

Les Baugh
County Member

Irwin Fust
Special District Alternate

Larry Farr
City Member

Pam Giacomini
County Member Alternate

James Yarbrough
City Member Alternate

Brenda Haynes
Special District Member



Brent Weaver
City Member

David Kehoe
County Member

Stephen Morgan
Special District Member

Dick Fyten
Public Member

Bob Richardson
Public Member Alternate

Vacant
Executive Officer

Thursday, April 30, 2015

Re: FY 2014/15 Cash-Flow Review & Related Potential Management Actions (Item # 4)

Commissioners:

Summary & Recommendations

The Fiscal Committee and LAFCO staff have continued their exhaustive financial review and budget preparation work since the recent Commission workshop to assess current Shasta LAFCO finances, including expenditures to date compared to the adopted FY 2014/15 budget and the preparation of an updated Cash-Flow Plan for the balance of this fiscal year, which ends on June 30th. Despite short term challenges, the Fiscal Committee and LAFCO staff have concluded that the Commission will need no loans or “bridge” financing to complete FY 2014-15, and can meet all of its essential functions this operating year if it proactively manages its limited available resources and defers some current year costs into the next fiscal year.

It is recommended that the Commission consider this staff report on current Shasta LAFCO’s current financial condition and then take the following actions:

1. Consider the attached recommended FY 2014-15 Cash-Flow Plan as recommended by the LAFCO Fiscal Committee;
2. Approve and authorize limited Shasta LAFCO office hours consistent with the recommended Cash-Flow Plan through June 30, 2015;
3. Designate an Interim Executive Officer for the purpose of meeting Shasta LAFCO’s statutory obligations as may occur prior to the Commission’s appointment of an executive officer for the longer term, and authorize the Executive Committee to continue to work with and provide executive management direction to the Interim Executive Officer and General Counsel.

Ongoing Financial Management Objectives

- ***Verification of Financial Data Accuracy*** - There has been a clear need to review and confirm the accuracy and integrity of the existing LAFCO financial data. Such a review of the agency's accounting files has revealed no accounting data accuracy problems. Although it has been determined that former LAFCO executive management did not report to the Commission the state of LAFCO financial affairs in a timely and complete way that could have averted the extent of ongoing financial challenges, such reporting and the implementation of fundamental internal financial controls are being commenced immediately and LAFCO financial data integrity has been confirmed.

- **Commencement of Financial Audits** - The last full annual financial audit was performed for FY 2011/12, and presented to the Commission in mid-2013. \$2,500 was included in the approved FY 2013/14 budget and \$10,000 was in the FY 2014/15 budget for audit purposes, but no annual fiscal audits have been completed during the past approximately 22 months. The Commission's related direction will be funded by the Proposed FY 2015/16 Budget to be adopted, but the Fiscal Committee and staff recommend that the Commission authorize staff to proceed to solicit proposals to complete the needed audit work for the period since June 30, 2012, at the earliest possible time. Based on Fiscal Committee and staff review of recent LAFCO finance and resulting questions that have been raised, it is also recommended that a detailed LAFCO disbursements audit for the period of October 25, 2013 through April 2nd of this year also occur.
- **Active Cash-Flow Management** – There would clearly have been LAFCO budget excesses for this year requiring extraordinary measures such as a loan or bridge financing had the Proposed Cash-Flow Plan not been prepared, due to spending beyond budgeted agency income for FY 2014-15. However, with active cash-flow management of the type that has commenced since April 2nd, with the pro-active financial management work of the Fiscal Committee and existing LAFCO staff, LAFCO can complete the current year without obtaining a line of credit or loan. The proposed Cash Flow plan for this year together with a constrained but adequate Proposed FY 2015-16 Budget, and continued active cash-flow management, will allow this agency to fully and properly function as to all essential functions.

FY 2014-15 Cash Flow Plan

The attached "Cash Flow Worksheet FY 2014-2015" was prepared by the Fiscal Committee with staff support. The final proposed plan reflects minor refinements following the last Fiscal Committee review meeting. The final proposed Cash Flow Plan reflects current Shasta LAFCO finances and presents a detailed plan for completing the final two months of this fiscal year without needing to obtain a loan or "bridge" financing. Here are some of the primary points raised in the proposed Cash-Flow Plan:

- **Cash Balance** - As of March 31st, the end of the 3rd Quarter of the current fiscal year, expenditures left a cash balance of only approximately \$16,528 and unpaid aging payables of approximately \$13,173. The attached Cash Flow Plan worksheet shows each budget line item that has been exceeded (i.e., that is over budget). This was confirmed based a cash basis for accounting, rather than on the accrual basis for accounting that former management had apparently relied on, at least when providing periodic financial reports to the Commission.
- **Extraordinary Expenses** - The primary expenses in excess of the Adopted FY 2014/15 Budget at the end of the 3rd Quarter were in the categories of Temporary Personnel; Offices Services & Supplies; Extraordinary MSR/SOI Expenses; and Transportation/Travel, Etc. Of the total adopted expenditure budget for FY 2014-14 of \$196,100, a total of \$194,227 had been spent as of March 31st. This excluded incurred but unpaid legal expenses of \$11,608 as of that date. As a result, and because former executive management did not timely bring ongoing budget overruns to the Commission's attention, LAFCO is confronted with relying on extremely limited unexpended current year

funds to finance limited LAFCO activities for the balance of FY 2014/15 and the need to defer some costs into the next fiscal year.

- **Legal Services** – As above noted, although the actual paid invoices for legal services in FY 2014/16 at the end of March did not exceed the Adopted 2014/15 Budget, there were aging payables in the amount of approximately \$11,608 that were unpaid for general counsel services through that date. The Underwood & Wetzel law firm has agreed to defer payment on this balance, and additional projected current year charges which are estimated in the attached Cash-Flow Management Plan to be \$17,835. A specific proposed General Counsel budget for the balance of FY 2014-15 is attached to the proposed cash-flow plan.

The combined total resulting estimated General Counsel fees of \$29,443 would be paid July, and therefore after the commencement of the 2015/16 fiscal year. It is recommended that the Executive Committee be formally authorized by the Commission to provide guidance and direction to the General Counsel for the balance of this fiscal year, in order to assist with legal services/executive management services priorities setting in hopes that this will assist with projected cost savings for these functions through June 30th.

- **Executive Officer Cost Savings** – The Cash Flow Management Plan provides for no additional payments for contract executive officer services this year, following the Commission's decision not to extend the former Executive Officer's contract at its April 2nd meeting. This will result in LAFCO savings of approximately \$16,000 through June of this year. Support staff, with the assistance of General Counsel as needed, is expected to be able to manage all executive officer functions that may arise through June of this year.
- **Reduced Office Hours & Support Staff** – The proposed Cash Flow Management Plan necessarily limits LAFCO office hours to only two hours daily Monday through Thursday, with Office Manager Kathy Bull to staff the office for the eight (8) hours weekly that the agency will be open to the public for business. The Cash-Flow Plan reflection of an "average of 12 hours per week" takes into account the significantly increased April time needed to properly analyze the condition of LAFCO's financial affairs, and to assist with the Proposed FY 2015-16 Budget preparation. The temporary reduced hours through June 30th should still enable adequate monitoring of electronic and other mail, telephone messages management, and the performance of other basic LAFCO support services.
- **No "Bridge Loan" Required** – As a result of Fiscal Committee and staff review and verification of actual current financial data, and if the proposed cost-cutting and deferred payment measures that have been proposed are found acceptable to the Commission, Shasta LAFCO will be able to adequately manage its affairs for the balance of FY 2014/15 without any loan or "bridge" financing. However, if the Commission determines to modify the proposed Cash Flow Plan in a way that would use the minimal Proposed FY 2014-15 Budget fund balance of \$1,291, additional financing would be required in a corresponding amount as the proposed Cash-Flow Plan provides no more room for expenditure reductions this year.

Interim Executive Officer Appointment

Applicable statutes require the Commission to appoint an executive officer to represent Shasta LAFCO in various defined ways. There might be no need for executive officer actions before the Commission appoints the next executive officer, but follow-up to the last approved MSR/SOI for the Fall River Valley fire protection services, and the just approved Burney Water District and Shasta CSD annexations will most likely require some time sensitive follow-up in upcoming weeks or months.

Accordingly, it is recommend the Commission appoint an Interim Executive Officer for this purpose. Potential alternatives for such an appointee include the LAFCO General Counsel or the Office Manager, and possibly even the Chairman of the Commission. In any event, it is anticipated that General Counsel, the Office Manager and the Chairman (and Vice-Chairman) will continue to work closely to manage LAFCO affairs as needed until a longer-term Executive Officer appointment is made.

Conclusion & Recommendations

Based on the foregoing it is recommended that the Commission consider the attachments and staff comments, and act on the potential action items as above outlined.

Sincerely,

James M. Underwood, General Counsel

Attachments: (1) Fiscal Committee's Cash Flow Management Plan for FY 2014/15
(2) General Counsel Budget for FY 2014/15

**SHASTA LOCAL AGENCY FORMATION COMMISSION
FY 2014-15 CASH FLOW PLAN**

Categories	Adopted FY 2014-2015 Budget	1st - 3rd Quarter as of 3/31/2015	April Projected Estimate	May Projected Estimate	June Projected Estimate	Projected Total FY 2014/2015 Expenses	(Over)/ Under Budget	Notes
EXPENSES								
Salaries & Benefits								
Payroll Salaries								
Regular Hours	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Admin PT*	0	0	0	0	0	0	0.00	All staff have been under employment contract since 11/2013
Bereavement*	0	0	0	0	0	0	0.00	
PTO*	0	0	0	0	0	0	0.00	
Payroll Salaries Sub Total	0	0	0	0	0	0	0.00	
Employer Expense								
Employer Taxes	0	0	0	0	0	0	0.00	
Employer Share Health/Dental	0	0	0	0	0	0	0.00	5,696
Payroll Processing	0	0	0	0	0	0	0.00	1,753
Retirement - PERS	0	0	0	0	0	0	0.00	7,449
Retirement - PERS - past employee	0	0	0	0	0	0	0.00	
Worker's Comp Exposure	0	(38)	0	0	0	(38)	38.43	
Employer Expense Sub Total	\$ -	\$ (38)	\$ -	\$ -	\$ -	\$ (38)	\$ 38	
Payroll - Other								
Payroll - Other Sub Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Total Salaries & Benefits	\$ -	\$ (38)	\$ -	\$ -	\$ -	\$ (38)	\$ 38	
Services and Supplies								
Contract Employment Services								
Contractor Executive Officer - Jan Lopez	53,340	48,351	0	0	0	48,351	4989.26	Reflects former EO standard services contract payments through 4-2-2015.
Payroll - Temporary Personnel	58,325	59,772	7,449	540	432	68,193	(9868.25)	This assumes part-time Office Manager staffing for financial management and essential LAFCO office functions, for an average of about 12 hours weekly through June 2015.
Payroll - Temporary Personnel Over-time	0	0	0	0	0	0	0.00	
Contract Services Sub Total	\$ 111,665	\$ 108,123	\$ 7,449	\$ 540	\$ 432	\$ 116,544	\$ (4,879)	
Office Services & Supplies								
Bank & Transfer Fees	100	279	63	40	40	423	(322.60)	
Communications	2,300	1,546	347	180	180	2,253	46.93	
Info Tech Tools & Equip	650	43	0	0	0	43	607.01	
Memberships	3,500	3,466	0	0	0	3,466	34.00	
Mileage Reimbursement	700	207	0	0	0	207	492.74	
Office Expense	300	1,039	280	20	20	1,358	(1058.49)	
Office Furnishings	0	972	0	0	0	972	(972.40)	
Office Supplies	2,000	3,369	112	20	20	3,521	(1521.38)	
Postage & Shipping	900	781	202	0	0	983	(83.28)	
Printing	300	320	0	0	0	320	(19.79)	
Office Employment Services Supplies - Sub-Total	\$ 10,750	\$ 12,023	\$ 1,004	\$ 260	\$ 260	\$ 13,547	\$ (2,797)	

**SHASTA LOCAL AGENCY FORMATION COMMISSION
FY 2014-15 CASH FLOW PLAN**

Categories	Adopted FY 2014-2015 Budget	1st - 3rd Quarter as of 3/31/2015	4/30/2015 Projected Estimate	5/30/2015 Projected Estimate	6/30/2015 Projected Estimate	Total FY 2014/2015 Projected Estimate	(Over)/ Under Budget	Notes
Professional Services								
Miscellaneous Services								
Consulting	0	2,300	0	0	0	2,300	(2300.00)	This 2014-15 consultant disbursement of \$2,300 was not approved in the Adopted FY 2014-15 Budget, and is under review.
Contract EO- Application Services	8,400	6,163	0	0	0	6,163	2237.50	Staff proposes that actual expense disbursements be audited in FY 2015-16.
Elections	250	0	0	0	0	0	250.00	
Engineering	250	0	0	0	0	0	250.00	
Audit	6,000	4,475	0	0	0	4,475	1525.00	
General Fiscal	4,000	104	0	0	0	104	3895.88	
InfoTech Services	1,250	2,650	130	0	0	2,780	(1530.00)	
Planning and GIS	2,000	0	508	0	0	508	1492.50	
Planning and GIS								
InfoTech - Website	650	1,219	300	0	0	1,519	(869.00)	
Miscellaneous Services - Sub-Total	\$ 22,800	\$ 16,911	\$ 938	\$ -	\$ -	\$ 17,848	\$ 4,952	
Legal Counsel								
LAFCO Applications	0	1,015	0	0	0	1,015	(1015.00)	The General Counsel's law firm has agreed defer to FY 2015/16 fees through March in the amount of \$11,608, and additional estimated fees through June of approximately \$17,835, to July 2015. The resulting total deferred potential legal fees from FY 2014-15 is therefore \$29,443. It is proposed that the Executive Committee serve to prioritize General Counsel tasks with a goal of minimizing additional FY 2014/15 legal and related deferred expenses to the extent possible.
LAFCO Meetings	2,500	4,887	0	0	0	4,887	(2386.50)	
General Counsel	1,500	1,102	0	0	0	1,102	398.00	
Litigation - LAFCO	10,000	1,956	0	0	0	1,956	8044.50	
Litigation - Personnel	2,500	3,588	0	0	0	3,588	(1088.00)	
Special Requests	0	1,748	0	0	0	1,748	(1747.50)	
Special Studies	1,500	754	0	0	0	754	746.00	
Other	0	2,944	0	0	0	2,944	(2943.50)	
Legal Counsel Sub Total	\$ 18,000	\$ 17,992	\$ -	\$ -	\$ -	\$ 17,992	\$ 8	
Professional Services Sub Total	\$ 40,800	\$ 34,903	\$ 938	\$ -	\$ -	\$ 35,840	\$ 4,960	See the General Counsel Cash-Flow Plan & Proposed FY 2014-15 Budget.
Rents, Leases & Misc.								
Property & General Liability	1,700	1,630	0	0	0	1,630	69.55	
Publications/Legal Notices - Regular	1,500	426	294	96	96	912	588.00	
Rents & Leases Equipment	4,200	6,128	194	0	0	6,322	(2121.58)	The limited FY 2014-15 costs reflect a proposed restructuring of the Coastal Business System copier lease to reduce services and bill on a 6 month basis, resulting in a credit through June 2015.
Rents & Leases of Structures	12,000	8,383	1,256	956	956	11,552	448.05	
Small Tools & Equipment	350	277	0	0	0	277	72.94	
Software	350	803	0	0	0	803	(452.92)	
Rents, Leases & Misc. Sub Total	\$ 20,100	\$ 17,647	\$ 1,744	\$ 1,052	\$ 1,052	\$ 21,496	\$ (1,396)	
Extraordinary MSR/SOI Expenses								
CDFW Fees	4,000	0	0	0	0	0	4000.00	
GIS Services	3,000	7,721	0	0	0	7,721	(4721.00)	There is a \$1,561 payable to be paid in July 2015.
Mileage Reimbursement	0	429	0	0	0	429	(429.18)	
Postage & Shipping	600	57	0	0	0	57	542.90	
Printing	135	749	0	0	0	749	(614.32)	
Public Hearing Notice	1,050	1,478	0	0	0	1,478	(428.10)	
Office Supplies	500	1,143	0	0	0	1,143	(643.28)	
Transportation/Travel/Lodge - Staff	0	4,422	0	0	0	4,422	(4421.71)	Staff proposes that actual expense disbursements be audited in FY 2015-16.
MSR/SOI Expenses Sub-total	\$ 9,285	\$ 16,000	\$ -	\$ -	\$ -	\$ 16,000	\$ (6,715)	

**SHASTA LOCAL AGENCY FORMATION COMMISSION
FY 2014-15 CASH FLOW PLAN**

Categories	Adopted FY 2014-2015 Budget	1st - 3rd Quarter as of 3/31/2015	4/1/2015 Projected Estimate	5/1/2015 Projected Estimate	6/1/2015 Projected Estimate	Total FY 2014/2015 Projected Estimate	(Over)/ Under Budget	Notes
Transportation/Travel - Staff	2,000	3,396	0	0	0	3,396	(1396.01)	Staff proposes that actual expense disbursements be audited in FY 2015-16.
Transportation/Travel - Commissioner	0	439	0	0	0	439	(439.09)	
Utilities	1,500	1,746	166	170	170	2,252	(751.99)	
Trans./Travel & Utilities Sub Total	\$ 3,500	\$ 5,582	\$ 166	\$ 170	\$ 170	\$ 6,087	\$ (2,587)	
Total Services & Supplies	\$ 196,100	\$ 194,277	\$ 11,300	\$ 2,022	\$ 1,914	\$ 209,514	\$ (13,414)	\$ (13,414)
Appropriation for Contingency	0	0	0	0	0	0	0.00	
TOTAL EXPENSES	\$ 196,100	\$ 194,277	\$ 11,300	\$ 2,022	\$ 1,914	\$ 209,476	\$ (13,376)	
REVENUES								
Interest	\$ 450	\$ 115	\$ -	\$ -	\$ -	\$ 115		
Intergovernmental Revenue								
Contribution from Cities	62,000	62,000	0	0	0	62000		
Contribution from Shasta County	62,000	62,000	0	0	0	62000		
Contribution from Special Districts	62,000	62,002	0	0	0	62002		
Total Intergovernmental Revenue	186,000	186,002	0	0	0	186002		
Proposed Fees Received - Applications	9,600	4,700	0	0	0	4700		
Misc. Other Revenue	50	0	0	0	0	0		
TOTAL REVENUES	\$ 196,100	\$ 190,817	\$ -	\$ -	\$ -	\$ 190,817		
EXPENSES (OVER)/UNDER REVENUES	\$ -	\$ (3,461)	\$ (11,300)	\$ (2,022)	\$ (1,914)	\$ (18,659)		
BALANCE OF ACCOUNTS								
ACCOUNTS	Adopted FY 2014-2015 Budget	3rd Quarter Ending Balance	4/30/2015 Projected Estimate	5/31/2015 Projected Estimate	6/30/2015 Projected Estimate	7-1-15 Est. Balance		
LAIF								
Opening Balance		\$ 3,438						
Ending Balance		3,438						
LAIF - Contingency								
Opening Balance		0						
Ending Balance		0						
US Bank - Operating								
Opening Balance		12,925						
Ending Balance		12,925						
US Bank - E-Payables								
Opening Balance		165						
Ending Balance		165						
Account Balance Totals		\$ 16,528	\$ 5,227	\$ 3,205	\$ 1,291	\$ 1,291		

SHASTA LAFCO
GENERAL COUNSEL FY 2014-15 4TH-QUARTER CASH-FLOW COST DEFERRAL PLAN

4/27/2015

General Description of Work Scope	ESTIMATED BUDGET		ACTUAL APRIL TIME		MAY TIME		JUNE TIME		TOTAL ACTUAL		BUDGET %	(OVER)/UNDER
	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost	To Date	Budget
A. Interim Executive Officer/Financial Management												
1. Budget Preparation & Adopation	45	\$5,075	41	\$3,625					41	\$3,625	71.4%	\$1,450
2. General Staff Supervision	8	1450	5	290					5	290	20.0%	1,160
3. Interim Executive Officer Functions	10	1450	5	725					5	725	50.0%	725
4. New Executive Officer Recruitment	10	2175	2	0					2	0	4.0%	2,175
Sub-Total	70	\$ 10,150	53	\$7,685	7	\$1,015.00	7	\$1,015.00	53	\$7,685	46.6%	\$ 5,510
C. Litigation/Claims												
1. Mickelson	8	1450	2	290					2	290	20.0%	1,160
2. Potential Other	8	1450	4	290					4	290	20.0%	1,160
Sub-Total	20	\$ 2,900	6	\$870	4	\$580.00	4	\$580.00	6	\$870	20.0%	2,320
D. General Counsel Services												
1. Legal Advise	8	1740	8	1160					8	1160	66.7%	580
2. Meetings	8	2320	10	1160					10	1160	50.0%	1,160
Sub-Total	16	\$ 2,320	18	\$2,610	3	\$435.00	2	\$290.00	18	\$2,610	57.1%	1,740
E. Special Projects												
1. Audits Support	8	1450	2	290					2	290	20.0%	
2. Internal Controls Support	5	725	5.5	290					5.5	290	40.0%	
3. Pending Applications Support	2	725	2	145					2	145	20.0%	580
4. Other Projects	2	1740	8	1160					8	1160	66.7%	580
Sub-Total	17	\$ 2,465	17.5	\$2,538	1.5	\$217.50	0	\$0.00	17.5	\$2,538	40.6%	2,755
EST. TOTAL 4TH QTR.	123	\$ 17,835	94.5	\$13,703	15.5	\$2,247.50	13	\$1,885.00	94.5	\$13,703	76.8%	\$4,133

OPEN INVOICES 3-31-15	\$ 11,608
TOTAL DEFERRED	\$ 29,443