioner Warren seconds the motion.

LAFCO Legal Counsel Paula de Sousa Mills states that this process is in Revenue and Taxation Code 99 (b)(7). She states that it provides that if the Commission modifies a proposal that any of the affected agencies may request the Executive Officer to grant 30 days to renegotiate the property tax transfer. If such a request is made the Executive Officer must grant the 30 days, and if the property tax transfer is renegotiated, the proposal would then come back to the Commission for it to make its final approval.

Commissioner Bagley states that this raises a bigger issue about the nature of spheres of influence and future annexations. He states whether the Commission is going to prohibit the transfer of fire service in the future. He states he looks at this and believes that if this was a smaller scale annexation to Running Springs Water District that he does not think the Commission would be having this discussion and it sets a bad precedent that the Commission now has an applicant that is willing to withdraw the application. He states that he is sensitive to the issue of fire becoming astronomically expensive to operate in California. He states that when there is the transfer of assets, he's aware that it has an impact, but he does not know if one can disproportionately burden a special district that wants to do an annexation by denying the agency the right to revenue for local control. He states that he does not want to obstruct the ability of the applicant from getting the sewer

service it wants. He states that if the property owner is in agreement and comfortable with the fire transferring to Running Springs Water District, he is okay with that, too. He states that he also understands what Chief Hartwig is saying that anytime you chip away at the ability to provide service, it has an impact. He states that is the nature of these annexations. He states that he is concerned that the Commission is setting a bad precedent.

Chair Lovingood asks if there are more comments.

Commissioner Farrell states that the alternative that the Commission is proposing is essentially asking Running Springs Water District, with no change in service to accept a loss because County Fire is not being detached. He states that basically Running Springs Water District is providing the same service and by approving this, the Commission is simply harming Running Springs Water District in the same way as the County might be harmed if the Commission did the detachment. He states that the Commission has a choice to either harm Running Springs Water District or harm County Fire. He states that he would echo Bagley's comments, "what are special districts for." He states that the Commission needs to recognize an agency's ability to move forward. He states that he would support the annexation as recommended by staff.

Chair Lovingood asks if there are more comments.

There is none.

Chair Lovingood calls for the reading of the roll.

Commissioner Bagley, No  
Commissioner Cox, No  
Commissioner Curatalo, Aye  
Commissioner Lovingood, Yes  
Commissioner McCallon, No  
Commissioner Warren, Aye  
Commissioner Rutherford, Aye

LAFCO Commission Clerk La Trici Jones states the vote as 4 – Aye, 3- No; the revised recommendations for LAFCO 3228 are approved.

Chair Lovingood states that he thanks staff for the presentation and states the Commission will move forward.

**ITEM 8.      CONSIDERATION OF: (1) REVIEW OF MITIGATED NEGATIVE DECLARATION PREPARED BY THE COUNTY OF SAN BERNARDINO FOR A CONDITIONAL USE PERMIT TO CONSTRUCT A 180,770 SQ. FT. CONCRETE TILT-UP WAREHOUSE CENTER WITH 10,000 SQ. FT. OF OFFICE/ADMINISTRATIVE USE AREA ON APPROXIMATELY 9.8 ACRES, AS CEQA RESPONSIBLE AGENCY FOR LAFCO SC#436; AND (2) LAFCO SC#436 – CITY OF RIALTO OUT-OF-AGENCY SERVICE CONTRACT FOR SEWER SERVICE (CEDAR AVENUE TECHNOLOGY PARK PROJECT – STAFF RECOMMENDATION APPROVED**

Executive Officer Samuel Martinez presents the staff report, a complete copy of which is on file in the LAFCO office and made a part of the record by its reference here. The item has been advertised through publication in a newspaper of general circulation within the county, *The Sun*, as required by law.

Executive Officer Martinez states that the City of Rialto on behalf of the property owner and developer has submitted an application for Commission review requesting authorization to provide sewer service outside its jurisdiction pursuant to Government Code Section 56133. He states that the agreement relates to a single parcel 0253-211-56, generally located at the northeast corner of Cedar Avenue and Orange Street within the City of Rialto's sphere of influence. He states that the County has processed and approved a Conditional Use Permit for a warehouse facility and the conditions of approval placed upon the project requires that the project connect to the City of Rialto's sewer facilities. He states that in regards to the service to be provided; sewer will be provided by extending an 8-inch sewer line along Orange and Vine Streets and connecting to the existing eight-inch sewer main in Larch Avenue. He states that the City has also indicated that a six-inch sewer lateral will be extended from the sewer extension in Vine that will serve the proposed development. He states that the city has identified an estimated cost of about \$135,000 in sewer fees and in addition, the property owner will bare all costs for the improvement needed to extend the service. He states that for environmental review, the County prepared an Initial Study and a Mitigated Negative Declaration for the Conditional Use permit to construct a 180,770 sq. ft. concrete tilt-up warehouse center with 10,000 sq. ft. office/administrative use area on approximately 9.8 acres. He states that the Commission's Environmental Consultant has indicated that the County's Initial Study and Mitigated Negative Declaration are adequate for the Commission's use as a CEQA responsible agency. He states that staff has reviewed the request for provision of sewer service from the City of Rialto outside its boundaries and the criteria established by State Law and Commission Policy outlining the provisions. He states that staff recommends the Commission approve LAFCO SC#436 by taking the actions on pages 1 and 2 of the staff report.

Chair Lovingood asks if there are any questions from the Commission.

There is none.

Commissioner McCallon moves the staff recommendation, Second by Commissioner Bagley. There being no opposition, the motion passes with the following roll call vote: Ayes: Bagley, Cox, Curatalo, Lovingood, McCallon, Rutherford and Warren. Noes: None. Abstain: None. Absent: None

**DISCUSSION ITEMS:**

**9. MID-YEAR BUDGET REVIEW FOR FISCAL YEAR 2018-19**

Executive Officer Samuel Martinez presents the Commission with an update on the financial status with the mid-year review for fiscal year 2018-19. He states that the mid-year salaries and benefits is at 2 percentage points over the 50% benchmark and this is primarily due to

the former Executive Officers contract extending through the first quarter. He states that services and supplies is at 57% of the approved budget authority at the first half, this is due to a fair amount of unanticipated legal activity. However, he states that since the Commission is indemnified, these charges are recoverable. He states that in regards to the status of the on-going Commission approved projects, the scanning project has been completed with a total cost of the project being \$10,431, which was done on time and under budget. He states that the countywide fire service review has made a lot of headway. He states that staff has met the County Fire Chiefs Association, which has formed an advisory committee to guide staff through the technical aspects of the service review and LAFCO staff will be sending out the survey/questionnaire to each of the fire agencies in February. He states that staff also met with ICEMA and the County Dispatch agencies. He states that the last governance training program will be on March 13, however staff was just informed that the facility at the Mojave Water Agency is retrofitting its facility. He states that staff will either be moving the training location or rescheduling it to another date. He states that with contingency and reserves, since the Assistant Executive Officer position has not been filled, the Commission increased the contingencies by \$34,852 and General/Litigation Reserve by \$64,392. He states that for revenues, the Commission has received 94% of approved budget revenues through the mid-year. He states that no proposal has been received to date but staff is anticipating three significant proposals for the second half of the fiscal year. He states that for the Commission's Fund Balance, \$970,221 is its cash in the County Treasury with a projected deficit of \$26,936 by year's end – after accounting for reserves. He states that staff is not recommending any budget adjustments at this time but will address the deficit again at the third quarter review.

Chair Lovingood asks if the Commission has questions.

Commissioner Bagley asks about the Comment "receiving no proposals" is a surprise.

Executive Officer Martinez states yes it is. He states there is a lot of talk of proposals that staff is aware of and staff is still anticipating some of these proposals that were to come earlier in the year, but have not been submitted.

Commissioner Bagley states can this affect our budget in the long run.

Executive Officer Martinez states that staff has already started looking at next year's budget that projects approximately \$230,000 in fees and deposits between now and the end of next fiscal year.

Chair Lovingood asks if there are additional questions.

There is none.

Chair Lovingood states this is an informational item, so no action is needed.

**INFORMATION ITEMS:**

**ITEM 10. LEGISLATIVE UPDATE REPORT**

Executive Officer Martinez states that the CALAFCO Legislative Committee for this year has been working on a number of items including the annual omnibus bill, which he is shepherding. He states he will provide an update in February. He states that the CALAFCO Board will again try to seek the grant funding that the Governor vetoed last year, AB 2258. He also indicated that CALAFCO will begin a 2-year project amending the protest provisions.

**ITEM 11. EXECUTIVE OFFICER'S ORAL REPORT**

Executive Officer Samuel Martinez provides the Commission a visual overview of the new interactive mapping pages on the LAFCO website. He states that these changes have been made in the last 6 months. He states this is a work in progress, but wanted the Commission to see that staff is making the Commission's mapping page more user friendly. He states that in March the City Selection Committee will be make a selection on the alternate City member seat that was vacated by Mayor Warren and next Tuesday, the Commission will have their Strategic Planning Workshop.

**ITEM 12. COMMISSIONER COMMENTS**

Commissioner Warren thanks Staff for swearing her in today. She states that she is very proud of this opportunity.

Chair Lovingood thanks the Commission for the nomination and approval to be the LAFCO Chair.

**ITEM 13. COMMENTS FROM THE PUBLIC**

There is none.

**THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE COMMISSION, THE HEARING ADJOURNS AT 10:30 A.M.**

**ATTEST:**

\_\_\_\_\_  
LA TRICI JONES  
Clerk to the Commission

**LOCAL AGENCY FORMATION COMMISSION**

\_\_\_\_\_  
ROBERT LOVINGOOD, Chair

**ACTION MINUTES OF THE  
LOCAL AGENCY FORMATION COMMISSION  
STRATEGIC PLANNING WORKSHOP**

**WORKSHOP**

**9:00 A.M.**

**JANUARY 22, 2019**

**PRESENT:**

**COMMISSIONERS:**

<b>Regular Member</b>	<b>Alternate Member</b>
<b>Jim Bagley</b>	<b>Louisa Amis</b>
<b>Kimberly Cox</b>	<b>Steven Farrell</b>
<b>James Curatalo, Vice Chair</b>	
<b>Acquanetta Warren</b>	
<b>Robert Lovingood, Chair</b>	
<b>Larry McCallon</b>	
<b>Acquanetta Warren</b>	

**STAFF:**

**Samuel Martinez, Executive Officer  
Paula de Sousa Mills, LAFCO Legal Counsel  
Michael Tuerpe, Project Manager  
Jeffrey Lum, LAFCO Analyst  
La Trici Jones, Clerk to the Commission  
Angerose Schell, Administrative Assistant**

**ABSENT:**

**COMMISSIONERS:**

<b>Regular Member</b>	<b>Alternate Member</b>
	<b>Janice Rutherford</b>

**CONVENE SPECIAL SESSION OF THE LOCAL AGENCY FORMATION COMMISSION –  
CALL TO ORDER – 9:11 A.M. – SBCTA BOARD ROOM**

LAFCO Commission Chair, Robert Lovingood calls the Strategic Workshop to order and leads the flag salute.

**ITEM 1.      COMMENTS FROM THE PUBLIC**

No comments provided.



**ITEM 2.        INTRODUCTION TO THE WORKSHOP**

Executive Samuel Martinez introduces the Strategic Planning Workshop providing a brief description and presents the Workshop Consultant Bill Chiat, President of the Alta Mesa Group, LLC.

**ITEM 3.        STRATEGIC PLANNING WORKSHOP**

The workshop convenes with Mr. Chiat facilitating the discussion, which includes looking at the intent, role and responsibilities of the Commission, reflecting on its successes, changes and accomplishments over last few years, and a discussion of its vision and desired outcomes. The workshop also looked at identifying strategies to focus in next few years including key priorities and possible policy goals and objectives.

At the conclusion of the workshop, the Commission provided directives to staff and requested staff reports to be presented in the near future.

Other than the direction given to staff for consideration at future meetings, no action was taken.

**THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE COMMISSION, THE WORKSHOP IS ADJOURNED AT 2:43 P.M**

**ATTEST:**

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**LA TRICI JONES**  
**Clerk to the Commission**

**LOCAL AGENCY FORMATION COMMISSION**


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**ROBERT LOVINGOOD, Chair**

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

1170 West 3<sup>rd</sup> Street, Unit 150 San Bernardino, CA 92415-0490  
(909) 388-0480 • Fax (909) 388-0481  
lafco@lafco.sbcounty.gov  
www.sbclafco.org

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**DATE :** FEBRUARY 11, 2019  
**FROM:** SAMUEL MARTINEZ, Executive Officer   
**TO:** LOCAL AGENCY FORMATION COMMISSION

---

**SUBJECT:** AGENDA ITEM #6 – APPROVAL OF EXECUTIVE OFFICERS' EXPENSE REPORTS

---

## **RECOMMENDATION:**

Approve the Executive Officers' Expense Report for Procurement Card Purchases from December 23, 2018 to January 22, 2019.

## **BACKGROUND INFORMATION:**

The Commission participates in the County of San Bernardino's Procurement Card Program to supply the Executive Officer a credit card to provide for payment of routine official costs of Commission activities as authorized by LAFCO Policy and Procedure Manual Section II – Accounting and Financial Policies #3(H). Staff has prepared an itemized report of purchases that covers the billing period of December 23, 2018 through January 22, 2019.

Staff recommends that the Commission approve the Executive Officers' expense reports as shown on the attachments.

SM/lj

Attachments




PROCUREMENT CARD PROGRAM

MONTHLY PROCUREMENT CARD PURCHASE REPORT

Card Number		Cardholder						Travel	Billing Period	
[REDACTED]		Samuel Martinez							12/23/18 - 1/22/19	
DATE	VENDOR NAME	#	DESCRIPTION	PURPOSE	COST CENTER	G/L ACCOUNT	\$ AMT	TRIP NUMBER	*R/D	SALES TAX
01/07/19	Daisy IT	1	Office Supplies	Supplies	8900005012	52002305	\$87.48		R	
01/08/19	Storetrieve	2	Records	Records Maintenance	8900005012	52002315	\$59.62		R	
01/09/19	Amazon	3	Office Expense	Coffee Maker	8900005012	52002305	\$73.43		R	
01/15/19	Daisy IT	4	Office Supplies	Supplies	8900005012	52002305	\$47.24		R	
01/16/19	Thompson West	5	Law Library Updates	Law Library Updates	8900005012	52002080	\$218.08		R	
01/16/19	Frontier	6	Phone Service	Communication	8900005012	52002041	\$622.45		R	
01/16/19	Daisy IT	7	Office Supplies	Office Supplies	8900005012	52002305	\$1.89		R	
01/19/19	Daisy IT	8	Office Supplies	Office Supplies	8900005012	52002305	\$134.64 CR		R	
01/18/19	J&M Trophies	9	Office Expense	Commissioner Name Plate	8900005012	52002305	\$12.92		R	

The undersigned, under penalty of perjury, states the above information to be true and correct. If an unauthorized purchase has been made, the undersigned authorizes the County Auditor/Controller-Recorder to withhold the appropriate amount from their payroll check after 15 days from the receipt of the cardholder's Statement of Account.


Cardholder (Print & Sign)	Date
Samuel Martinez 	02/11/19

Approving Official (Print & Sign)	Date
Robert Lovingood	02/20/19

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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[www.sbclafco.org](http://www.sbclafco.org)

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**DATE :** FEBRUARY 11, 2019  
**FROM:** SAMUEL MARTINEZ, Executive Officer   
**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** AGENDA ITEM #7 - RATIFY PAYMENTS AS RECONCILED FOR  
MONTH OF DECEMBER 2018 AND NOTE REVENUE RECEIPTS

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**RECOMMENDATION:**

Ratify payments as reconciled for the month of December 2018 and note revenue receipts for the same period.

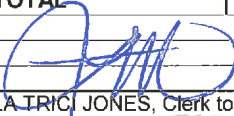

**BACKGROUND INFORMATION:**

Staff has prepared a reconciliation of warrants issued for payments to various vendors, internal transfers for payments to County Departments, cash receipts and internal transfers for payments of deposits or other charges that cover the period of December 1, 2018 through December 31, 2018.

Staff is recommending that the Commission ratify the payments for December 2018 as outlined on the attached listings and note the revenues received.

SM/Ilj


Attachments

MONTH OF DECEMBER 2018 PAYMENTS PROCESSED						
Document Number	Account	Posting Date	Activity	Reference	Vendor	Amount
1900327603	52002085	12/5/2018	DAILY JOURNAL NOTICE OF HEARING LAFCO 3229	INVOICE B3192162	DAILY JOURNAL	\$692.66
1900321913	52002090	12/3/2018	JAN PRO CLEANING SERVICES	INVOICE 64203	JAN PRO	\$475.00
1900329243	52002305	12/7/2018	PAPER RECYCLING & SHREDDING SERVICE	INVOICE 404943	PAPER RECYCLING	\$34.00
1900327601	52002400	12/5/2018	BEST BEST & KRIEGER	INVOICE 838225	BEST BEST KRIEGER	\$1,640.50
<b>TOTAL</b>						<b>\$2,842.16</b>
MONTH OF DECEMBER 2018 INTERNAL TRANSFERS PROCESSED						
4100623124	52002037	12/1/2018	NOVEMBER 2018 DIAL TONE	ISD BILLING		\$291.33
4200022185	52002310	12/10/2018	MAIL SERVICES - DEL	COUNTY MAIL		\$178.60
4200022186	52002310	12/10/2018	MAIL SERVICES - FLAT	COUNTY MAIL		\$10.18
4200022212	52002310	12/11/2018	MAIL SERVICES - HAN	COUNTY MAIL		\$409.55
4100623130	52002420	12/1/2018	NOVEMBER 2018 WIRELESS DEVICE	ISD BILLING		\$18.72
4100623131	52002421	12/1/2018	NOVEMBER 2018 DESKTOP SUPPORT SERVICES	ISD BILLING		\$1,341.92
4200022285	52002424	12/18/2018	NOTICE OF EXEMPTION LAFCO SC#435	COB		\$50.00
<b>TOTAL</b>						<b>\$2,300.30</b>
MONTH OF DECEMBER 2018 CASH RECEIPTS						
4100620726	40709545	12/4/2018	LAFCO SC#436	INDIVIDUAL NOTICE		\$700.00
4100620726	40709555	12/4/2018	LAFCO SC#436	LEGAL FEE DEPOSIT		\$1,000.00
4100634920	40709555	12/1/2018	LAFCO 3218 - CITY OF HESPERIA, INDEMNIFICATION	LEGAL FEE		\$480.00
4100620726	40709660	12/4/2018	LAFCO SC#436	ENVIRONMENTAL		\$700.00
4100620726	40709800	12/4/2018	LAFCO SC#435	LAFCO FEE		\$500.00
4100620726	40709800	12/4/2018	LAFCO SC #436	LAFCO FEE		\$1,000.00
<b>TOTAL</b>						<b>\$4,380.00</b>
MONTH OF DECEMBER 2018 INTERNAL TRANSFERRED RECEIVED						
4200022322	40709555	12/13/2018	LAFCO 3218 INDEMNIFICATION	COUNTY FIRE	COUNTY FIRE	\$100.00
<b>TOTAL</b>						<b>\$100.00</b>
				2/11/2019		
LA TRIC JONES, Clerk to the Commission				DATE		
RECONCILIATION APPROVED BY:						
				2/11/2019		
SAMUEL MARTINEZ, Executive Officer				DATE		

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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---

**DATE:** FEBRUARY 13, 2019   
**FROM:** SAMUEL MARTINEZ, Executive Officer  
MICHAEL TUERPE, Project Manager  
**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item #9: Review and Accept Audit Report for Fiscal Year Ended  
June 30, 2018

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## **RECOMMENDATION:**

Staff recommends that the Commission receive and file the materials submitted by Davis Farr LLP related to the Commission's audit for Fiscal Year 2017-18.

## **BACKGROUND:**

The public accounting firm of Davis Farr LLP has conducted the Commission's annual audit for the period July 1, 2017 through June 30, 2018 (copy enclosed with this staff report). The auditor has independently verified the financial documents prepared by LAFCO staff, outlined its professional responsibilities and findings, and disclosed its compliance with current *Government Auditing Standards*. As outlined in its letter, during the audit process, the auditor did not identify any deficiencies in internal controls.

## **Meeting with Audit/Budget Committee**

On February 7 the LAFCO Administrative Committee (composed of Chair Lovingood, Vice-Chair Curatalo, and Commissioner Cox), LAFCO management, and the auditors discussed the draft audit. The auditor identified that it performed tests on internal controls of LAFCO and the County, which resulted in no material weaknesses or significant deficiencies being identified.

## **2017-18 Financial Statements Summary**

Total cash payments made through June 30, 2018 for the LAFCO office improvement and move total \$249,401 over two years, all budgeted activity. However, all transactions have been recorded for FY 2017-18. Additional annual payments of \$33,792 are scheduled through June 2022. Due to the renovation, Capital Assets increased in kind to \$307,661.

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, and subpoena issued to the Commission and staff. These legal charges were not directly related to a proposal; therefore, they were not recoverable.

As for Liabilities, Net Pension Liability continues to increase and the Note Payable for repayment of the office improvement remains until June 2022.

## **2017-18 Financial Statements Detail**

The basic financial statements provide both short-term and long-term information about the Commission's overall financial status, include additional budgetary information, and include notes that explain some of the information presented.

The following information outlines the major items that comprise Net Position (see page 4 of the financial statements). Additionally, staff has included descriptive information in italics regarding accounting measures that do not affect fund balance.

The financial statements show a Total Net Position of (\$94,212) with a negative change of \$200,522. At first glance, Total Assets of \$797,933 are less than Total Liabilities of \$1,018,419. However, recent audit standards take into account three pension-related items that do not affect the fund balance: deferred outflows (similar to an asset), net pension liability (an actual liability), and deferred inflows (similar to a liability). When all pension-related items are taken together, the net decrease for the year is \$39,595. Additionally, due to the office improvement, a new liability item is included: Note Payable of \$135,174. Nonetheless, the Total Net Position decrease is mainly accounted for by the following breakdown:

- Decrease in Total Assets by \$60,114.
  - Total cash payments for the office improvement and move total \$249,401 over two years, all budgeted activity. However, all transactions have been recorded for FY 2017-18. This includes the \$33,792 annual repayment to the San Bernardino County Transportation Authority (SBCTA) for lease hold improvements that it fronted (discussed below under "Lease Hold Improvements").
    - For 2016-17, the \$100,000 deposit for tenant improvements for the renovation of the new LAFCO office was reclassified from an expenditure to a Pre-paid Item (an asset) in the Statement of Net Position and Balance Sheet. This is because the office was not occupied until July 2017 (FY 2017-18). For 2017-18, the amount was classified as an expenditure against fund balance.
    - In addition to the renovation costs, additional costs were 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. These costs

include, but are not limited to: fiber optics/electrical work, kitchen mill work, alarm system, window blinds/shutters, moving service, and office furniture.

- 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, and subpoena issued to the staff. These legal charges are not directly related to a proposal; therefore, they are not recoverable. Charges totaled \$67,376 for FY 2017-18.
- Due to the renovation, Capital Assets significantly increased to \$307,661. Over five years, depreciation will decrease this figure.
- Increase in Deferred Outflow from Pension Plan by \$19,536 (similar to an asset for this audit year), which is an accounting measure and does not affect fund balance.

*This is defined as pension activities that apply to future periods and so will not be recognized as an expense until later. For this audit year, Deferred Outflows include: employer contributions after the measurement date of June 30, 2017, and changes in actuarial assumptions such as mortality rate, and differences in the projected and actual earnings on investments. More information on this can be found in Note 9 on pages 26 and 27.*

- Increase in Total Liabilities by \$196,600. This is mainly due to an increase in Net Pension Liability of \$95,787 and the addition of \$135,174 in Notes Payable remaining for the office improvement. Both of these are accounting measures and do not affect fund balance. Over five years, Notes Payable will annually decrease by \$33,792.
  - Net Pension Liability: *The San Bernardino County Employees' Retirement Association's ("SBCERA") actuary has estimated the Commission's proportionate share of the net pension liability as of the June 30, 2017 measurement date to be \$864,960, an increase of \$95,787. This information can be found in Note 9 on pages 26 and 27.*
  - Lease Hold Improvements: *On October 5, 2015 (amended on July 17, 2017), LAFCO entered into a lease agreement with the San Bernardino County Transportation Authority (SBCTA), which included provisions for certain leasehold improvements and a related note payable. The cost of the project was paid for by SBCTA, however \$268,967 of the costs would be repaid to SBCTA by the LAFCO. The repayment terms included a \$100,000 initial lump sum payment made during Fiscal Year 2016-17, while the remaining balance of \$168,967 was secured by a note payable. The note payable bears no interest and is due in quarterly payments of \$8,448 until the note is fully repaid in June 2022.*



- Decrease in Inflow from Pension Plan of \$36,656 (similar to a liability for this audit year) which is an accounting measure and does not affect cash.

*This is defined as pension activities that apply to future periods and so will not be recognized as revenue until later. For the audit year, Deferred Outflows include the difference between the actual and expected proportion of LAFCO's share of the Total SBCERA Net Pension Liability. More information on this can be found in Note 9 on pages 26 and 27.*

## **Conclusion**

The Administrative Committee and LAFCO management staff have discussed the draft audit with the independent auditors. Neither have issues or concerns with the conduct of the audit or letters provided by the auditors. Per Commission policy, an auditor representative will present the audit at this hearing.

All payments made through June 30, 2018 for the office improvement and move have been recorded for FY 2017-18. Additional annual payments are scheduled through June 2022 to repay SBCTA for the lease hold improvements that it fronted. Due to the renovation, Capital Assets increased in kind. For the past three years, there has been exposure to litigation related to a number of individual items. These legal charges are not directly related to a proposal; therefore, they are not recoverable. As for Liabilities, Net Pension Liability continues to increase and the Note Payable for repayment of the office improvement remains until June 2022.

Staff recommends that the Commission receive and file the materials submitted by Davis Farr LLP related to the Commission's audit for Fiscal Year 2017-18. Once accepted the audit will be posted on the LAFCO website under the "Open Government Portal".

Should you have any questions, LAFCO staff would be glad to answer them prior to or at the hearing.

SM/MT

Enclosure

To the Board of Commissioners  
Local Agency Formation Commission for San Bernardino County

We have audited the financial statements of the governmental activities, and each major fund of the Local Agency Formation Commission for San Bernardino County (“Commission”) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 14, 2018. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Commission are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year. We noted no transactions entered into by Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Commission’s financial statements was allocations of the net pension liability and related amounts. These amounts were calculated by an actuary and audited by another firm.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was Footnote 9: Pension Plan.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit’s financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 13, 2019.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the *Management's Discussion and Analysis, the Schedule of the Plan's Proportionate Share of the Net Pension Liability, the Schedule of Pension Plan Contributions, and the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual* which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of Board of Commissioners and management of the San Bernardino County Local Agency Formation Commission and is not intended to be, and should not be, used by anyone other than these specified parties.



Irvine, California  
February 13, 2019

The Commission Members  
Local Agency Formation Commission  
for San Bernardino County  
San Bernardino, California

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Local Agency Formation Commission for San Bernardino County (the Commission), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated February 13, 2019.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Dennis Lee CP". The signature is written in a cursive style.

Irvine, California  
February 13, 2019

LOCAL AGENCY FORMATION COMMISSION  
FOR SAN BERNARDINO COUNTY

Financial Statements

For the Fiscal Year Ended June 30, 2018

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Financial Statements

For the Fiscal Year Ended June 30, 2018

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Board of Commissioners  
San Bernardino Local Agency Formation Commission  
San Bernardino, California

## **INDEPENDENT AUDITORS' REPORT**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities and governmental fund of the Local Agency Formation Commission for San Bernardino County (the Commission) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental fund of the Commission, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the budgetary comparison information, schedule of the plan's proportionate share of the net pension liability and the schedule of plan contributions, identified as required supplementary information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated February 13, 2019 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Commission's internal control over financial reporting and compliance.



Irvine, California  
February 13, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Local Agency Formation Commission for San Bernardino County (Commission) provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the financial statements as outlined in the table of contents.

### Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer view of the Commission's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how the services were financed in the short-term as well as what remains for future spending.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report consists of two parts - management's discussion and analysis (this section), and the basic financial statements. The basic financial statements provide both long-term and short-term information about the Commission's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The basic financial statements also include additional budgetary information.

### Reporting the Commission as a Whole – Net Position

The accompanying Government-wide financial statements include two statements that present financial data for the Commission as a whole. An important question to be asked about the Commission's finances is, "Is the Commission as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows.

The statements report the Commission's net position and changes in them. You can think of the Commission's net position – the difference between assets and liabilities - as one way to measure the Commission's financial health or financial position. Over time, increases and decreases in the Commission's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other factors, such as changes in the Commission's revenues, to assess the overall health of the Commission.

The following table provides the Statement of Net Position for the past two fiscal years:

**TABLE 1**  
**NET POSITION – GOVERNMENTAL ACTIVITIES**

	<b>2017-18</b>	<b>2016-17</b>	<b>Difference</b>
<b>Assets:</b>			
Cash and investments	\$ 476,181	\$ 751,825	\$ (275,644)
Accounts receivable	14,091	5,052	9,039
Due from other governments	-	-	-
Prepaid items	-	100,000	(100,000)
Capital assets, net of depreciation	307,661	1,170	306,491
<b>Total Assets</b>	<b>797,933</b>	<b>858,047</b>	<b>(60,114)</b>
<b>Deferred outflow of resources:</b>			
<b>Deferred outflows from pension plan</b>	<b>469,426</b>	<b>449,890</b>	<b>19,536</b>
<b>Liabilities:</b>			
Accounts payable	46,470	60,082	(13,612)
Other accrued liabilities	44,669	44,401	268
Unearned revenues	13,600	41,044	(27,444)
Deposits Payable	-	10,160	(10,160)
Long-term liabilities:			
Compensated absences:			
Due within one year	33,044	28,068	4,976
Due beyond one year	77,102	65,491	11,611
Notes Payable:			
Due within one year	33,793	-	33,793
Due beyond one year	101,381	-	101,381
Net pension liability	864,960	769,173	95,787
<b>Total Liabilities</b>	<b>1,215,019</b>	<b>1,018,419</b>	<b>196,600</b>
<b>Deferred inflow of resources:</b>			
<b>Deferred inflows from pension plan</b>	<b>146,552</b>	<b>183,208</b>	<b>(36,656)</b>
<b>Net Position:</b>			
Invested in capital assets	172,487	1,170	171,317
Unrestricted	(266,699)	105,140	(371,839)
<b>Total Net Position</b>	<b>\$ (94,212)</b>	<b>\$ 106,310</b>	<b>\$ (200,522)</b>

The following table provides the Statement of Activities for the past two fiscal years:

**TABLE 2  
CHANGE IN NET POSITION – GOVERNMENTAL ACTIVITIES**

	2017-18	2016-17	Difference
<b>Revenues:</b>			
Charges for services	\$ 171,981	\$ 194,051	\$ (22,070)
Apportionment	1,009,583	926,223	83,360
Interest	6,645	6,032	613
<b>Total Revenues</b>	<b>1,188,209</b>	<b>1,126,306</b>	<b>61,903</b>
<b>Expenses</b>	<b>1,503,866</b>	<b>1,262,792</b>	<b>241,074</b>
<b>Change in Net Position</b>	<b>(200,522)</b>	<b>(136,486)</b>	<b>(64,036)</b>
Net Position Beginning	106,310	242,796	(136,486)
<b>Net Position Ending</b>	<b>\$ (94,212)</b>	<b>\$ 106,310</b>	<b>\$ (200,522)</b>

Explanation of Change in Net Position

The tables presented above show an overall decrease in the receipt of revenues, as well as increase in expenditures mainly due to the office relocation. Some of the more significant reasons for the changes in the revenues and expenses of the Commission’s governmental activities are outlined as follows:

- Charges for Service experienced a decrease in revenues due to the prior year having several proposals related to annexations to County Fire, which have higher processing fees.
- For 2016-17, the \$100,000 deposit for tenant improvements for the renovation of the new LAFCO office was reclassified from an expenditure to a Pre-paid Item (an asset) in the Statement of Net Position and Balance Sheet. This is because the office was not occupied until July 2017 (FY 2017-18). For 2017-18, the amount was classified as an expenditure against fund balance.
- 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. However, all transactions have been recorded for FY 2017-18.
- 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.

Reporting the Commission’s Fund Activity

The fund financial statements provide detailed information about the Commission’s governmental fund as it operates under a single-program government fund. All of the Commission’s basic services are reported in its General Fund. The fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. We describe the relationship or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) in the reconciliation following the fund financial statements.

The following table provides a summary of the Fund Balance for the past two fiscal years.

**TABLE 3  
FUND BALANCE**

	<b>2017-18</b>	<b>2016-17</b>	<b>Difference</b>
<b>Nonspendable:</b>			
Prepaid items	\$ -	\$ 100,000	\$ (100,000)
<b>Committed:</b>			
Compensated absences reserve	110,146	87,222	22,924
Net pension liability reserve	148,450	117,097	31,353
<b>Assigned:</b>			
General/Litigation reserve	69,154	241,370	(172,216)
Contingency	57,783	155,501	(97,718)
<b>Unassigned</b>	-	-	-
<b>Total</b>	<b>\$ 385,533</b>	<b>\$701,190</b>	<b>\$ (315,657)</b>

The year-end fund balance decreased by a total of \$315,657 in comparison to the prior year. The overall decrease is explained as follows:

- Prepaid Items. For 2016-17, the \$100,000 deposit for tenant improvements for the renovation of the new LAFCO office was reclassified from Unassigned to a Pre-Paid item. This is because the office was not occupied until July 2017 (FY 2017-18). For 2017-18, the amount was classified as an expenditure against fund balance.
- Compensated Absences Reserve. The increase of \$22,924 is due to the natural balance accruals for five employees.
- Net Pension Liability Reserve. The FY 2017-18 budget increased Net Pension Liability Reserve by \$31,353.
- General/Litigation Reserve. The General/Litigation Reserve amount is decreasing by \$41,370 due to unrecoverable legal charges incurred during the audit year. In February 2018, the Commission transferred funds from the General/Litigation Reserve to the Legal Counsel Expenditure Account to cover non-recoverable legal charges.

- Contingency. Contingency decreased by \$97,718. In April 2018, the Commission decreased the Contingency Reserve to cover the deficit due to the increased legal charges coupled with a lack of proposal receipts. In July 2018 as a part of the year-end financial report, the Commission decreased Contingency to cover the year-end deficit of the same amount.
- Unassigned. Unassigned Fund Balance decreased by \$130,846 primarily due to the office renovation.

Long-Term Liabilities

The following table provides a summary of the Long Term Liabilities for the past two fiscal years:

**TABLE 4  
LONG-TERM LIABILITIES**

	<b>2017-18</b>	<b>2016-17</b>	<b>Difference</b>
<b>Compensated Absences</b>	\$110,146	\$ 93,559	\$ 16,587
<b>Notes Payable</b>	\$135,174	\$ -	\$ 135,174

Compensated Absences is comprised of the year-end balances for administrative, holiday, vacation, and sick leaves. For sick-leave calculations, LAFCO’s Benefits Plan Section 108 (E) – Retirement Medical Trust – states that those employees with more than five years of service shall receive 75% of their accumulated sick leave, up to a max of 1,400 hours, paid into the Trust at their current rate of pay upon leaving the employ of the Commission. The calculation within the financial statements of compensated absences accommodates this Benefit Plan determination. During Fiscal Year 2017-18 compensated absences increased by \$16,587, and notes payable increased by \$135,174, calculated as follows:

- Additions of \$73,181 comprised of natural balance accruals for five employees.
- Deletions of \$56,906 comprised of leave taken during the fiscal year for five employees.
- Additions of \$168,967 comprised of the balance owed for the Leasehold Improvements.
- Deletions of \$33,793 comprised of payments made against the outstanding balance.

***Contacting the Commission’s Financial Management:***

This financial report is designed to provide our citizen’s, taxpayers, governments, and creditors with a general overview of the Commission’s finances and to show the Commission’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Officer at 1170 W. Third Street, Unit 150, San Bernardino, CA 92415-0490, or 909-388-0480.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY  
Statement of Net Position  
June 30, 2018

	<u>Governmental Activities</u>
Assets:	
Cash and investments (note 3)	\$ 476,181
Accounts receivable	14,091
Capital assets, net (note 4)	<u>307,661</u>
Total assets	<u>797,933</u>
Deferred outflow of resources:	
Deferred outflows from pension plan (note 9)	<u>469,426</u>
Liabilities:	
Accounts payable	46,470
Other accrued liabilities	44,669
Unearned revenues (note 5)	13,600
Long-term liabilities:	
Due within one year (note 6)	66,837
Due beyond one year (note 6)	178,483
Net pension liability (note 9)	<u>864,960</u>
Total liabilities	<u>1,215,019</u>
Deferred inflow of resources:	
Deferred inflows from pension plan (note 9)	<u>146,552</u>
Net position (deficit):	
Net Investment in capital assets	172,487
Unrestricted	<u>(266,699)</u>
Total net position	<u><u>\$ (94,212)</u></u>

See accompanying notes to the basic financial statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Statement of Activities

For the Fiscal Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental activities:					
General government	\$ 1,388,731	171,981	-	-	(1,216,750)
Total governmental activities	\$ 1,388,731	171,981	-	-	(1,216,750)
General revenues:					
					1,009,583
					6,645
					1,016,228
					(200,522)
					106,310
					\$ (94,212)

See accompanying notes to the basic financial statements



LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY  
 Governmental Funds  
 Balance Sheet  
 June 30, 2018

		<u>General Fund</u>
	<u>Assets</u>	
Cash and investments		\$ 476,181
Accounts receivable		14,091
Total assets		<u>\$ 490,272</u>
 <u>Liabilities and Fund Balance</u>  		
Liabilities:		
Accounts payable		\$ 46,470
Salaries and benefits payable		44,669
Unearned revenues		13,600
Total liabilities		<u>104,739</u>
Fund balance:		
Committed:		
Compensated absences		110,146
Net pension liability reserve		148,450
Assigned:		
General reserve		69,154
Contingency		57,783
Unassigned		<u>-</u>
Total fund balance		<u>385,533</u>
Total liabilities and fund balance		<u>\$ 490,272</u>

See accompanying notes to the basic financial statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY  
 Governmental Funds  
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
 June 30, 2018

Fund balances of governmental funds		\$ 385,533
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets and accumulated depreciation have not been included as financial resources in governmental fund activity:</p>		
Capital assets	392,768	
Accumulated depreciation	<u>(85,107)</u>	307,661
<p>Pension related deferred outflows of resources, net of accumulated amortization, have not been reported in the governmental funds:</p>		
Employer contributions subsequent to the measurement date	125,543	
Changes in actuarial assumptions	221,039	
Changes in proportion and differences between employer contributions and the proportionate share of contributions	91,438	
Differences in projected and actual earnings on investments	<u>31,406</u>	469,426
<p>Long-term liabilities are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds. Long-term liabilities consist of the following:</p>		
Net pension liability	(864,960)	
Notes payable	(135,174)	
Compensated absences	<u>(110,146)</u>	(1,110,280)
<p>Pension related deferred inflows of resources, net of accumulated amortization, have not been reported in the governmental funds:</p>		
Differences in expected and actual experience	(92,533)	
Changes in proportion and differences between employer contributions and the proportionate share of contributions	<u>(54,019)</u>	(146,552)
Net position of governmental activities		<u>\$ (94,212)</u>

See accompanying notes to the basic financial statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
For the Fiscal Year Ended June 30, 2018

	General Fund
Revenues:	
Apportionment	\$ 1,009,583
Charges for services	171,981
Investment income	6,645
Total revenues	1,188,209
Expenditures:	
General government:	
Salaries and employee benefits	755,851
Services and supplies	748,015
Total expenditures	1,503,866
Excess (deficiency) of revenues over (under) expenditures	 (315,657)
Fund balances at beginning of year	701,190
Fund balances at end of year	\$ 385,533

See accompanying notes to the basic financial statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY  
 Governmental Funds  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
 to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2018

Net changes in fund balances - total governmental funds \$ (315,657)

Amounts reported for governmental activities in the Statement of Activities are different because:

The governmental fund reports capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The following are the capital outlays and exceeded depreciation in the current period.

Capital expenditures	384,576	
Depreciation expense	<u>(78,085)</u>	306,491

Pension Expense reported in the governmental fund includes the actual contributions made in the fiscal year. Pension expense reported in the Statement of Activities includes the changes in the net pension liability and pension related deferred outflows/inflows of resources.

Change in net pension liability	(95,787)	
Change in notes payable	(135,174)	
Change in deferred outflows of resources related to pensions	19,536	
Change in deferred inflows of resources related to pensions	<u>36,656</u>	(174,769)

Accrued compensated absence expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the government fund.

(16,587)

Change in net position of governmental activities \$ (200,522)

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements

For the Fiscal Year ended June 30, 2018

### 1. Summary of Significant Accounting Policies:

The accounting policies of the Local Agency Formation Commission for San Bernardino County (the Commission) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

#### a. Reporting Entity:

Following the end of World War II, California entered a new era of demographic growth and diversity, and economic development. With this growth came the need for housing, jobs and public services. To provide for these services, California experienced a wave of newly formed cities and special districts, but with little forethought as to how the new agencies should plan for services. The lack of coordination and adequate planning for future governance led to a multitude of overlapping, inefficient jurisdictional and service boundaries.

In 1963, the State Legislature created Local Agency Formation Commissions (Commissions) to help direct and coordinate California's growth in a logical, efficient, and orderly manner. Each county within California is required to have a Commission. The Commissions are charged with the responsibility of making difficult decisions on proposals for new cities and special districts, spheres of influence, consolidations, and annexations.

The Commission is composed of seven voting members, with four alternate members who vote only in the absence or abstention of a voting member. The seven members and their alternates represent all levels of local government. Two members are elected county supervisors and are selected by the Board of Supervisors. Two members are elected city council members and are selected by the mayors of the cities within San Bernardino County. Two members are elected members of a special district board of directors and are selected by the presidents of the independent special districts in San Bernardino County. These six elected officials select a "public" member who is not affiliated with county, city, or special district governments. Alternate members for the county, city, special district, and public categories are selected in the same manner. Each commissioner and alternate serves a four-year term.

#### b. Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Commission.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include charges for services that are restricted to meeting the operational or capital requirements of particular function or segment. Investment income and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental fund. The Commission operates under a single-program governmental fund.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued):

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are not recognized until paid.

Intergovernmental revenues, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Amounts reported as program revenues include charges for services and operating contributions from members.

d. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Commission has four items that qualify for reporting in this category for the fiscal year ended June 30, 2018, all of which relate to pensions. The first three include pension contributions subsequent to the measurement date, change in assumptions, change in employer's proportion and differences between the employer's contributions and employer's proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan. The last is net differences between projected and actual earnings, and is amortized over a closed 5-year period.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued):

d. Deferred Outflows/Inflows of Resources (Continued):

In addition to liabilities, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Commission has two items that qualify for reporting in this category for the fiscal year ended June 30, 2018, all of which relate to pensions. These include differences between expected and actual experience, and changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan. The second item is a deferred inflow related to pensions for the net difference between projected and actual earnings on plan investments. This amount is amortized over a closed 5-year period.

e. Cash and Investments:

Cash and investments include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities. Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the Commission's accounts based upon the Commission's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the Commission annually. Cash and investments are shown at fair value.

f. Fair Value Measurements:

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued):

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable input reflect the Commission's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the Commission's own data.

g. Capital Assets:

Capital assets are reported as governmental activities in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000 and have an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Equipment of the Commission is depreciated using the straight-line method over a 5 to 7 year estimated useful life.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset life is not capitalized.

h. Employee Compensated Absences:

Liabilities for vacation, holidays, sick pay and compensatory time are accrued when incurred in the government-wide financial statements. Upon retirement or termination, an employee is compensated for 100% of unused accrued vacation and holiday time. Those with more than five years of LAFCO service receive 75% of their accumulated sick leave up to a maximum of fourteen hundred (1,400) hours. A liability for accrued leave is reported in the governmental fund financial statements only if it has matured. A matured liability may result from employees who terminate prior to year-end and are paid for their leave subsequent to year-end.

i. Fund Balance:

Nonspendable fund balances includes amounts that cannot be spent because they are either not spendable in form (such as prepaid expenses) or legally or contractually required to be maintained intact.



LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued):

Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Commission action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the Commission's highest level of decision-making authority. The governing board is the highest level of decision-making authority that can commit fund balances. Once adopted, the limitation imposed by the commitment remains in place until a similar action is taken to remove or revise the limitation.

Assigned fund balance includes amounts to be used by the Commission for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance includes the residual amounts that have not been committed or assigned to specific purposes.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Commission's policy is to apply restricted fund balance first. When an expenditure is incurred for purposes for which committed, assigned, or unassigned fund balances are available, the Commission's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

j. Pensions:

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's San Bernardino County Employees' Retirement Association (SBCERA) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by SBCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	June 30, 2016 to June 30, 2017

k. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

2. Stewardship, Compliance and Accountability: General Budget Policies:

In accordance with provisions of Section 56381 of the Government Code of the State of California, commonly known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH), the Commission shall adopt a proposed budget by May 1 and a final budget by June 15 of each fiscal year.

Budgets are prepared on the cash basis of accounting. After adoption of a final budget, the County of San Bernardino Auditor shall apportion one-third of net operating expenses of the Commission to each of the following: the county, cities, and independent special districts. The legal level of budgetary control is the fund level.

Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balance as provided for in the County Budget Act.

3. Cash and Investments:

Cash and investments as of June 30, 2018, consist of the following:

Petty cash	\$ 250
Investment in County of San Bernardino Investment Pool	<u>475,931</u>
Total Cash and Investments	<u>\$ 476,181</u>

Investments Authorized by the Commission's Investment Policy:

The Commission's investment policy authorizes investments only in the County of San Bernardino Investment Pool.

Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of the fair value to changes in market interest rates.

As of June 30, 2018, the Commission's cash was voluntarily invested in the County of San Bernardino Investment Pool, and therefore was not exposed to any interest rate risk as described above.

The County of San Bernardino Investment Pool is a pooled investment fund program governed by the San Bernardino County Board of Supervisors, and is administered by the County Treasurer. Investments in the pool are highly liquid as deposits and withdrawal can be made at any time without penalty. The Commission's fair value of its share in the pool is the same value of the pool shares, which amounted to \$476,181. Information on the pool's use of derivative securities in its investment portfolio and the Commission's exposure to credit, market, or legal risk is not available.

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements (Continued)

For the Fiscal year ended June 30, 2018

### 3. Cash and Investments (Continued):

#### Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The money pooled with the County of San Bernardino Investment Pool is not subject to a credit rating.

#### Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the money invested by the Commission in the County of San Bernardino Investment Pool).

The Commission is a participant in the San Bernardino County Investment Pool (SBCIP). The SBCIP is an external investment pool, is not rated and is not registered with the Securities Exchange Commission (SEC). The County Treasury Oversight Committee and the County Board of Supervisors conduct SBCIP oversight. Cash on deposit in the SBCIP at June 30, 2018, is stated at fair value. The SBCIP values participant shares on an amortized cost basis during the year and adjusts to fair value at year-end. For further information regarding the SBCIP, refer to the County of San Bernardino Comprehensive Annual Financial Report.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

4. Capital Assets:

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
Capital assets:				
Office equipment	\$ 8,192	-	-	8,192
Leasehold improvements	-	384,576	-	384,576
Less accumulated depreciation for:				
Office equipment	(7,022)	(1,170)	-	(8,192)
Leasehold improvements	-	(76,915)	-	(76,915)
Total capital assets, net	<u>\$ 1,170</u>	<u>306,491</u>	<u>-</u>	<u>307,661</u>

5. Unearned Revenues:

At June 30, 2018, the Commission deferred recognition of \$13,982 from fee revenues and deposits that have been received but not yet earned.

6. Long Term Liabilities:

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018	Due within one year
Compensated Absences	\$ 93,559	73,181	(56,594)	110,146	33,044
Notes Payable	-	168,967	(33,793)	135,174	33,793
Total long term debt	<u>\$ 93,559</u>	<u>242,148</u>	<u>(90,387)</u>	<u>245,320</u>	<u>66,837</u>

On October 5, 2015 (amended on July 17, 2017), the LAFCO entered into a lease agreement with the San Bernardino County Transportation Authority (SBCTA), which included provisions for certain leasehold improvements and a related note payable. The cost of the project was paid for by SBCTA, however \$268,967 of the costs would be repaid to SBCTA by the LAFCO. The repayment terms included a \$100,000 initial lump sum payment made during fiscal year 16/17, while the remaining balance of \$168,967 was secured by a note payable. The note payable bears no interest and is due in quarterly payments of \$8,448 until the note is fully repaid in June 2022.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

7. Insurance:

The Commission is a member of the Special District Risk Management Authority, an intergovernmental risk sharing joint powers authority. The schedule of insurance coverage is as follows:

Coverage	Amount	Limit of Insurance
Property Coverage	\$ 1,000,000,000	Per Occurrence
Property - Boiler & Machinery	100,000,000	Per Occurrence
Property - Pollution Coverage	2,000,000	Per Occurrence
Property - Cyber Coverage	Limits on file	Per Occurrence
General Liability - Bodily Injury	2,500,000	Per Occurrence
General Liability - Property Damage	2,500,000	Per Occurrence
General Liability - Public Officials Personal	500,000	Per Occurrence
General Liability - Employment Benefits	2,500,000	Per Occurrence
General Liability - Employee/Public Officials E & O	2,500,000	Per Occurrence
General Liability - Employment Practices Liability	2,500,000	Per Occurrence
General Liability - Employee/Public Officials Dishonesty	1,000,000	Per Occurrence
Auto Liability - Auto Bodily Injury	2,500,000	Per Occurrence
Auto Liability - Auto Property Damage	2,500,000	Per Occurrence
Auto Liability - Uninsured Motorist	Limits on file	Per Occurrence
Employers Liability	5,000,000	Per Occurrence
Worker's Compensation	Statutory	Per Occurrence

The Commission is self-insured for unemployment insurance.

8. Operating Lease:

On October 5, 2015 (amended on July 17, 2017) the LAFCO entered into non-cancelable operating lease agreements for the rental of office space and office equipment, expiring in June 2022 with a tenant option to extend up to 10 years. The lease agreements also provide for annual rental adjustments in the amount of the Consumer Price Index, not to exceed 103%. Total rent expense for the year ended June 30, 2018 amounted to \$33,864.

Fiscal Year	Rent Expense *
18/19	\$ 33,864
19/20	33,864
20/21	33,864
21/22	33,864
	<u>\$ 135,456</u>

\* - these amounts do not consider annual CPI adjustments

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

9. Pension Plan:

a. General Information about the Pension Plan:

Plan Description:

The San Bernardino County Employees' Retirement Association (SBCERA) administers the SBCERA pension plan - a cost-sharing multiple-employer defined benefit pension plan (the Plan). SBCERA provides retirement, disability, death and survivor benefits to its members, who are employed by 17 active participating employers (including SBCERA) and 3 withdrawn employers. SBCERA publishes its own Comprehensive Annual Financial Report (CAFR) which is available on SBCERA's website at [www.SBCERA.org](http://www.SBCERA.org).

Benefits Provided:

SBCERA provides service retirement, disability, death and survivor benefits to eligible employees. Generally, any employee of the County of San Bernardino or participating employers who is appointed to a regular position whose service is greater than fifty percent of the full standard of hours required by a participating SBCERA employer (e.g. 20 hours per week or more) must become a member of SBCERA effective on the first day of employment. The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Prior to <u>January 1, 2014</u>	On or After <u>January 1, 2014</u>
Hire date	<u>January 1, 2014</u>	<u>January 1, 2014</u>
Benefit formula	2% @ 55	2.5% @ 67
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 65	52 - 67
Monthly benefits, as a % of eligible compensation	1.49% - 3.13%	1.0% - 2.5%
Required employee contribution rates	11.06%	9.29%
Required employer contribution rates	33.31%	29.77%

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

9. Pension Plan (Continued):

Contributions:

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Commission is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Actuarial Assumptions:

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	7.25%
Inflation	3.00%
Payroll Growth	3.75%
Projected Salary Increase	4.50% - 14.50% (1)
Investment Rate of Return	7.25% (2)
Mortality	(3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) The probabilities of mortality are derived using SBCERA's membership data for all funds. The mortality table used was developed based on SBCERA's specific data. The table includes 20 years of mortality improvements using Projection Scale BB. For more details on this table, please refer to the Actuarial Experience Study dated May 30, 2014.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period June 30, 2010 through June 30, 2013. Further details of the Experience Study can found on the SBCERA website.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

9. Pension Plan (Continued):

Discount Rate:

The discount rates used to measure the Total Pension Liability was 7.25% as of the June 30, 2017 measurement date. The projection of cash flows used to determine the discount rate assumed employer and member contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.25% were applied to all periods of projected benefit payments to determine the Total Pension Liability as of June 30, 2017.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin.

The June 30, 2018 target allocations (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equity	5.00%	5.94%
Small Cap U.S. Equity	2.00%	6.50%
Developed International Equity	6.00%	6.87%
Emerging Market Equity	6.00%	8.06%
U.S. Core Fixed Income	2.00%	0.69%
High Yield/Credit Strategies	13.00%	3.10%
Global Core Fixed Income	1.00%	0.30%
Emerging Market Debt	6.00%	4.16%
Real Estate	9.00%	4.96%
Cash & Equivalents	2.00%	-0.03%
International Credit	10.00%	6.76%
Absolute Return	13.00%	2.88%
Real Assets	6.00%	6.85%
Long/Short Equity	3.00%	4.86%
Private Equity	16.00%	9.64%
Total	100%	



LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

9. Pension Plan (Continued):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

Allocation of Net Pension Liability:

The Commission's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures.

The Commission's proportionate share of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The following Table shows the Commission's proportionate share of net pension liability over measurement period:

Balance at June 30, 2016	\$	769,173
Balance at June 30, 2017		864,960
Change - Increase (Decrease)	\$	<u>95,787</u>

The Commission's proportionate share of the net pension liability for the Plan as of the June 30, 2016 and 2017 measurement dates was as follows:

Proportion - June 30, 2016	0.033%
Proportion - June 30, 2017	<u>0.034%</u>
Change - Increase (Decrease)	<u>0.001%</u>

For the year ended June 30, 2018, the Commission recognized pension expense of \$147,373. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

9. Pension Plan (Continued):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 125,543	-
Differences between actual and expected experience	-	(92,533)
Change in assumptions	221,039	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	91,438	(54,019)
Net differences between projected and actual earnings on plan investments	31,406	-
Total	<u>\$ 469,426</u>	<u>(146,552)</u>

The deferred outflows of resources related to contributions subsequent to the measurement date of \$125,543 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending	
June 30,	Amount
2019	\$ 58,239
2020	74,352
2021	35,630
2022	(13,511)
2023	34,690
Thereafter	7,931
	<u>\$ 197,331</u>

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following presents the Commission's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

9. Pension Plan (Continued):

1% Decrease		6.25%
Net Pension Liability	\$	1,253,449
Current Discount Rate		7.25%
Net Pension Liability	\$	864,960
1% Increase		8.25%
Net Pension Liability	\$	545,421

Pension Plan Fiduciary Net Position:

Detailed information about each pension plan's fiduciary net position is available in the separately issued SBCERA financial reports.

10. Salary Savings Plans:

Benefit Plan Groups:

For the purpose of the salary savings plans, employees shall be divided into the following groups:

- a. Group A Executive Officer
- b. Group B All Commission Employees not in Group A or C
- c. Group C Administrative Assistant

401(k) Plan:

Bi-weekly contributions of Commission employees to the County's 401(k) Defined Contribution Plan will be matched by a Commission contribution on the basis of two times the employee's contribution. The bi-weekly contributions of employees in Groups A and B of up to four percent of bi-weekly base salary will be matched by a Commission contribution of two times the employee's contribution, not to exceed eight percent of an employee's bi-weekly base salary.

The bi-weekly contributions of employees in Group C to the County's 401(k) Defined Contribution Plan of up to three percent of bi-weekly base salary will be matched by a Commission contribution of two times the employee's contribution. The Commission's contribution shall not exceed six percent of an employee's bi-weekly base salary.

The Commission contributed \$28,565 to this plan for the fiscal year ended June 30, 2018.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

For the Fiscal year ended June 30, 2018

10. Salary Savings Plans:

457 Deferred Compensation Plan:

Bi-weekly contributions of Commission Group A employees to the County's Section 457 Deferred Compensation Plan up to one percent (1%) of an employee's bi-weekly base salary will be matched by a Commission contribution on the basis of one (1) times the employee's contribution. The Commission contribution shall not exceed one percent of the employee's bi-weekly salary. The contribution shall be deposited in the County's 401(a) Plan.

Salary Savings Plans (Continued):

Bi-weekly contributions of Commission Group B and C employees to the County's Section 457 Deferred Compensation Plan up to one percent (1%) of an employee's bi-weekly base salary will be matched by a Commission contribution of one-half (1/2) times the employee's contribution. The Commission's contribution shall not exceed one-half percent (1/2%) of the employee's bi-weekly salary. The contribution shall be deposited in the County's 401(a) Plan.

The Commission contributed \$1,507 to this plan for the fiscal year ended June 30, 2018.

11. Excess Expenditures over Appropriations

For the fiscal year ended June 30, 2018, the Commission's expenditures exceeded appropriations by \$112,705.

12. Commitments & Contingencies

In conducting its activities, the LAFCO, from time to time is the subject of various legal claims. Management is currently unable to determine the ultimate resolution of such legal claims, or the monetary impact on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Schedule of the Plan's Proportionate Share of the Net Pension Liability

Last Ten Fiscal Years\*

	Measurement Date			
	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the Collective Net Pension Liability	0.033%	0.031%	0.035%	0.034%
Proportionate Share of the Collective Net Pension Liability	\$ 864,960	769,173	681,447	584,731
Covered Payroll	\$ 369,541	359,294	341,542	289,935
Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll	234.06%	214.08%	199.52%	201.68%
Plan's fiduciary net position	\$ 1,943,960	1,639,622	1,736,731	1,505,924
Plan's total pension liability	\$ 2,808,921	2,408,795	2,418,178	2,090,655
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.21%	68.07%	71.82%	72.03%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

For measurement date June 30, 2017 the discount rate was decreased from 7.50% to 7.25%.

\* - Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Schedule of Plan Contributions

Last Ten Fiscal Years\*

	Fiscal Year			
	2017-18	2016-17	2015-16	2014-15
Actuarially Determined Contribution	\$ 125,543	132,171	120,963	122,480
Contributions in Relation to the Actuarially Determined Contribution	(125,543)	(132,171)	(120,963)	(122,480)
Contribution Deficiency (Excess)	\$ -	-	-	-
Covered Payroll	\$ 475,010	369,541	359,294	341,542
Contributions as a Percentage of Covered Payroll	26.43%	35.77%	33.67%	35.86%

Notes to Schedule:

Valuation Date 6/30/2016

Methods and Assumptions Used to Determine Contribution Rates:

Cost sharing employers	Entry Age Actuarial Cost Method
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20 years
Asset valuation method	5-year smoothed market
Inflation	3.00%
Salary increases	4.50 to 14.50%, including inflation of 3.00%
Investment rate of return	7.25%, net of pension plan investment expense, including inflation
Retirement age	50-70 years (2% @ 50 and 2.5% @ 67)
Mortality	RP-2000 Combined Healthy Mortality Table

\* - Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY  
 General Fund  
 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Apportionment	\$ 1,009,583	1,009,583	1,009,583	-
Charges for services	236,832	236,832	171,981	(64,851)
Investment income	<u>8,000</u>	<u>8,000</u>	<u>6,645</u>	<u>(1,355)</u>
Total revenues	<u>1,254,415</u>	<u>1,254,415</u>	<u>1,188,209</u>	<u>(66,206)</u>
Expenditures:				
General government:				
Salaries and benefits	766,331	766,331	755,851	10,480
Service and supplies	<u>554,171</u>	<u>624,830</u>	<u>748,015</u>	<u>(123,185)</u>
Total expenditures	<u>1,320,502</u>	<u>1,391,161</u>	<u>1,503,866</u>	<u>(112,705)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(66,087)</u>	<u>(136,746)</u>	<u>(315,657)</u>	<u>(178,911)</u>
Net change in fund balances	(66,087)	(136,746)	(315,657)	(178,911)
Fund balances at beginning of year	<u>701,190</u>	<u>701,190</u>	<u>701,190</u>	<u>-</u>
Fund balances at end of year	<u>\$ 635,103</u>	<u>564,444</u>	<u>385,533</u>	<u>(178,911)</u>

See notes to required supplementary information



# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2018

### 1. Budgetary Reporting

The Commission established accounting control through formal adoption of an annual budget for the Governmental Fund. The budget is prepared on a basis consistent with generally accepted accounting principles. The adopted budget can be amended by the Commission to change both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Increases and decreases in revenue and appropriations require Commission's approval. Expenditures may not exceed total appropriations at the individual fund level. It is the practice of the Commission's management to review the budget monthly and provide quarterly updates to the Commission.


### 2. Excess Expenditures over Appropriations

For the fiscal year ended June 30, 2018, the Commission's expenditures exceeded appropriations by \$112,705.

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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**DATE:** FEBRUARY 13, 2019   
**FROM:** SAMUEL MARTINEZ, Executive Officer  
MICHAEL TUERPE, Project Manager  
**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item #10: Update on LAFCO 3187 –  
Countywide Service Review for Water Continued Monitoring

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## **RECOMMENDATION:**

Staff recommends that the Commission take the following actions:

1. Note receipt of status report and file.
2. Set the next status report for the August 2019 hearing for Daggett Community Services District.
3. Direct that no further monitoring occur for County Service Area 70 Zone W-4 (Pioneertown).

## **BACKGROUND:**

### **July 2017: Service Review**

As a part of its Countywide Service Review for Water (LAFCO 3187), the Commission at its July 19, 2017 hearing directed staff to:

1. Monitor two board-governed agencies and provide an update to the Commission in six months:
  - a) County Service Area 70 Zone CG (Cedar Glen)
  - b) County Service Area 70 Zone J (Oak Hills)

2. Coordinate with Mojave Water Agency (“MWA”) to seek further assistance for the Daggett Community Services District through MWA’s Small Water Assistance Program.

Additionally, due to significant challenges identified in the service review coupled with public comments, LAFCO staff also provided the Commission with an update on County Service Area 70 Zone W-4 (Pioneertown) as part of this report.

### **March 2018: First Updates to the Commission**

The first updates were provided in March 2018. Significant progress was made in improving the County Service Area 70 Zone CG system in Cedar Glen; therefore, the Commission closed monitoring of CSA 70 Zone CG.

### **August 2018: Second Updates to the Commission**

Following the August 2018 update, the Hesperia Water District and CSA 70 Zone J (Oak Hills) in September 2018 amended its separation agreement by adding an additional 105 properties to the agreement and further details the services that Zone J will provide until physical separation of the water system occurs in the annexed areas. This amended agreement satisfies LAFCO staff’s concerns. Therefore, further monitoring of Zone J is not recommended.

### **February 2019 Update: Third Updates to the Commission**

This staff report includes updates for:

- Daggett Community Services District
- County Service Area 70 Zone W-4 (Pioneertown)

## Daggett Community Services District

### July 2017: Service Review Summary

Below is the summary from the water service review for Daggett CSD:

- Issue - Classified as a disadvantaged community; lacks intertie with an adjacent agency; significant deficiencies identified in sanitary survey report; located within the Mojave Basin Baja subarea which is at 45% ramp down; significant financial challenges identified in audits; prior service review identified concerns with the aging pipes; lack of adequate managerial oversight.
- Staff Recommendation - *Reaffirm the Commission's position that Daggett CSD and Yermo CSD have a combined sphere of influence signaling the Commission's position for consolidation. Further, the Commission directed LAFCO staff to coordinate with Mojave Water Agency to seek further assistance for the Daggett Community Services District through MWA's Small Water Assistance Program.*

### February 2019 Update: Third Update to the Commission

Below is an update from Mojave Water Agency ("MWA") pertaining to its and California Rural Water Association's ("CRWA") continued efforts towards helping and assisting Daggett CSD.

#### Prop. 1 Technical Assistance Funding Project

The Technical, Managerial and Financial report is ready to submit to the State Board. This report will be submitted when MWA obtains confirmation that the project will be acceptable by Division of Financial Assistance.

The District has a CEQA consultant ready to begin the environmental review. The CEQA report will have the Notice to Proceed when they get confirmation of the project that will be acceptable by Division of Financial Assistance.

#### IRWMP USDA Emergency Community Water Assistance Grants (ECWAG)

The MWA and CRWA team is working with the District to get the 2017 Audit materials for the ECWAG Application. The USDA has been waiting for additional information, however MWA is also waiting on the USDA, which was delayed due to the Federal Government shutdown.

#### Mojave IRWM Plan Rate Study and Analysis

RDN Inc. has prepared a comprehensive Rate Study for Daggett CSD. The comprehensive Rate Study has been reviewed and accepted by the District, which was funded for by Proposition 1 Disadvantaged Community Involvement funds through the Mojave Integrated Regional Water Management Plan.

The District Board is working to schedule the Prop 218 public meetings before they can implement the proposed rate increases. The Daggett CSD Board has indicated that they want to have \$100k in reserves within five years.

Status of Consolidation Study and Prop 1

MWA has not heard anything from anyone at the State as to the status of the Consolidation Study and Report.

LAFCO Analysis

The adjacent Yermo CSD is not a water provider; rather, Liberty Utilities (a private company) is the water provider for a portion of the Yermo community that is not provided service through wells or the Daggett CSD. A potential consolidation of the two systems could be undertaken by the State Water Board under the provisions of SB 88.

The managerial issues persist at the Daggett CSD and require outside assistance. In addition, assistance from outside entities is needed to increase the water system's supply source, safety, and effectiveness.

While progress continues, many things need to occur for the Daggett water system to be sustainable. LAFCO staff recommends that the Commission direct staff to return at the August 2019 hearing with an update on the Daggett CSD system.

## County Service Area 70 Zone W-4 (Pioneertown)

### July 2017: Service Review Summary

Below is the summary from the water service review for CSA 70 Zone W-4:

- Issue - Notice of Violation issued in March 2016 by U.S. EPA indicating water system in violation of Safe Drinking Water Act for exceeding MCL for arsenic, fluoride and uranium; state grant funding provides customers with bottled water supplies every two weeks.
- Staff Recommendation – *No Commission action because zones do not have spheres of influence. See “Opportunities” below.*
- Opportunities - Classified as a small water system and eligible for SB 88 funds; funding requires consolidation with an adjacent system; CSA 70 W-4 under consideration for potential SB 88 consolidation with Hi-Desert Water District.

### February 2019 Update: Third Update to the Commission

The County Special Districts Department submitted the following update:

The Pioneertown Pipeline Project was successfully rebid and the Special Districts Department (SDD) received six construction bids. On November 6, 2018, the County Board of Supervisors approved the bid and awarded a contract to Sukut Construction LLC in the amount of \$4,623,425 as the lowest responsible bidder.

On December 13, 2018, the State Water Resources Control Board’s Division of Financial Assistance (SWRCB-DFA) notified SDD that it had approved \$5.4 million in grant funding for the Pioneertown Pipeline Project. The SWRCB-DFA also notified SDD that a Notice to Proceed could be issued and that all construction costs would be eligible for reimbursement. A Notice to Proceed was issued to Sukut Construction on December 20, 2018, during a pre-construction meeting held with Sukut Construction. On January 7, 2019, Sukut Construction began the submittal process, preparation of drawings, and placing orders for materials. The project completion date is anticipated to be around the end of June 2019, although a potential delay related to unexpected long lead-time items have been noted and are aggressively being worked on by SDD staff and the contractor.

### LAFCO Analysis

Significant movement has taken place to obtain financing and construction is set to begin. The Commission does not have direct purview over CSA 70 Zone W-4 - no Commission action was recommended in the service review as the water system is a county service area zone, which do not have spheres of influence. Further, Zone W-4 is already within the sphere of influence of the Hi-Desert Water District.

LAFCO staff recommends that no further monitoring of CSA 70 Zone W-4 occur.

**CONCLUSION:**

Due to issues identified in the Countywide Service Review for Water in July 2017, the Commission directed staff to return in six months with updates for three water systems. Additionally, staff included an update for the CSA 70 Zone W-4 system due to the gravity of the situation related to water quality.

Staff recommends that the Commission:

1. Set the next status report for the August 2019 hearing for Daggett Community Services District.
2. Direct that no further monitoring occur for County Service Area 70 Zone W-4 (Pioneertown).

SM/MT

Attachment:

1. LAFCO Staff Report from August 2018 Hearing (with links to the attachments)

**LAFCO Staff Report from  
August 2018 Hearing  
(with links to the attachments)**


**Attachment 1**



# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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**DATE:** AUGUST 8, 2018   
**FROM:** SAMUEL MARTINEZ, Executive Officer  
MICHAEL TUERPE, Project Manager  
**TO:** LOCAL AGENCY FORMATION COMMISSION

---

**SUBJECT:** Agenda Item #8: Update on LAFCO 3187 –  
Countywide Service Review for Water Continued Monitoring

---

## **RECOMMENDATION:**

Staff recommends that the Commission take the following actions:

1. Note receipt of status report and file.
2. Set the next status report for the February 2019 hearing for County Service Area 70 Zone W-4 (Pioneertown) and Daggett Community Services District.
3. Set the next status report for the February 2019 hearing for County Service Area 70 Zone J (Oak Hills). Should the amended agreement between County Special Districts Department and the City of Hesperia/Hesperia Water District be received by LAFCO in the interim, then an update at the February 2019 hearing would not occur.

## **BACKGROUND:**

### **July 2017: Service Review**

As a part of its Countywide Service Review for Water (LAFCO 3187), the Commission at its July 19, 2017 hearing directed staff to:

1. Monitor two board-governed agencies and provide an update to the Commission in six months:
  - a) County Service Area 70 Zone CG (Cedar Glen)
  - b) County Service Area 70 Zone J (Oak Hills)

2. Coordinate with Mojave Water Agency (“MWA”) to seek further assistance for the Daggett Community Services District through MWA’s Small Water Assistance Program.

Additionally, during the service review’s presentation significant public comment was provided regarding the water quality challenges of County Service Area 70 Zone W-4 (Pioneertown). The service review classifies CSA 70 W-4 as a “hot spot”, and the Commission questioned if there was a LAFCO solution for the matter. Staff responded that multiple agencies are involved, including the Federal Environmental Protection Agency, and that the Commission cannot initiate a change of organization related to this matter. However, due to significant challenges identified in the service review coupled with public comments, LAFCO staff also provided the Commission with an update on Zone W-4 as part of this report.

### **March 2018: First Updates to the Commission**

The first updates were provided in March 2018 (staff report included as Attachment #1 to this report). Significant progress was made in improving the County Service Area 70 Zone CG system in Cedar Glen; therefore, the Commission closed monitoring of Zone CG.

### **August 2018: Second Updates to the Commission**

The following includes the second updates to the Commission from LAFCO 3187 and includes the following agencies:

- County Service Area 70 Zone CG (Cedar Glen)
- Daggett Community Services District
- County Service Area 70 Zone W-4 (Pioneertown)

## County Service Area 70 Zone J (Oak Hills)

### July 2017: Service Review Summary

Below is the summary from the water service review for Zone J:

- Issue - All sources have hexavalent chromium above MCL; Zone J is currently working on a hexavalent chromium compliance plan under Senate Bill 385 to achieve compliance; previous service review determined the need to resolve boundary conflicts between the Hesperia Water District and Zone J in the Maple/Topaz strip which is currently a part of the City of Hesperia.
- Staff Recommendation - *Indicate the Commission's preference that the Hesperia Water District and Zone J implement a mechanism (e.g., joint powers agreement or memorandum of understanding) to provide stability to the water source and boundary challenges in the overall Hesperia and Oak Hills communities.*

*Although LAFCO staff is working with the Hesperia Water District and CSA 70 Zone J on a mechanism to resolve the boundary conflicts, staff recommends that the Commission direct staff to continue to monitor the Zone J system and provide an update to the Commission by February 2018.*

### March 2018: First Update to the Commission

The County Special Districts Department provided information identifying that the water contaminants do not currently exceed the MCL. However, staff's understanding of the State's reevaluation of the hexavalent chromium MCL is that the State will be re-adopting a lower MCL level but with adequate substantiation to support that level. As for the boundary irregularities and water exchange with the City of Hesperia subsidiary Hesperia Water District, progress towards forming a JPA is occurring.

While progress has been made, LAFCO staff recommends that the Commission direct staff to return at the August 2018 hearing, with an update on the Zone J system and the potential contractual relationship with the Hesperia Water District.

### August 2018: Second Update to the Commission

#### Water Quality

County Special Districts Department has finalized its last pilot study on July 5, 2018 after meeting and reviewing it with the State on June 29, 2018 (see Attachment #2). No further actions are planned until such time as an MCL for Hexavalent Chromium is established.

Agreement with City of Hesperia/Hesperia Water District

Special Districts Department provided the following update:

“Based on the advice of County Counsel, the [Water and Sanitation] Division has made a few more format changes to the Agreement with the City of Hesperia so now it will be an amendment to the original 2004 agreement. This will be amendment number 2 and it adds annexation area [LAFCO] 3166 to the agreement and also addresses the water exchange details necessary to continue providing water service to the annexed areas until Hesperia physically separates the water systems. The language of the amendment is essentially the same as the MOU that we previously drafted. This amendment was sent back to the City of Hesperia earlier this week. If Hesperia has no further changes then they’ll provide a date for their City Council to approve and we’ll then send the amendment to LAFCO for consideration of the Commission.”

LAFCO Analysis

As a part of the Countywide Service Review for Water, Zone J was classified as a “hot spot” due to the water quality challenges it faces, as well as lingering boundary irregularities that have patch work fixes.

County Special Districts Department has finalized its last pilot study, and is waiting for the revised MCL for Hexavalent Chromium to be established by the State.

For lingering boundary issues between County Special Districts Department and the City of Hesperia/Hesperia Water District, the City is anticipated to consider the agreement for approval in late August. The County Board would then need to approve the agreement. LAFCO staff anticipates that the amended agreement will be received by LAFCO in the near future for review.

While progress has been made, LAFCO staff recommends that the Commission direct staff to return at the February 2019 hearing with an update on the Zone J system. Should the amended agreement between County Special Districts Department and the City of Hesperia/Hesperia Water District be received by LAFCO in the interim, then an update at the February 2019 hearing would not occur.

## Daggett Community Services District

### July 2017: Service Review Summary

Below is the summary from the water service review for Daggett CSD:

- Issue - Classified as a disadvantaged community; lacks intertie with an adjacent agency; significant deficiencies identified in sanitary survey report; located within the Mojave Basin Baja subarea which is at 45% ramp down; significant financial challenges identified in audits; prior service review identified concerns with the aging pipes; lack of adequate managerial oversight.
- Staff Recommendation - *Reaffirm the Commission's position that Daggett CSD and Yermo CSD have a combined sphere of influence signaling the Commission's position for consolidation. Further, the Commission directed LAFCO staff to coordinate with Mojave Water Agency to seek further assistance for the Daggett Community Services District through MWA's Small Water Assistance Program.*

### March 2018: First Update to the Commission

The CSD is taking any and all efforts not to be on the radar for a potential SB 88 consolidation required by the State Water Board with the adjacent Yermo System of Liberty Utilities (private water company). Mojave Water Agency ("MWA") and the California Rural Water Association ("CRWA") are actively engaging with the CSD on its water and managerial challenges.

For water challenges, a Proposition 1 Technical Assistance Grant was awarded to the CSD in the amount of \$325,657 from the State Water Resources Control Board in December 2016. The Technical Assistance Funding Agreement describes water distribution system and water quality deficiencies as well as anticipated solutions to these issues. CRWA is the non-profit that is performing the technical assistance work with the CSD.

According to the data provided by MWA, water quality treatment does not appear to be a viable option for the CSD and that locating good quality groundwater in the service area, or near the service area, of Daggett CSD was necessary. In January 2018, MWA provided CRWA with data of wells and associated water quality within or near the CSD.

The next steps are for submission of an Engineering Report to the SWRCB which would identify a plan of action to include new well locations. If approved, the construction schedule for the potential project would be based on a timeline established by SWRCB.

As for managerial challenges, CRWA assisted the CSD in developing mechanisms for more efficient billing, organization, and rate setting. However, the CSD is a small office and recently hired a new general manager. Further, LAFCO has requested the 2015 and 2016 audits from the CSD, and the CSD was not able to provide these documents. Therefore, managerial challenges persist.

## **August 2018: Second Update to the Commission**

Mojave Water Agency has provided the following update on Daggett CSD's participation in MWA's Small Water System Assistance Program.

- Since the last LAFCO update, the Engineering Report created by California Rural Water Association ("CRWA") has been finalized and submitted to the State Water Resources Control Board.
- CRWA staff spent a day with Daggett CSD staff to inspect and identify production wells both currently in production and not in service. This gave CRWA a better understanding of the wells in the area and which Daggett CSD wells are not in service. They also looked for viable locations for a new production well based off of water quality and water level data provided by Mojave Water Agency.
- CRWA met with Mojave Water Agency staff to discuss alternative water supplies in the region as well as the water rights situation that is currently effecting Daggett CSD.
- Engagement of Daggett CSD Board and staff have increased since the Small Water System Assistance Program and CRWA has been more involved. They now have a State Water Resources Control Board Distribution 1 operator on staff.
- Daggett CSD has brought on a tank manufacturer, Paso Robles Tank, to assess their storage tank conditions and propose possible solutions.

The next step for Daggett CSD is to utilize Proposition 1 grant funding. They are slated to undergo a rate study with a rate increase that can comply with Proposition 218. MWA and CRWA will continue to be actively engaged with the Daggett CSD on their technical, managerial, and financial challenges into the future.

### LAFCO Analysis

The adjacent Yermo CSD is not a water provider; rather, Liberty Utilities (a private company) is the water provider for a portion of the Yermo community that is not provided service through wells or the Daggett CSD. A potential consolidation of the two systems could be undertaken by the State Water Board under the provisions of SB 88.

The managerial issues persist at the Daggett CSD and require outside assistance. In addition, assistance from outside entities is needed to increase the water system's supply source, safety, and effectiveness.

While progress has been made, LAFCO staff recommends that the Commission direct staff to return at the February 2019 hearing with an update on the Daggett CSD system.

## **County Service Area 70 Zone W-4 (Pioneertown)**

### **July 2017: Service Review Summary**

Below is the summary from the water service review for CSA 70 Zone W-4:

- Issue - Notice of Violation issued in March 2016 by U.S. EPA indicating water system in violation of Safe Drinking Water Act for exceeding MCL for arsenic, fluoride and uranium; state grant funding provides customers with bottled water supplies every two weeks.
- Staff Recommendation – *No Commission action because zones do not have spheres of influence. See “Opportunities” below.*
- Opportunities - Classified as a small water system and eligible for SB 88 funds; funding requires consolidation with an adjacent system; CSA 70 W-4 under consideration for potential SB 88 consolidation with Hi-Desert Water District.

### **March 2018: First Update to the Commission**

On October 31, 2017, the County Board of Supervisors took actions related to the Zone W-4 water system, to include:

- Approving the submittal of a grant application to the United States Department of Agriculture (USDA)-Rural Development requesting federal funding in the amount of \$2,500,000 for the Pioneertown Pipeline and Water System Improvement Project.
- Approving the Water Exchange Agreement with the Hi-Desert Water District (HDWD) allowing Zone W-4 access to groundwater within the Warren Valley Sub-basin in exchange for an equal amount of groundwater provided to HDWD from within the Ames/Reche Basin pursuant to the water rights of Zone W-4 for a term of 20 years, with an annual service and exchange charge to Zone W-4 of \$1,000 that increases by 5% after each five years of the agreement.

The Water Exchange Agreement with HDWD is a required stipulation to both SWRCB and USDA grant funding, as the Project is not viable without securing a clean water source. On December 12, 2017, the HDWD approved the Water Exchange Agreement with the County.

### **August 2018: Second Update to the Commission**

At its June 26, 2018 hearing, the County Board of Supervisors:

- Rejected all bids submitted for the Pioneertown Water Pipeline Project and found they are nonresponsive for omitting one or more of the specialty contractors licenses as required by the bid documents.
- Approved revised plans and specifications for the Pioneertown Water Pipeline Project and authorize the Special Districts Department to advertise for competitive bids.

Sealed bids are currently scheduled to be submitted by 2:00 p.m. on August 15, 2018.

### LAFCO Analysis

As a part of the Countywide Service Review for Water, Zone W-4 was classified as a “hot spot” due to the water quality challenges it faces. No Commission action was recommended as the water system is a county service area zone, which do not have spheres of influence. Further, Zone W-4 is already within the sphere of influence of HDWD. Therefore, the service review did not have any recommendations for Commission action.

While the bid process is moving forward, LAFCO staff recommends that the Commission direct staff to return at the February 2019 hearing, with an update on the Zone W-4 system.

### **CONCLUSION:**

Due to issues identified in the Countywide Service Review for Water in July 2017, the Commission directed staff to return in six months with updates for three water systems. Additionally, staff included an update for the CSA 70 Zone W-4 system due to the gravity of the situation related to water quality.

Staff recommends that the Commission:

- Set the next status report for the February 2019 hearing for County Service Area 70 Zone W-4 (Pioneertown) and Daggett Community Services District.
- Set the next status report for the February 2019 hearing for County Service Area 70 Zone J (Oak Hills). Should the amended agreement between County Special Districts Department and the City of Hesperia/Hesperia Water District be received by LAFCO in the interim, then an update at the February 2019 hearing would not occur.

SM/MT

Attachments:


1. [LAFCO Staff Report from March 2018 Hearing \(with links to the attachments\)](#)
2. [County Service Area 70 Zone J \(Oak Hills\) - Pilot Study Report July 2018 \(without appendices\)](#)
3. [County Service Area 70 Zone W-4 \(Pioneertown\) - County Board Agenda Item 68 from June 26, 2018](#)



# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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**DATE:** FEBRUARY 13, 2019   
**FROM:** SAMUEL MARTINEZ, Executive Officer  
MICHAEL TUERPE, Project Manager  
**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item #11: Update on LAFCO 3190 –  
Countywide Service Review for Wastewater Continued Monitoring

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## **RECOMMENDATION:**

Staff recommends that the Commission take the following actions:

1. Note receipt of status report and file.
2. Set the next status report for the August 2019 hearing for the Victor Valley Wastewater Reclamation Authority.
3. Direct that no further monitoring occur for the City of Victorville/Victorville Water District.

## **BACKGROUND:**

### **August 2018: Service Review**

As a part of its Countywide Service Review for Water (LAFCO 3190), the Commission at its August 15, 2018 hearing directed staff to monitor two agencies and provide an update to the Commission in six months:

- a) City of Victorville/Victorville Water District
- b) Victor Valley Wastewater Reclamation Authority (“VWRA”)

## **Victor Valley Wastewater Reclamation Authority**

### **August 2018: Service Review Summary**

Below is the summary from the wastewater service review for VVWRA:

Issue – Negative impact to revenue cash flows affecting ability to service debt for the following reasons: (1) City of Victorville diverted approximately 1 MGD of flow reducing revenue; (2) City of Hesperia withholding payment due to disagreement with VVWRA board of directors; and (3) Unresolved differences with Federal Emergency Management Agency regarding grant for constructing the Mojave Upper Narrows tunnel project.

Hot Spot Identification - VVWRA has been identified in this service review as a hot spot due to the issues identified in Section VII of this report.

Staff Recommendation - *Staff recommends that the Commission continue to monitor the Victor Valley Wastewater Reclamation Authority, and direct staff to return to the Commission six months following completion of this service review.*

### **February 2019: First Update to the Commission**

VVWRA provided the following information to the challenges identified above for this update:

- (1) City of Victorville diverted approximately 1 MGD of flow reducing revenue.

A revised Joint Powers Agreement has been prepared. One final item required negotiation with the member entities which occurred on February 4, with finalization at a subsequent date.

- (2) City of Hesperia withholding payment due to disagreement with VVWRA board of directors.

The City of Hesperia has indicated that they will resume payment of all user fees in February however they will continue to withhold connection fees until Item 1 is finalized.

- (3) Unresolved differences with Federal Emergency Management Agency regarding grant for constructing the Mojave Upper Narrows tunnel project.

The Office of the Inspector General is conducting an additional investigation into one of the contractors on the project. FEMA has indicated that they will make a determination once that investigation concludes.

### LAFCO Analysis

At this time, Items 2 and 3 above are not satisfied and have a negative impact to revenue cash flows which continue to affect VVWRA's ability to service debt. Therefore, staff recommends that the Commission set the next status report for the August 2019 hearing.

## City of Victorville/Victorville Water District

### August 2018: Service Review Summary

Below is the summary from the wastewater service review for the Victorville systems:

Issue – Increasing operation and maintenance payments affecting debt service and needed capital expenditures.

Hot Spot Identification – The City of Victorville has been identified in this service review as a hot spot due to the issues identified in Section VII of this report.

Staff Recommendation – *Staff recommends that the Commission continue to monitor the Victorville Water District and the City of Victorville, and direct staff to return to the Commission six months following completion of this service review.*

### February 2019: First Update to the Commission

The City provided information for this status update. A portion of the response is provided below.

Ordinance No. 2378 was passed on June 19, 2018 by the requisite two-thirds vote of the City Council, with the Proposed Rates becoming effective for all billings made on or after August 1, 2018, and on each July 1 thereafter, for the years of 2019, 2020, 2021 and 2022. The approved Sewer Service Rates were fixed to yield special purpose revenues in amounts sufficient to: pay the operating expenses of the sewer system; adequately fund and cover the costs of sewage treatment and disposal facilities so they may be operated safely and reliably; provide for the construction, ownership, operation, repair, maintenance, and replacement of sewer system infrastructure; pay the interest and principal on any bonded debt of the sewer system and maintain the financial stability of the operation thereof; comply with state and federal regulatory sewage treatment and disposal requirements; and provide adequate reserves in the City's sewer fund for emergencies and unforeseen costs.

The City's current budget and yearly expenditures are within the framework of the approved Rate Study, with capital improvement projects progressing as planned. The City completed a sewer relining project on January 7, 2018, consisting of 11,390 lineal feet of sewer main that was relined at a cost of \$321,168. Another project is planned to advertise in March of 2019 to replace 6,543 lineal feet of deteriorated sewer main at an estimated cost of \$1,499,000. The City also recently completed an assessment of its entire gravity sewer system (440 miles) at a cost of approximately \$4.2 million. This project consisted of cleaning and videoing the entire pipeline system, and a comprehensive evaluation of all video to determine and document structural deficiencies and prioritize repairs.

LAFCO Analysis

Due to the rate increase that recently passed, improvements are being made to the wastewater systems as well as increasing the depleted reserves. LAFCO staff's position is that the City/Water District wastewater systems have the necessary mechanisms in place to further improvements and cash position. Therefore, LAFCO staff recommends no further monitoring of the City/Water District wastewater systems.

**CONCLUSION:**

Due to issues identified in the Countywide Service Review for Wastewater in August 2018, the Commission directed staff to return in six months with updates for two systems.

Staff recommends that the Commission:


1. Set the next status report for the August 2019 hearing for the Victor Valley Wastewater Reclamation Authority.
2. Direct that no further monitoring occur for the City of Victorville/Victorville Water District.

SM/MT

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**DATE:** FEBRUARY 13, 2019   
**FROM:** SAMUEL MARTINEZ, Executive Officer  
MICHAEL TUERPE, Project Manager  
**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item #12: Report on Strategic Planning Workshop of  
January 22, 2019

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## **RECOMMENDATION:**

Staff recommends that the Commission take the following actions:

1. Review the draft Vision Statement, and provide suggestions or an alternative statement;
2. Direct staff to review the Commission's Policy and Procedure Manual for removal, inclusion, and updating and return with recommendations for Commission consideration;
3. Direct staff to formulate open space and agricultural preservation policies and return to the Commission with draft policies for consideration and possible adoption; and,
4. Receive and File the report.

## **BACKGROUND:**

The Commission held its first strategic planning workshop since 2010 on January 22. Bill Chiat from the Alta Mesa Group guided the workshop, and presented the following discussion topics:

- LAFCO Primer
- Progress and Accomplishments of San Bernardino LAFCO
- How Does San Bernardino LAFCO Want to be Known?
- It's 2023, Ideally What has LAFCO Accomplished?
- Commission Strategies

- Commission 18 Month Objectives
- Commission's Practice of Governance
- Reflections on the Workshop

The Commission reviewed some of its role and responsibilities, including a reflection on some of its previous accomplishments. It then examined its purpose and contributions to the community as well as a discussion on some of its desired outcomes in the future, including strategies for the next few years.

#### ITEMS FOR IMMEDIATE REVIEW:

As an outgrowth of the workshop, the Commission directed staff to return with a response for the following three items. Note that the only actions recommended today are for staff to return at a subsequent hearing to formalize these items.

#### 1. Review and Consider a Vision Statement

The following vision statement was suggested by Commissioner McCallon, with modifications made by staff (additions in underline and deletions in strikethrough):

*To be ~~San Bernardino LAFCO~~ is the guardian of the public interest to ensure that our local public municipalities and special districts ~~agencies~~ are providing efficient, and cost effective public services, ~~so as~~ in order to maintain or improve our citizens' quality of life.*

Staff's position is that it would be prudent for the Commission to consider its Vision Statement in conjunction with its Mission Statement.

#### Staff Recommendation

Staff recommends that the Commission review the draft Vision Statement above, and provide suggestions or an alternative statement. Staff will then return at a subsequent hearing with a Vision statement and the current Mission policy for discussion.

#### 2. Review of the Commission's Policy and Procedure Manual

At the June 2012 hearing, the Commission's Policy and Procedure Manual was reorganized and updated. A part of the Commission's action directed that an annual review of the Manual be undertaken in August or September of every year to ensure that the document remains current and relevant. The annual update for 2015 was comprehensive and included a restructuring of the manual with non-substantive changes, resulting in uniformity throughout the Manual.

At the January workshop, the Commission asked that staff review all of its policies and identified policies that may be outdated or some that may need to be modified. The

Commission also directed staff to review other LAFCOs to identify and determine best practices related to policies.

Staff Recommendation

Staff recommends that the Commission direct staff to review its Policy and Procedure Manual for removal, inclusion, and updating and return with recommendations for Commission consideration.

**3. Review and Consider Adoption of Open Space and Agricultural Preservation Policies**

Due to the county's unique natural resources, the Commission directed staff to return with a discussion on adopting open space and agricultural preservation policies. The two most recent service reviews, Countywide Water in 2017 and Countywide Wastewater in 2018, included mapping and discussions on agricultural lands and Williamson Act contracts. Staff can expand upon this initial review. In addition, staff will also incorporate policies related to preservation of the county's significant mineral resources, including those used for mining as well as aggregate production.

Staff Recommendation

Direct staff to formulate open space and agricultural preservation policies and return to the Commission with draft policies for consideration and possible adoption.

REVIEW OF ADDITIONAL DISCUSSION ITEMS:

The following are items that were discussed at the workshop but do not require any follow-up response from staff, other than noted below.

**4. Service Reviews**

The Commission directed that distribution of the draft and final versions of future service reviews include city council and district board members.

The service currently underway is for fire/emergency medical/ambulance/dispatch. The Commission reiterated its desire to include discussions regarding: duplication of services, financial ability, unfunded pension liability, accountability of the elected body, and impacts from the County Fire FP-5 expansion. All these will be included in the upcoming Countywide Service Review for Fire, which will include a review of all recent fire reorganizations.

The Commission also affirmed the order for the remaining countywide service reviews to be: healthcare districts, solid waste, streetlighting, park and recreation, and roads.

## **5. Healthcare Districts**

During the discussion on service reviews, the Commission was unaware of the number of healthcare districts, their roles in the county, and the extent of the state's recent focus on healthcare districts. Staff stated that a countywide service review for healthcare districts would be the next service review (see Item 4 above).

## **6. Unfunded Pension Liability**

During the discussion on service reviews, the Commission expressed its interest in having a session on Net Pension Liability as a part of the FY 2019-20 Governance Training program. Staff will inquire with the training entities if such a course can be provided and provide the Commission with an update as a part of the FY 2019-20 budget.

## **7. LAFCO Outreach and Coordination**

The Commission expressed its desire that the Executive Officer further his outreach and messaging to the public and other agencies. Specifically, the Commission identified its desire for:

- Educate local legislators about LAFCO.
- Better coordination with public agencies including school districts.
- Notices that are more explainable, less verbose, yet convey a clear message. Also, the notices should have a brief explanation about LAFCO or a dedicated link to the brief LAFCO explanation.
- Continuation of LAFCO staff participation in CALAFCO and Southern Region LAFCOs.

## **8. Staff's Values**

Following a discussion on the Commission's values, the workshop moderator and the Commission asked what are staff's core values. Staff's collective response is: integrity, ownership in the work process, excellence in work, innovation in work product, and an environment that enables and fosters ideas that promote efficient and effective local services. Additionally, staff values its role and contribution in local and state governance, to include CALAFCO and its Legislative Committee.

## **CONCLUSION**

This was the first workshop since 2010 where the Commission discussed its vision, mission, purpose, enabling statute, current workflow, and future direction.



As an outgrowth from the workshop, staff recommends that the Commission:

- Review the draft Vision statement, and provide suggestions or an alternative statement;
- Direct staff to review the Policy and Procedure Manual for removal, inclusion, and updating and return with recommendations for Commission consideration; and,
- Provide additional direction to staff on proposed open space and agricultural preservation policies, and direct staff to return with draft policies.

Finally, the Commission can also provide direction to staff that may not have been addressed at the workshop.

SM/MT