

**LOCAL AGENCY FORMATION COMMISSION
COUNTY OF SAN BERNARDINO**

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

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #8: First Quarter Financial Report:
 A: Financial Report for Period July 1 through September 30, 2009
 B: Consideration of Budget Amendments for Fiscal Year 2009-10
 C: Consideration of Benefit Plan Modification for Retirement

RECOMMENDATION:

Staff recommends that the Commission:

1. Approve the following changes to appropriations:
 - a. Increase Expenditure Account 1010 (Regular Salary) by \$36,198 to \$516,166
 - b. Increase Expenditure Account 2400 (Legal Counsel) by \$29,498 to \$59,761
 - c. Increase Expenditure Account 2445 (Other Professional Services) by \$2,358 to \$40,237
 - d. Decrease Revenue Account 8842 (Local Government – Apportionment) by \$32,496 to \$1,001,415
 - e. Increase Revenue Account 9555 (Legal Services) by \$29,498 to 78,048
 - f. Increase Revenue Account 9970 (Carryover from Prior Year) by \$71,052 to \$215,087

2. Continue consideration of the Benefit Plan Modification for Retirement to the January 20, 2010 hearing.

BACKGROUND:

This report provides a first quarter review for FY 2009-10, Commission consideration of budget amendments for FY 2009-10, and a staff request to continue Commission consideration of a Benefit Plan modification for retirement to the January 2010 hearing.

A. FY 2009-10 FIRST QUARTER REVIEW:

Staff is presenting the Commission with a spreadsheet and narrative that summarizes the financial activity for the period beginning July 1, 2009 through the end of the first quarter, September 30, 2009 (spreadsheet included as Attachment #1).

Appropriations (Expenditures and Reserves)

Appropriations are comprised of three categories of accounts: 1) Salaries and Benefits, 2) Services and Supplies, and 3) Contingency and Reserves. Together, Salaries and Benefits and Services and Supplies comprise total expenditures. Through the first quarter, total expenditures are 37% of budget authority. No activity has been authorized by the Commission for the Contingency and Reserve accounts.

1. Salaries and Benefits (1000 series)

Expenditures for Salaries and Benefits (1000 series of accounts) are at \$272,660 for the first quarter, or 35% of budget authority. However, this higher than normal percentage included the following activities:

- First, this year includes an additional pay period, with seven pay periods in the first quarter. Salary and benefit compensation is paid every two weeks, and normally there are 26 pay periods for a fiscal year. However, the accumulation of an extra day each year outside the payroll calendar and an extra leap year day every four years results in a 27th pay period every 10 years. It was anticipated that the 27th pay period would be earned and paid during Fiscal Year 2008-09; however, it was earned in FY 2008-09 but actually paid in FY 2009-10. Since the expenses did not occur, the funds were carried forward into FY 2009-10.

This issue was outlined for the Commission at the September hearing as a part of the FY 2008-09 year-end budget review. Staff notified the Commission that during the first quarter review for FY 2009-10 it would need to acknowledge the carryover of funds as well as the expenses occurring this fiscal year. The staff recommendation is that the Commission increase appropriation authority in Account 1010 (Regular Salary) by \$36,198 to accommodate the additional pay period as well as leave cashouts that did not occur in FY 2008-09, the necessary revenue change is discussed below. Adjusting for these activities, Salaries and Benefits has experienced 33% of budget authority.

- Second, budgeted activities related to the separation of the former Clerk occurred in the first quarter.
 - Termination payments totaling \$73,546 (one-time payment that was budgeted) to include requested leave cashouts and mandatory sick-leave conversion to the Retirement Medical Trust Fund, and

- The separated Clerk served into FY 2009-10 and received salary and benefits payments for three pay periods and a single lump sum payment of final leave balances totaling roughly \$13,000.

Excluding these activities, the overall expenditures for Salaries and Benefits are within normal quarterly activity.

2. *Services and Supplies (2000 and 5000 series)*

Expenditures for Services and Supplies (2000 and 5000 series of accounts) are at \$150,360 for the first quarter. Expenditure items sensitive to activity levels in addition to one-time payments have brought expenditures within Services and Supplies (2000 and 5000 series) to 44% of budget authority. The expenditures identified on the spreadsheet include:

- Full year and one-time payments totaling \$73,029 in Accounts:
 - 2075 (Memberships) for membership in professional organizations. Payment of \$7,000 has been made for the annual dues to the California Association of Local Agency Formation Commissions (CALAFCO). One membership payment remains, \$776 for the annual dues to the California Special Districts Association with billing expected in November.
 - 2115 (Computer Software) for yearly licenses to operate software programs to include digital archiving software of LAFCO's records in order to comply with archiving mandates (\$1,410). Roughly \$200 remains for additional software licensing.
 - 2245 (Other Insurance) for property liability purchased through SDRMA (\$8,048). This is the full year cost and no additional costs are anticipated.
 - 2415 (COWCAP – Countywide cost allocation plan) for costs incurred from FY 07-08 (\$53,325). This is the full year cost and no additional costs are anticipated.
 - 2941 (Conference/Training) for conferences and training courses for Commissioners and staff (\$3,246). Of this amount, \$2,730 is for registration for the CALAFCO Conference, the largest anticipated expenditure for this account.
- Application, legal, and environmental processing related to LAFCO 3076 (Consolidation of the San Bernardino Valley Municipal Water District and the San Bernardino Valley Water Conservation District) totaling \$27,718. These costs were not budgeted for FY 2009-10 because Commission consideration was originally scheduled for completion during FY 2008-09. The costs identified below have been recovered from the applicant:

- 2400 (Legal Counsel) for legal counsel and environmental processing totaling \$23,832.
- 2424 (Environmental Consultant) for CEQA support from the Commission's Environmental Consultant totaling \$1,530.
- 2445 (Other Professional Services) - The remaining costs for the Independent Financial Analysis total \$2,356. This expense was covered by the deposits received in FY 2008-09 from the San Bernardino Valley Municipal Water District and the San Bernardino Valley Water Conservation District.
- Litigation related to LAFCO 3048 – Fontana Islands Reorganization (Account 2449 Outside Legal) totaling \$5,573. These costs are not recoverable.

As mentioned, Services and Supplies (2000 and 5000 series) has experienced 44% of budget authority. To accommodate for the activities outlined above, staff recommends that the Commission increase budget authority as follows:

- Increase Account 2400 (Legal Counsel) by \$29,498
- Increase Account 2445 (Other Professional Services) by \$2,358

Adjusting for the increases, the expenditures in the Services and Supplies category is at 40% of budget authority.

Given these one-time, full year, and reimbursable costs, expenditures are generally on target for the fiscal year. However, significant legal advertisement, publication, and printing costs are anticipated for the upcoming months as the Commission begins consideration of the service reviews and sphere of influence updates for the South Desert and Mountain communities. Staff will closely monitor expenditures to ensure that costs are controlled within expenditure authority provided while maintaining the practice of the Commission to provide notice and disseminate information.

3. Contingency and Reserves (6000 series)

No activity has been authorized by the Commission to take place in the Contingency and Reserves accounts.

Revenues

The Commission has received 103% of it anticipated revenues through the first quarter. Revenue contributions and receipts include:

- 99.2% of the mandatory apportionment payments from the County, cities, and independent special districts billed by the County Auditor/Controller-Recorder. This amount does not include the Commission approved refund of \$32,496 to those agencies that are apportioned LAFCO's net operating costs. To accommodate for the refund, staff recommends that the Commission decrease budget authority in Account 8842 (Local Government – Apportionment) by \$32,496.

- \$30,987 has been recovered this year for proposal processing (not a part of the budget). Of this amount, \$26,568 is related to legal and environmental processing that has occurred in FY 2009-10. To accommodate for this activity, staff recommends that the Commission increase Account 9555 (Legal Services) by \$29,498 to \$78,048.
- The spreadsheet identifies that 44% (\$46,205) of Total Fee Revenue has been received. However, \$26,568 of this amount is related to reimbursements received for proposal processing. Adjusting for these reimbursements received, Total Fee Revenues are at 19%. Through the first quarter at 19%, revenues related to proposal activity are not meeting expectations.

As identified, the Commission has received 103% of it anticipated revenues through the first quarter. However, at the September hearing, staff informed the Commission that the year-end carryover into FY 2009-10 was \$100,550 more than budgeted for FY 2009-10. This has led to a higher than actual reflection of revenues received. To accommodate for this activity and to balance the budget, staff recommends that the Commission increase Account 9970 (Carryover from Prior Year) by \$71,052 to \$215,087.

The current economic and housing challenges continue and will affect future proposal activity. Staff will closely monitor the Commission's revenue receipts and apprise the Commission of any changes or actions that may be necessary.

Proposal Activity

The chart below identifies the number of proposals, service contracts, and service review deposits received during the fiscal year. The chart identifies that one proposal was received in the first quarter. Actually, two proposals were received during the quarter, but an active proposal was withdrawn by the applicant (Sphere Expansion to the Town of Yucca Valley). The result is one proposal for the quarter. Attachment #2 is a chart showing the yearly comparison of proposal activity.

Activity	Projected	Received	% Received
Proposals	6	1	17%
Island Annexation	2	0	0%
Service Contracts - 5 or more units	0	0	-
Service Contracts - up to 4 units	1	0	0%
Service Contracts - Non Develop.	1	1	100%
Service Review Deposits	13	1	8%

Three service reviews were completed during the first quarter: Daggett Community Services District, Newberry Community Services District, and Yermo Community Services District.

B. CONSIDERATION OF BUDGET AMENDMENTS:

At the September hearing, staff informed the Commission that the year-end carryover into FY 2009-10 was \$100,550 more than budgeted for FY 2009-10. Of this amount, the Commission approved a refund of \$32,496 to those agencies that are apportioned LAFCO's net operating costs. The remaining \$68,054 is for expenses to be incurred in FY 2009-10 not

a part of the current budget. Staff recommends that the Commission amend the budget to acknowledge the additional carryover of \$68,054 and accommodate for the activities for which funds have already been received and to provide for a balanced budget, as listed below. Changes are identified on the spreadsheet in bold italic print (Attachment #1). Information on the budget amendments are described in the narrative above.

- Increase Total Appropriation by \$68,054 to \$1,350,500 broken down as follows:
 - Increase Expenditure Account 1010 (Regular Salary) by \$36,198 to \$516,166 to accommodate payment of the additional pay period as well as leave cashouts that did not occur in FY 2008-09.
 - Increase Expenditure Account 2445 (Other Professional Services) by \$2,358 to \$40,237 to accommodate the remaining costs for the Independent Financial Analysis for LAFCO 3076.
 - Increase Expenditure Account 2400 (Legal Counsel) by \$29,498 to \$59,761 to accommodate legal counsel and environmental processing for LAFCO 3076.
- Increase Total Revenues by \$68,054 to \$1,350,500 as follows:
 - Decrease Revenue Account 8842 (Local Government – Apportionment) by \$32,496 to \$1,001,415 to account for the Commission approved refund of the LAFCO apportionment.
 - Increase Revenue Account 9555 (Legal Services) by \$29,498 to \$78,048 to account for costs recovered and to mirror the appropriation increase for Account 2400 (Legal Counsel).
 - Increase Revenue Account 9970 (Carryover from Prior Year) by \$71,052 to \$215,087 to acknowledge increased carryover less refund amount.

C. CONSIDERATION OF BENEFIT PLAN MODIFICATION FOR RETIREMENT:

Staff is not prepared at this time to present the information related to the Benefit Plan modifications for Commission consideration. Therefore, staff requests a continuance of Item 8c to the January 20, 2010 hearing where it will be presented as a part of the Mid-Year Budget review.

Staff will be happy to respond to any questions on this information prior to or at the hearing.

KRM/MT

Attachments:

1. Spreadsheet of First-Quarter Expenditures, Reserves, and Revenues for Fiscal Year 2009-10
2. [Chart Illustrating Yearly Proposal, Service Contract, and Service Review Activity](#)