

LOCAL AGENCY FORMATION COMMISSION COUNTY OF SAN BERNARDINO

215 North D Street, Suite 204, San Bernardino, CA 92415-0490
(909) 383-9900 • Fax (909) 383-9901
E-MAIL: lafco@lafco.sbcounty.gov
www.sbclafco.org

DATE: APRIL 8, 2009

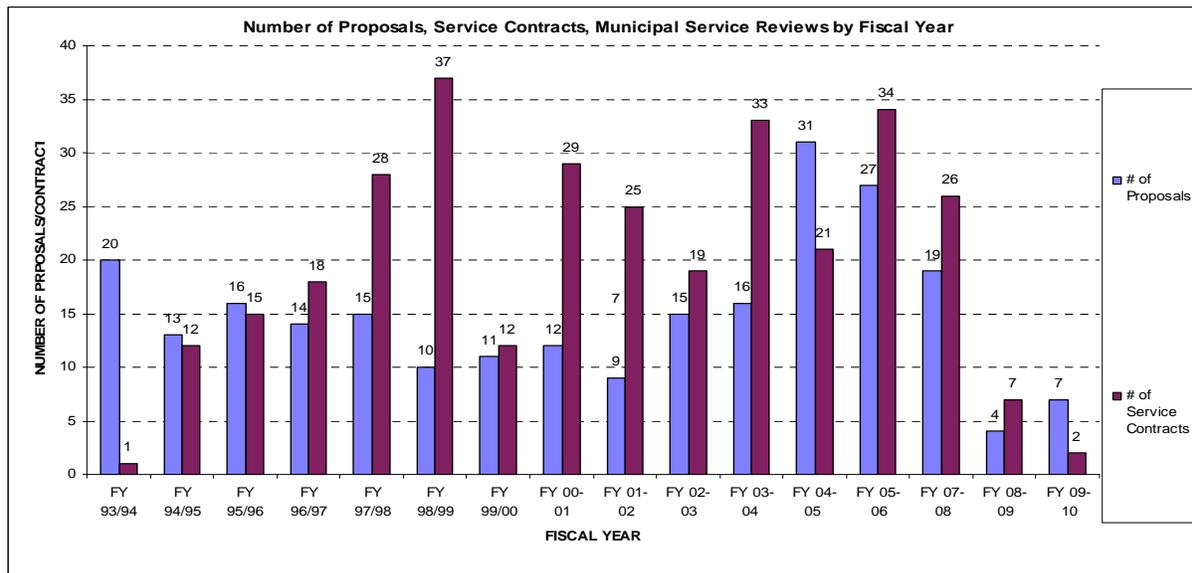
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, LAFCO Analyst

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: **AGENDA ITEM #7 – ITEM (B)** -- Preliminary Budget Review for Fiscal Year 2009-10

BACKGROUND:

At this hearing, the Commission will begin its annual budget review. This year's budget discussion will be unprecedented on a number of levels: the weakened economy of the County, the continuing lack of development activity, the unprecedented reduction in property values affecting the revenue stream of the Commission's constituents and the list could go on. The information available to LAFCO staff points toward the continuation of the lack of development activity for at least another year. For the Commission, the first concern is the lack of proposal activity, which pays fees, for the current fiscal year and projected to continue into next year. The chart below identifies proposal submission activity for the last 15 years.



With the continuing reduced funded activity level, staff's objective in preparing the Budget for the upcoming Fiscal Year was to provide:

- 1) The funding necessary to complete the mandated Municipal Service Reviews/Sphere of Influence Updates and begin the five-year update mandated by State law. This processing allows for only a recovery of direct costs (environmental processing, notifications, legal advertising) but no fees to assist in the payment of overall staff costs; and,
- 2) Identify the staffing necessary for processing of the anticipated proposals for jurisdictional change in a thorough, accurate and expeditious manner while containing costs wherever possible.

This position was outlined with the Commission's Administrative/Budget Committee at a meeting following the Commission hearing on March 18th. The consensus was to take actions to reduce service and supply cost for the upcoming year through a reduction in hearing dates, elimination of advertising in local newspapers and videotaping of hearings, and reduction in participation in conferences and workshops. On the staffing side, it was determined that a reduction of one position would be required, as well as the suspension of the 3.25 percent cost-of-living increase proposed for June 20, 2009.

These actions are more fully outlined below. Staff believes that these actions will realign the Commission's operations sufficiently to meet the challenges of the upcoming year as we know them today. However, staff can not predict the future and as the last year has shown, the mid-year review may require additional steps to deal with the ongoing economic situation.

WORKLOAD AND STAFFING CONSIDERATIONS:

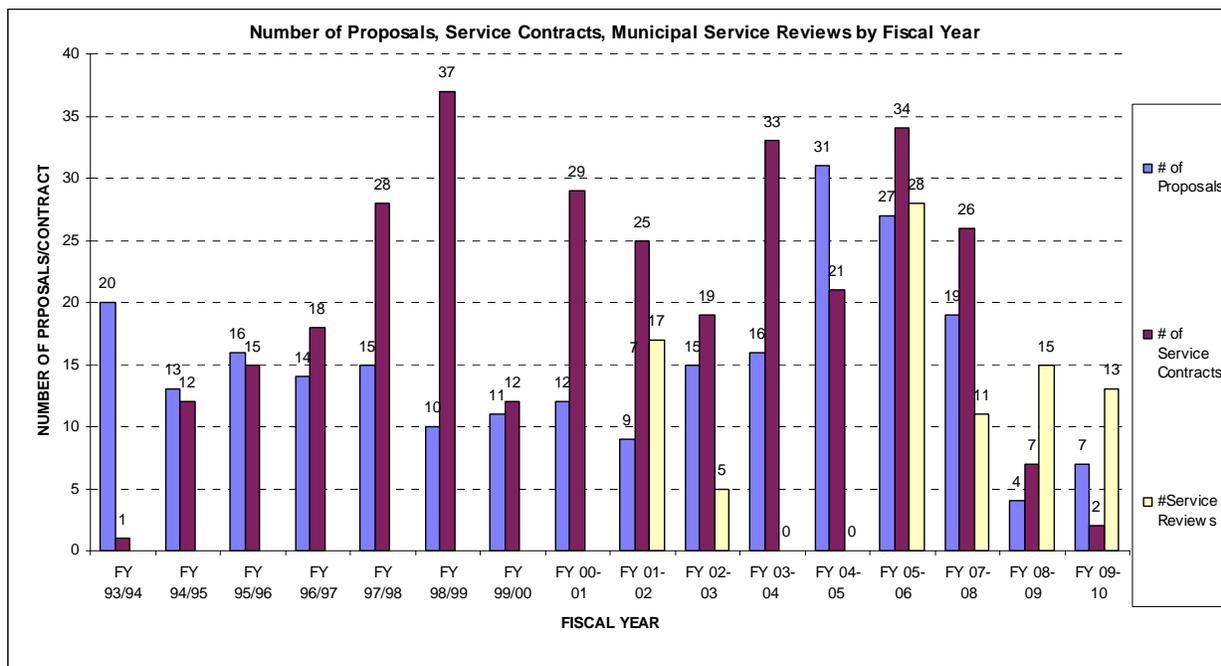
FISCAL YEAR 2008-09

Staffing levels for Fiscal Year 2008-09 provided for six full-time employees. Many of the activities in support of the Commission's activities are currently outsourced, such as the County's Geographic Information Management System (GIMS) for mapping and aerial imagery, the Commission's Environmental Consultant for environmental assessment of activities and Legal Counsel. The estimated year-end expenditures for salaries and benefits are \$802,606, \$12,080 below budgeted amount.

FISCAL YEAR 2009-10

Due to the continued weakening of the economy in San Bernardino County, the staff is recommending that the Commission take a number of steps to curtail expenditures and realign its staffing patterns for what staff believes to be a new reality. That new reality is reflected in the chart below which outlines the activity for all aspects of the Commission's responsibilities for the past 15 years (applications, out-of-agency service

contracts and municipal service reviews/sphere of influence updates) and provides a projection for next fiscal year. Fiscal Year 2008-09 had the fewest application filings in the Commission's 45 year history. Unfortunately staff is projecting that next year will be about the same.



As noted in the Background section of this report, the changes proposed have been reviewed with the Commission's Administrative/Budget Committee made up of Commissioners Nuami, Mitzelfelt and Biane. The staffing changes are:

- The staffing of the Commission office is dependent upon activity level. As identified above the Commission's activity level is at a thirty year low. Therefore, staff is recommending that the actions necessary to reduce employees to five from the current six, eliminating the Clerk to the Commission position, be taken. This action will involve adopting a severance package for the current Clerk to the Commission, who then will retire effective July 31, 2009. The severance package proposed is a lump sum payment of \$26,000 in earnable compensation. The retirement will also necessitate the payment of leave balances to be provided by July 31, 2009. The net cost savings with this reduction for Fiscal Year 2009-10 is \$46,166.
- The Commission has adopted the same benefit package and cost-of-living increases as provided by the County's Exempt Compensation Plan. It is the staff recommendation that the cost-of-living increase approved for next two fiscal years be deferred one year. LAFCO employees were to receive a 3.25 percent increase effective June 20, 2009. Deferral of this increase provides an overall

cost savings of \$20,883 during Fiscal Year 2009-10 since salaries paid impact costs for earnable compensation for other payment categories.

- The retirement of the Executive Officer had been previously identified as taking place in March 2010. Due to the staff reductions and costs associated, it has been determined that this date will be pushed back to July 2010 (termination payments and other items will be moved to Fiscal Year 2010-11). However, the FY 2009-10 salary and benefit cost projection includes a one pay period overlap with the new Executive Officer during Fiscal Year 2009-10.

Additional workload responsibilities include the Executive Officer's continuing participation as a member of the CALAFCO Legislative Committee and as a member of the coalition of Southern California LAFCOs.

Human Resource Policies and Guidelines Amendment:

In response to questions raised during the Audit discussion, staff is recommending a policy change related to the assumption of liability for leave balances for employees hired by LAFCO from other agencies. In order to limit the financial obligations, staff is proposing the following changes to the Human Resources Policies and Guidelines:

Section 301 – Sick Leave shall add the following:

Prior Service Time:

Regular employees hired by SB LAFCO who have been employed by a public or private jurisdiction and wish to have credit for their prior sick leave recognized by SB LAFCO shall do the following:

- Provide documentation of the number of sick leave hours from the prior public or private jurisdiction paid in cash to the employee upon their termination; and,
- Submit payment of the total amount paid at termination for sick leave to SB LAFCO.

SB LAFCO will then recognize those hours as sick leave subject to the provisions of the Human Resources Policies and Guidelines.

Section 302 – Vacation Leave shall add the following:

Prior Service Time:

Regular Employees hired by SB LAFCO who have been employed by a public or private jurisdiction and wish to have credit for their prior vacation leave recognized by SB LAFCO shall do the following:

- Provide documentation of the number of vacation leave hours from the prior public or private jurisdiction paid in cash to the employee upon their termination.
- Submit payment of the total amount paid at termination for vacation leave to SB LAFCO.

SB LAFCO will then recognize those hours as vacation leave subject to the provisions of the Human Resources Policies and Guidelines.

Fiscal Year 2010-11

As has been the practice, a forecast for Fiscal Year 2010-11 has been provided. The forecast for this Fiscal Year identifies the cost-of-living increase deferred to June 20, 2010, assumes five employees during the year and also identifies funding for Account 1045 Termination Payments and increased salary payments associated with the retirement of the existing Executive Officer anticipated in July 2010.

SERVICES AND SUPPLIES:

FISCAL YEAR 2008-09

Most of the Commission's activities for Fiscal Year 2008-09 have related to completion of the mandated Municipal Service Reviews. In addition, the Commission's Legal Counsel has been addressing the appeal of the Ventura Superior Court decision and other processing items related to LAFCO 3076, the consolidation of San Bernardino Municipal Water District and the San Bernardino Valley Water Conservation District. In forecasting the year-end expenditures for the current fiscal year, staff is anticipating expenditures in excess of budget authority. This occurred due to:

1. Costs for municipal service reviews for printing, legal advertisements, postage, etc. have exceeded the budget estimates by \$31,410. Of this cost, a portion will be recovered and deposited into fee accounts.
2. The Independent Financial Analysis for LAFCO 3076 was not a part of the original budget. This anticipated \$25,000 expense will be covered by the deposits from the San Bernardino Valley Municipal Water District and the San Bernardino Valley Water Conservation District.
3. Litigation charges are \$27,000 higher than projected. These costs are recovered, pursuant to Commission policy, from the applicant.

In order to address the increases on the expense side as well as the increased revenue through cost recovery, the staff is recommending that the Commission increase

appropriation authority by taking the actions necessary to adjust the following accounts:

1. Increase the following accounts:

- Legal Notices (Account 2085) by \$25,000
- Postage (Account 2310) by \$10,000
- Other Professional Services (Account 2445) by \$25,000
- Outside Legal Counsel (Litigation services) (Account 2449) by \$35,000

2. Recognize increased revenues to be received in the following accounts offsetting the increased expenditures in Services and Supplies:

- Legal Services (Revenue Account 9555) by \$35,000
- Environmental Deposits (Revenue Account 9660) by \$8,437
- Carryover from Prior Fiscal Year (Revenue Account 9970) by \$51,563

FISCAL YEAR 2009-10

As outlined in the Background to this report, staff is anticipating a continuation of the reduced filing of applications from the current fiscal year. Therefore, staff is recommending a total Services and Supplies budget of \$342,396, a reduction of \$133,205, or 28%, from Fiscal Year 2008-09. In reference to the expense categories within the overall Services and Supplies section, staff is proposing reductions in the following activities:

- The establishment of a set schedule of nine (9) Commission hearings for the upcoming year. The hearing schedule shall be as follows:

HEARINGS

July 15, August 19
October 21, November 18
January 20, February 17
April 21, May 19, June 16

NO HEARING

September 2009
December 2009
March 2010

- The practice for legal advertising for proposals will be limited to that required by law. Advertising of public hearings will be in a newspaper of general circulation in the area, eliminating the additional local newspaper publication.
- Commission and staff participation at the CALAFCO Annual Conference and Workshops will be reduced. For the upcoming Fiscal Year four commissions and two staff members will be authorized to attend the CALAFCO Annual Conference and two staff members at the CALAFCO Staff Workshop.
- Videotaping of the Commission hearings will be eliminated (contract cost is \$315 per hearing).

The variable in this discussion relates to the Legal Counsel costs and the anticipated litigation if a determination of approval of LAFCO 3076 is provided. Since these costs are recovered from the applicant, they will be addressed during the quarterly and/or mid-year budget reviews.

FISCAL YEAR 2010-11

The budget presented carries forward the reductions of the prior year and anticipates little relief from reduced filings. It is anticipated that the mandatory five-year update will begin for the Municipal Service Reviews/Sphere Updates for the West Valley region identified as the LA County Line to the eastern boundary of the City of Fontana.

REVENUES:

FISCAL YEAR 2008-09

To say that revenue receipts from application filings during the current Fiscal Year have not met expectations is a gross understatement. As outlined throughout this report, at no time in the Commission's 45 year history have application submissions been this low. The adopted Budget for Fiscal Year 2008-09 anticipated the receipt of 8 applications for jurisdictional change; however, four have been received representing 50% of projected revenues. The revenue categories included in the Budget Narrative include these revenues as well as cost-recovery of direct charges.

FISCAL YEAR 2009-10

Staff anticipates that proposal filings for the upcoming Fiscal Year will remain depressed. The revenue from fees is anticipated at \$104,400 and anticipates 4 reorganization proposals, 2 island submissions and the dissolution of a District. Staff has held meetings and/or discussions with the affected entities on these proposals.

The apportionment process for Fiscal Year 2009-10 will take place pursuant to the provisions of Government Code Section 56381 and will be administered by the County Auditor/Controller-Recorder. The Commission adopted the practice that the Auditor/Controller-Recorder will be requested to use the State Controller Reports that provide the estimates during the preliminary budget review as the final reports. This practice precludes a major change in the apportionment amounts and allows the various entities some security in their own budgeting processes.

Attachment #2 to this report provides the outline of the apportionment for the upcoming year for a reduced net cost of \$1,033,911, a reduction of \$16,089 from Fiscal Year 2008-09.

RESERVES AND CONTINGENCIES:

The staff is proposing a contingency amount of \$25,000 (Account 6000) and is proposing a General Reserve (Account 6025) of \$125,358 which is approximately 11 percent of total expenditures. As was discussed during the review of the Commission's June 2007 Audit, a reserve of 10% of expenditures would be provided for in the future. Should the use of these dollars be required, it will take an action by the Commission to transfer the appropriation.

CONCLUSION:

The information contained in this report outlines and discusses the budget considerations for the Commission which provides for the following:

ACCOUNT TYPE	FY 08-09 FINAL BUDGET	FY 09-10 PROPOSED BUDGET
Salaries and Benefits	\$814,686	\$789,692
Services and Supplies	\$481,495	\$342,396
Reserves and Contingencies	\$126,739	\$150,358
SUBTOTAL	\$1,422,920	\$1,282,446
Fee and General Revenue	\$372,920	\$248,535
NET COST	\$1,050,000	\$1,033,911

Staff believes that the Policy Items outlined in this report related to reduction in staffing and associated severance package, reduction of hearings to nine (9) during the year and other items to reduce overhead are needed to realign Commission operations to the new economic reality we live in. Therefore, staff is requesting Commission support of these items.

In addition, it is the staff position that the balance of expenditures and revenue items will provide for fulfillment of the Commission's ongoing core obligations for processing of proposals and fulfilling State mandates. If the Commission supports the staff's position, it is recommended that, pursuant to the provisions of Government Code Section 56381, the Commission adopt the Proposed Budget as outlined and direct staff to forward this document to the County, the Cities and Towns, and the Independent Special Districts for their review and comment. Staff is also recommending that the final hearing for adoption of the budget be scheduled for May 20, 2009 at which time the comments of the public and agencies the Commission serves will be considered.

RECOMMENDATION:

The staff recommends that the Commission take the following actions:

FOR FISCAL YEAR 2008-09 (CURRENT):

The Commission approves the adjustments to the following accounts to acknowledge increased revenues and corresponding increases in appropriation authority:

1. Increase the appropriation authority in the following accounts:

Legal Notices (Account 2085) by \$25,000
Postage (Account 2310) by \$10,000
Other Professional Services (Account 2445) by \$25,000
Outside Legal Counsel (Litigation services) (Account 2449) by \$35,000

2. Recognize increased revenues to be received in the following accounts offsetting the increased expenditures in Services and Supplies:

Legal Services (Revenue Account 9555) by \$35,000
Environmental Deposits (Revenue Account 9660) by \$8,437
Carryover from Prior Fiscal Year (Revenue Account 9970) by \$51,563

3. Authorize the Executive Officer to sign the three year lease agreement for an office copier.

FOR FISCAL YEAR 2009-10:

- 1) Approve the deferral of the 3.25 percent cost-of-living increase anticipated for June 20, 2009 to June 05, 2010 and the 2.75 percent cost-of-living increase anticipated for June 20, 2010 to June 5, 2011. Staff will provide the Commission with a resolution at the Final Budget Review for adoption.
- 2) Policy Items for FY 2009-10 including directions to staff:
 - a) Authorize a reduction in staffing to five employees and a severance package for the Clerk to the Commission for early retirement in the amount of \$26,000 to be paid prior to July 31, 2009;
 - b) Establish a nine (9) meeting hearing schedule for Fiscal Year 2009-10 as follows:

HEARINGS

July 15, August 19
October 21, November 18
January 20, February 17
April 21, May 19, June 16

NO HEARING

September 2009
December 2009
March 2010

and eliminate the videotaping of the Commission hearings (contract cost is \$300 per hearing).

- c) The practice for legal advertising for proposals will be limited to that required by law. Advertising of public hearings will be in a newspaper of general circulation in the area, eliminating the additional local newspaper publication.
 - d) Commission and staff participation at the CALAFCO Annual Conference and Workshops will be reduced.
- 3) Approve the following amendments to the Commission's Human Resources Policies and Guidelines related to the hiring of new employees and assumption of obligations for Sick and Vacation leave balances:

Section 301 – Sick Leave shall add the following:

Prior Service Time:

Regular employees hired by SB LAFCO who have been employed by a public or private jurisdiction and wish to have credit for their prior sick leave recognized by SB LAFCO shall do the following:

- (a) Provide documentation of the number of sick leave hours from the prior public or private jurisdiction paid in cash to the employee upon their termination; and,
- (b) Submit payment of the total amount paid at termination for sick leave to SB LAFCO.

SB LAFCO will then recognize those hours as sick leave subject to the provisions of the Human Resources Policies and Guidelines.

Section 302 – Vacation Leave shall add the following:

Prior Service Time:

Regular Employees hired by SB LAFCO who have been employed by a public or private jurisdiction and wish to have credit for their prior vacation leave recognized by SB LAFCO shall do the following:

- (a) Provide documentation of the number of vacation leave hours from the prior public or private jurisdiction paid in cash to the employee upon their termination; and,
- (b) Submit payment of the total amount paid at termination for vacation leave to SB LAFCO.

SB LAFCO will then recognize those hours as vacation leave subject to the provisions of the Human Resources Policies and Guidelines.

- 4) Schedule a public hearing for May 20, 2009 for the formal adoption of the Final Budget for Fiscal Year 2009-10 and direct staff to forward the Proposed Budget, as modified at this hearing, to all the independent special districts, cities, and the County for their comment pursuant to Government Code Section 56381.

KRM/MT

Attachments:

1. Proposed Budget -- Spreadsheet and Narrative Related to Individual Accounts
2. Estimated Apportionment Distribution for City/Town and Special District Costs
3. Draft SB LAFCO Human Resources Policies and Guidelines, Sections 301 and 302