

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

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**FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
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TO: LOCAL AGENCY FORMATION COMMISSION

**SUBJECT: Agenda Item #9: Mid-Year Budget Review for Fiscal Year 2010-11:
Financial Report for Period July 1 through December 31, 2010**

RECOMMENDATION:

Staff is recommending that the Commission take the following actions:

1. Note receipt of this report and file.
2. Authorize contracting for independent auditing services for Fiscal Years ending June 30, 2011; June 30, 2012; and June 30, 2013 with Lance, Soll, and Lunghard LLP and authorize the Executive Officer to sign the contract.

BACKGROUND:

Staff is presenting the Commission with its mid-year review of the FY 2010-11 Budget which includes information related to forecasts for the balance of the fiscal year. Attachment #1 to this report is a spreadsheet that summarizes the financial activity for the period July 1, 2010 through December 30, 2010. Additional information in narrative form regarding the mid-year review is provided below. This report also requests Commission authorization to contract for an additional three years with Lance, Soll, and Lunghard LLP for independent auditing services.

EXPENDITURES AND RESERVES

Expenditures 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 mid-year, Total Expenditures are at 53% of budget authority. No activity has been authorized by the Commission for utilizing the appropriation authority within the Contingency and Reserve accounts.

1. Salaries and Benefits (1000 series)

At the end of December 2010, expenditures for Salaries and Benefits (1000 series of accounts) are at \$389,982, or 55% of budget authority. This higher than normal percentage is due to budgeted activities related to the retirement of the Executive Officer which included:

- Leave cashout payments totaling \$35,209 (one-time payment that was budgeted),
- Termination and final mandatory leave cashouts totaling \$37,700,
- The Executive Officer served as a regular employee for eight pay periods into FY 2010-11 and received salary and benefits payments. For the remainder of the year, the contracted Executive Officer, by terms of the approved contract, is paid on an hourly basis for a maximum of 960 hours along with auto and cell phone benefits.

Excluding these activities, the overall expenditures for Salaries and Benefits are within normal quarterly activity. There are no extraordinary activities anticipated for the second quarter. Salaries and Benefits are projected to end the year at 96% of budget authority.

2. Services and Supplies (2000 and 5000 series)

Expenditures for Services and Supplies (2000 and 5000 series of accounts) are at \$230,892 for the first half of the fiscal year. Expenditure items sensitive to activity levels in addition to one-time payments have brought expenditures within Services and Supplies (2000 and 5000 series) to 53% of budget authority. The expenditures identified on the spreadsheet include:

- Full year and one-time payments totaling \$80,420 in the following Accounts:
 - 2075 (Memberships) for membership in professional organizations totaling \$7,825 (CALAFCO \$7,000 and California Special Districts Association \$825). This is the full year cost no additional costs are anticipated.
 - 2115 (Computer Software) yearly licenses to operate software programs to include digital archiving software of LAFCO's records in order to comply with archiving mandates (\$1,431).
 - 2125 (Inventoriable Equipment) replacement of computer equipment at the staff office which includes a server, computers, laptops, and peripherals (\$17,944).

- 2415 (COWCAP – Countywide Cost Allocation Plan) for costs incurred from FY 2008-09 (\$39,230). This is the full year cost and no additional payments will be made. Of significance, LAFCO's payment in FY 2010-11 is \$14,095 less than the previous fiscal year.
- 2460 (GIMS) for maintenance of the County's Street Network Basemap (\$10,500).
- Various accounts for conferences and training courses for Commissioners and staff (\$3,400). Of this amount, \$1,950 is for registration for the CALAFCO Annual Conference, the largest anticipated expenditure for these activities.
- Invoices for FY 2009-10 activities processed by the County in FY 2010-11 totaling \$10,257:
 - Legal Notices (Account 2085) totaling \$1,796 for legal notices of Commission hearings.
 - Legal Services (Account 2440) totaling \$4,857 for legal services.
 - Other Professional Services (Account 2445) and Private Mileage (Account 2940) totaling \$3,604 for Commissioner Stipends and travel for the May and June hearings.
- Litigation payments (Account 2449 Outside Legal) totaling \$57,315 related to the settlement payment and attorney costs for the six island annexations to the City of San Bernardino.

For the second half of the year, staff projects that the expenses in the Services and Supplies series of accounts will total \$170,805. Significant legal advertisement, publication, and printing costs are anticipated for the upcoming months as the Commission continues consideration of the service reviews and sphere of influence updates for the South Desert and Mountain communities. A full year cost that did not take place in the first half is the payment for the independent auditor to conduct the annual financial report of the Commission's activities (\$6,830). Additionally, the software and labor costs for the staff office computer replacements will be paid in the second half (roughly \$9,500). The projected year-end total for the Services and Supplies categories is \$401,697, or 92% of budget authority.

3. Contingency and Reserves (6000 series)

No activity has been authorized by the Commission to utilize the Contingency or Reserve accounts through mid-year. However, for the first quarter budget report the

Commission authorized an increase in the Contingency account of \$10,197 due to additional cash carryover into FY 2010-11.

REVENUES

For the past four years staff has identified the precarious economic climate of the nation, the State of California and the local economies when discussing revenue projections. While staff has on many occasions lamented it has never seen times as bad as these, we can say that we are seeing more of the same for Budget Year 2010-11. Locally, the current economic conditions have led to high foreclosure rates and a downturn in development activity, which directly correlates to the planning process for development activity and proposal submissions to LAFCO. These circumstances continue to result in a decline in proposals received through the mid-year of 2010-11, as well as the prior fiscal year. The only positive aspect of this review is that the number of proposal is essentially stagnant, not another year of decline.

1. Revenues through the Mid-Year

The Commission has received 98% of its anticipated revenues through the mid-year. Revenue receipts include:

- Interest received is lower than anticipated due to a continuation of low interest rates.
- 99.9% of the mandatory apportionment payments from the County, cities, and independent special districts billed by the County Auditor/Controller-Recorder has been received. The remaining \$892 is anticipated to be deposited during late January/early February through transfer from the distribution of tax proceeds.
- The spreadsheet identifies that 52% of fee revenues has been received (\$32,680). However, proposal activity is not meeting expectations with only two proposals received through the mid-year.

2. Proposal Activity

The chart below compares the budgeted proposal activity with mid-year actual and year-end projected activity. Through the mid-year, two proposals and three service reviews were received. Since then, an additional proposal and two service contracts have been received. By the end of the fiscal year, staff projects a total of four proposals and five service contracts received. Attachment #2 to this report is a graph showing the yearly comparison of proposal activity.

| Activity | Amended Budget | Mid-Year Actual | | Year-End Projected | |
|-------------------------------------|----------------|-----------------|-------------|--------------------|-------------|
| | | No. | % of Budget | No. | % of Budget |
| Proposals | 5 | 2 | 40% | 4 | 80% |
| Service Contracts - over 4 units | 0 | 0 | | 0 | |
| Service Contracts - 4 units & under | 1 | 1 | 100% | 1 | 100% |
| Service Contracts - Admin approval | 2 | 2 | 100% | 4 | 200% |
| Service Review Deposits | 13 | 0 | 0% | 0 | 0% |
| Protest Hearing Deposits | 4 | 3 | 75% | 4 | 100% |

Six service reviews/sphere updates were completed during the first half: Rim of the World Recreation and Park District, Crestline-Lake Arrowhead Water Agency, and four for the Lake Arrowhead and Crest Forest communities. Additionally, six service reviews/sphere updates were presented to the Commission in December but continued to later hearings (Mountain Road Service and remainder of Crest Forest Community). The second half of the fiscal year anticipates a continuing process for completion of the Mountain and South Desert service reviews.

At mid-year, the Commission's operating fund had a balance of \$651,143. Taking into account expenditure and revenue projections, staff is projecting that all of the Reserves and Contingencies will carry forward into FY 2011-12.

As Commissioners are well aware, the economic and housing challenges continue for the Inland Empire. This situation continues to affect proposal activity and revenue streams and forecasts are not projecting at this time an easing of this situation until 2012 or beyond. As the number of proposal filings illustrates, the activity level of the Commission remains stagnant. Staff will closely monitor the Commission's revenues and expenditures, and apprise the Chairman and Commission quickly of any worsening of the situation.

The agenda for the January 19, 2011 Hearing identified the discussion of a report from the Transition Committee as a part of the mid-year review. However, a meeting of the committee has not been held during the holidays. In addition, with the departure of Commissioner Biane, a new appointment to this committee is required. Staff is working with the Chairman to bring the committee to full membership, schedule a meeting for the end of January to address the recruitment process and provide the Commission with an update at the March 16, 2011 hearing.

CONTRACTING WITH INDEPENDENT AUDITORS:

The current contract with the Commission's independent auditors - Lance, Soll and Lunghard, LLP (LSL) - expires with the June 30, 2010 audit (on this month's agenda). As a part of the most recent Coalition of California LAFCOs (CCL) meeting, a discussion of the potential to extend the audit contract was held. Per the request of CCL, LSL has provided a quote for auditing services for another three year contract (included as Attachment #3). As stated in the quote, the services to be performed, fee structure, and billing methods would remain unchanged from the original contract.

The other CCL members (Orange, Riverside, San Diego, Los Angeles, and Imperial) have either approved the new contract or will be considering the contract at their respective January hearings. For those that have not yet authorized the contract, the respective Executive Officers have notified this LAFCO that they will be recommending Commission approval of the contract.

Forgoing this extension of the contract would require the Commission to issue its own Request for Proposal for auditing services for the period June 30, 2011 through June 30, 2013 and incur the costs in doing so. By several LAFCOs contracting with LSL, San Bernardino LAFCO will continue to benefit from a group discount. Therefore, staff recommends that the Commission authorize the contract extension with LSL for three additional years and authorize the Executive Officer to sign the contract.

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

KRM/MT

Attachments:

1. [Mid-year Status Report Spreadsheet of Expenditures and Revenues](#)
2. [Chart Illustrating Proposal Activity through December 31, 2010](#)
3. [Quote from Lance, Soll and Lunghard, LLP](#)