

LOCAL AGENCY FORMATION COMMISSION COUNTY OF SAN BERNARDINO

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DATE: **APRIL 13, 2011**

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

TO: **LOCAL AGENCY FORMATION COMMISSION**

SUBJECT: AGENDA ITEM #8 – Proposed Budget for Fiscal Year
 2011-12

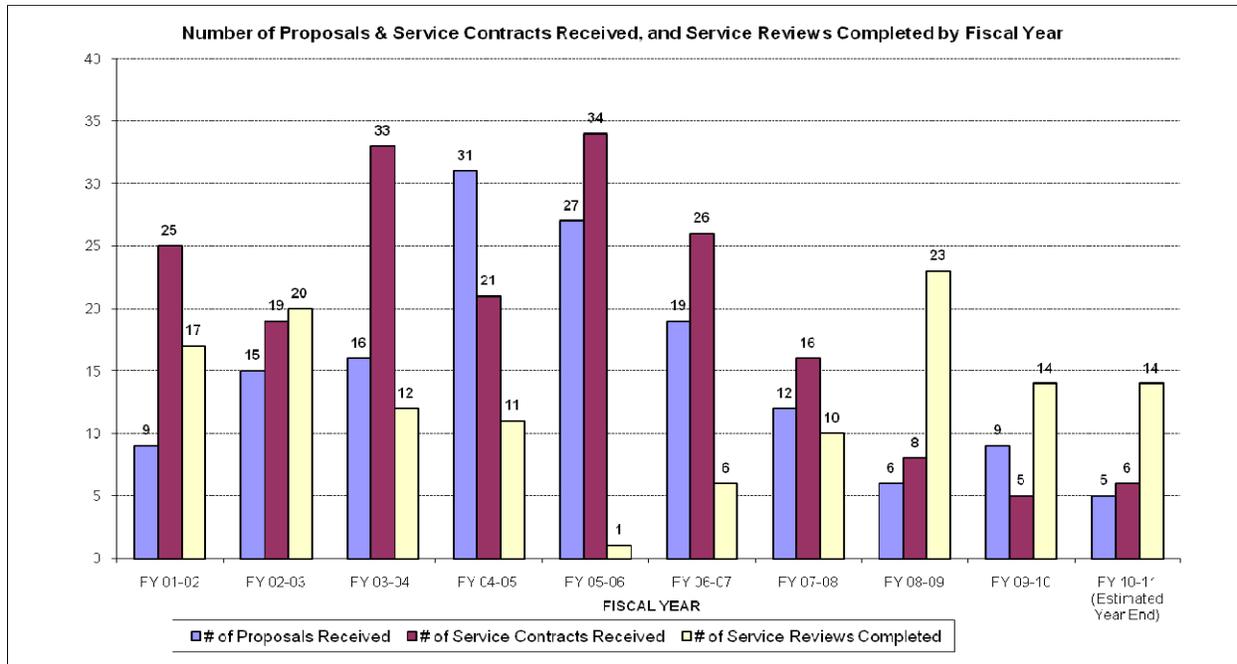
BACKGROUND:

As required by Government Code Section 56381, at this hearing the Commission will begin its annual budget review. Over the last several months staff and the Commission's Administrative Committee (made of up of Chairman Mitzelfelt and Vice-Chair Curatalo) have looked at mechanisms to address what staff defines as the "new normal" for LAFCO. LAFCO staff's review of economic forecast information, such as the "shadow" inventory of foreclosed homes and the reality that approximately 49% of the mortgages within the Inland Empire (Riverside and San Bernardino Counties) are in a negative position, is that the potential for an increased activity level for the next two years is simply not in the cards. With that knowledge, we must also look at the declining ability of the smaller entities which are mandated to support the Commission's activities through the apportionment process being hit hard by dwindling revenues. Therefore, this year's budget, even more than in prior years, will need to think outside the box in order to do more with less.

Staff began its review with the Administrative Committee in January 2011. The review has focused on providing a reduction to apportionment cost of slightly more than \$130,000 (10% of budget appropriation from FY 2010-11); addressing the increasing costs related to retirement contributions; as well as the need to establish reserve accounts for compensated absences and potential litigation costs.

As we look toward 2011-12, the staff's first concern is the lack of proposal activity from the stagnant economy, activity which pays fees towards the net operating cost of LAFCO operations, remains. The chart below identifies proposal

submission activity for the last 10 years and shows the continuing lack of jurisdictional change (fee and deposit supported) activity:



With the continuing reduced activity level, staff’s objective in preparing the Proposed Budget, as always, was to provide for maintenance of effort through an identification of the staffing necessary to accomplish the mandated tasks. As with most governmental operations, the largest expense for operation are personnel costs and those are continuing to grow even with recent changes approved by the County for its Exempt Compensation Plan. Staff has included a copy of the ordinance as Attachment #1. By policy, LAFCO mirrors the County’s Exempt Compensation Plan, which has included the following reductions over the last several months:

1. The 80 hours granted annually of Administrative Leave is now a “use or lose” benefit. In prior years, any leave balance on the books at the final pay period in the calendar year was paid to the employee at their then current rate of pay.
2. The Flexible Benefit Plan for medical and dental premiums has been converted to a subsidy rather than an earnable compensation benefit. This reduces costs in two ways – first, since the \$230 per pay period benefit has been removed from retirement calculations; therefore, Commission’s employer costs will be reduced and second, as a subsidy only the cost of the premium is paid, no residual cash is paid to the

employee.

3. The payment of 7% of base salary toward employee retirement obligations has been rescinded.
4. Step increases are reduced to 2.5% (one step) per year based upon an acceptable performance evaluation, rather than 5% (two step), spreading the time to reach the top step.

One key component of this change is that if the remaining employee bargaining units do not support the reductions, outlined under Section 13.0613 on pages 8 and 9 of the ordinance, the benefits will be restored. At the same time staff became aware of these Exempt Compensation Plan changes, staff was notified that the retirement contribution rate for the Commission is increasing to 22.51% of earnable compensation, a 10.4% increase over the prior year. While the changes proposed reduce earnable compensation amounts, a reinstatement of these benefits will dramatically affect the benefits category of the budget, increasing estimated costs by approximately \$26,000.

The Executive Officer and Administrative Committee in January reviewed methods to reduce costs for the upcoming year based upon the reduced activity. The first item of consideration was the timing for the recruitment effort to bring on-board a new Executive Officer. These discussions included the review of the recruitment schedule for the new Executive Officer, hiring in at an estimated minimum of \$125,000 per year with the full range of benefits. In addition, rather than filling the Clerk to the Commission position, a contract with Riverside LAFCO to share a position and continuation of the professional service contract with Ms. Raef has been proposed. The Riverside LAFCO contract would be a flat hourly rate and would not impact retirement or other benefit costs to the Commission. The estimated cost for staff salaries and benefits under the scenario of a new Executive Officer, with the reductions in benefit plan outlined above, are:

Executive Officer	\$222,789
Senior LAFCO Analyst	\$140,206
LAFCO Analyst	\$106,802
Deputy Clerk (2)	\$161,311
<u>TOTAL</u>	<u>\$631,108</u>

The Administrative Committee discussion turned to the possibility of extending the current Executive Officer's contract for an additional two years, through June 30, 2013, with an increase in hourly rate in each fiscal year. Government Code Section 56380 allows the Commission to contract with a private party to

provide for its needs and Section 56384 requires it to provide for an Executive Officer to handle the day-to-day operations of the Commission. As outlined in last year's budget, there are limitations on the number of hours which can be worked by a former employee of the San Bernardino County Employees Retirement Association (SBCERA). The annual limitation is 960 hours worked for a participating agency within a fiscal year.

In moving forward with this scenario, two other changes were discussed:

1. The need for establishment of a clear "chain of command" which outlines the responsibilities of the next in line during the Executive Officer's absence. In addition, the career ladders for the professional positions were discussed. In 2004, the Commission identified the requirements for an Assistant Executive Officer and Project Manager positions. It is being proposed, under this alternative, to upgrade the Senior Analyst and LAFCO Analyst to Assistant Executive Officer and Project Manager positions; respectively. The establishment of the salary ranges was based upon the latest CALAFCO Salary Survey (2009). Copies of these job descriptions are included as Attachment #2 to this report; and,
2. Retention of the Clerk to the Commission position as vacant with retention of the professional contract with the former Clerk to prepare the minutes of hearings. In addition, as noted above, a contract for support services with Riverside LAFCO.

The estimated costs for this scenario, salaries and benefits, are as follows:

Executive Officer	\$116,300
Assistant Executive Officer	\$143,577
LAFCO Project Manager	\$107,094
Deputy Clerk (2)	\$161,311
TOTAL	\$528,282

An additional item of concern over the past year was reviewed by the Administrative Committee related to reserves to address potential litigation and compensated absences of LAFCO staff. Staff was directed to provide for reserve accounts to respond to the concern of being unable to pursue litigation which the Commission felt strongly about but for which funding was not available and to be able to address the departure costs for staff without impinging upon the operations of the Commission. The staff's estimate of these reserves for the upcoming year would be at least \$190,000 (contingencies and reserves) for potential litigation and \$62,003 for compensated absences based upon leave accruals payable at April 1, 2011.

In order to achieve the direction identified for reserves and reduction in cost for the entities that support LAFCO, staff is recommending that the Commission adopt the contract Executive Officer strategy outlined above. The salary savings in Fiscal Year 2011-12 would be \$96,456.

Turning toward the Service and Supplies budget categories, last year the Commission took actions to reduce service and supply cost through a reduction in hearing dates, elimination of advertising in local newspapers, and reduction in participation in conferences and workshops. The reduction in hearing dates has constrained the Commission's ability to move proposals forward in a timely manner and has caused a logjam of activity at hearings. Staff is proposing to return to a regular monthly schedule for next year and reduce the reproduction and postage costs by providing all materials (staff reports and attachments) in a CD format to those affected and interested agencies and individuals. Only Commission members will receive printed copies of the staff reports. This will maintain the posting of these materials on the Commission's website.

The proposed budget is more fully outlined below and is included as Attachment #3 (spreadsheet) and #4 (Budget Narrative) to this report. Staff believes that the actions outlined for the upcoming Fiscal Year will reduce the costs of the Commission's operations sufficiently to meet the anticipated financial challenges, as we know them today, while decreasing the financial burden to the entities that fund LAFCO by apportionment. However, as always, staff cannot predict the future and the mid-year review may require additional steps to deal with the ongoing economic situation and/or potential litigation.

SALARIES AND BENEFIT:

FISCAL YEAR 2010-11

The total budget for salaries and benefits in Fiscal Year 2010-11 of \$707,672 funded a staff of five positions for the standard 26 pay periods: one Executive Officer (including retirement and return on contract), one LAFCO Senior Analyst, one LAFCO Analyst, and two Deputy Clerks to the Commission. The estimated year-end total expenditures within these categories are \$693,516. Overall, the FY 2010-11 Budget is \$100,552 less than the actual expenditures in FY 2009-10.

FISCAL YEAR 2011-12

The Salary and Benefits projections include the funding necessary for maintaining a contract Executive Officer paid at 960 hours per year (SBCERA

allowable hours) at a rate of \$103.50 per hour. The terms of the contract identify that Executive Officer will work those hours necessary to fulfill the position's obligations. The total cost is estimated at \$544,500; a reduction of \$149,016 over Fiscal Year 2010-11.

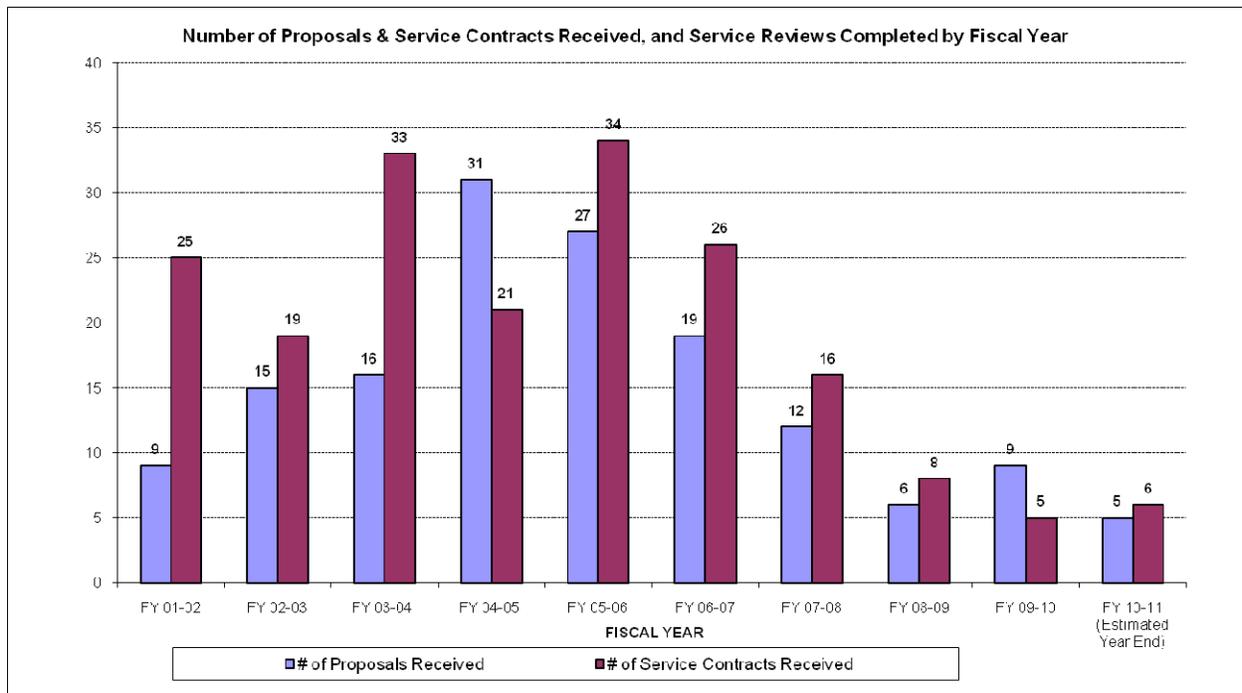
As detailed in the narrative attached to the staff report, the Commission has adopted the same benefit package provided by the County through its Exempt Compensation Plan. Through actions taken by the County Board of Supervisors those benefits have been reduced as outlined above – rescinding the 7% retirement payment, changing the Flexible Benefit Plan to a medical subsidy which has no retirement calculation impacts, among others. Staff will provide the Commission with a resolution for adoption at the Final Budget Review in May effectuating these changes. Included in the benefit amount under Salary Reserves is \$9,000 to cover the anticipated Retirement Replacement Benefit to SBCERA.

FISCAL YEAR 2012-13

The forecast for FY 2012-13 includes the payment of the standard 26 pay periods under the benefit reductions previously outlined above, includes step increases of 2.5% for the two management employees, and 1.5% increases in other benefit costs for a projected budget of \$560,551; a 3% increase of the prior year. However, this amount is a reduction of \$132,965 over Fiscal Year 2010-11.

SERVICES AND SUPPLIES:

The information provided in this section outlines the expenditures associated with providing for Commission operations and programs. The chart below identifies the number of applications and service contracts received during the past ten years, showing that the current fiscal year will represent the lowest number of applications in a fiscal year since staff began tracking the annual filings.



FY 2010-11

The current fiscal year has seen the stipulated settlement closing the litigation related to the City of San Bernardino Islands at a cost of \$58,333 this year; the development of the Coalition of California LAFCOs (CCL) for representation of southern California LAFCOs; and replacement and/or upgrade of the office computer network.

With the approval of the extension of the current contract Executive Officer, the balance of funds budgeted for recruitment, \$8,710, are available to be used for other items. Specifically, staff is proposing to purchase additional software for a cost of \$4,200 (Arcview GIS program \$3,000 and Google Pro [a Google Earth product] \$1,200). The Arcview program will provide for increased efficiency in preparing map presentations and analyzing spatial data. Google Pro is needed due an incompatibility problem following the software upgrade of the office computer system. This will leave a balance of \$4,510 to be carried forward into next fiscal year or used in other categories.

FISCAL YEAR 2011-12

The Services and Supplies categories provide for the range of operation expenses to keep the Commission's operations moving. The bulk of the expense categories are not subject to a standard inflationary increase. The total budgeted amount for Services and Supplies for FY 2011-12 is \$366,948;

this is a reduction of \$68,822 (\$25,191 of this amount relates to the computer system upgrade) from the prior year.

In 2010-11, the Commission reduced its hearing schedule to an every other month meeting date. This reduced some costs, but it restricted the ability to process applications in an expedient manner and created a logjam of activity at each hearing. Therefore, staff is proposing a return to the monthly meeting schedule with the month of December dark. The costs anticipated within the Service and Supplies series of accounts is intended to provide for the Commission's processing and consideration of five applications during the year along with commencement of its mandatory five year update of the Service Reviews and Sphere of Influence Updates for the Valley Region and completion of the South Desert Service Reviews.

FY 2012-13

Services and Supplies for FY 2012-13 are projected at \$401,590, which generally represents a 9.4% increase. This increase is projected based upon a return of ISD processing of mapping information increasing COWCAP charges to the levels prior to 2011-12 and increased professional services categories.

REVENUES:

FY 2010-11

As noted at the outset of this report, FY 2010-11 has continued the trend of lower submission of proposals for jurisdictional change; the items which pay fees and deposits toward their processing activity. Locally, the current economic conditions have maintained the downturn in development activity, which directly impacts proposal submissions to LAFCO. The chart which follows identifies the proposal submission activity for this fiscal year.

Activity	Approved Budget	Year-end Projection
Proposals	5	5
Service Contracts - 5 or more units	0	0
Service Contracts - up to 4 units	1	1
Service Contracts - Non Develop.	2	5
Service Review Deposits	13	0
Protest Hearing Deposits	4	4

Staff estimates that the year-end totals will be 101% of current service revenues (fees and deposits); the mandatory apportionment and other revenues will be at total of \$1,298,735.

FISCAL YEAR 2011-12

The apportionment of LAFCO net operating costs is proposed for Fiscal Year 2011-12 at \$903,639; a reduction of \$130,275 from the prior year. The County Auditor-Controller was requested to perform the apportionment calculations required by Government Code Section 56381, based upon the statute and the alternative funding formula for Special Districts. Per adopted Commission policy, the amount identified at this hearing will be the apportionment required as of July 1, 2011. After the close of Fiscal Year 2010-11, LAFCO staff will determine the actual carryover and forward that information to the Commission for further action, if necessary.

Information gleaned from newspaper articles quoting State of California sources and other economists indicates that inland California, most importantly the Inland Empire, is not anticipated to see signs of economic recovery until fourth quarter 2012. This makes projecting future revenues an even more difficult forecasting exercise. Staff has projected the revenue amounts to anticipate the same number of applications and service review deposits that were anticipated in the Fiscal Year 2010-11 budget.

Activity	Proposed Budget	FY 2010-11 BUDGET
Proposals (not island)	5	5
Island Proposals	1	1
Service Contracts - over 4 units	0	0
Service Contracts - 4 units & under	1	1
Service Contracts - Admin approval	2	4
Service Review Deposits	13	13
Protest Hearing Deposits	4	4

Revenues consisting of interest, mandatory contributions, and fee revenue are estimated to be \$974,014. Refunds from Prior Years, Miscellaneous Charges, and Carryover (including reserves) increase total anticipated revenues to \$1,167,563.

FISCAL YEAR 2012-13

Revenue forecasts for 2012-13 are a continuation of Fiscal Year 2011-12 with increases seen only in carryover of Reserves for compensated absences, general reserves and contingencies.

RESERVES AND CONTINGENCIES:

For Fiscal Year 2011-12, staff is proposing a contingency amount of \$44,507 (Account 6000) and is proposing a General Reserve (Account 6025) of \$212,003, which represents a general reserve of \$150,000 and a compensated absence reserve of \$62,003. The Commission’s direction to LAFCO staff is that a reserve of minimum 10% of expenditures would be provided; the general reserve amount for Fiscal Year 2011-12 is 16.4% of expenditures. Should the use of these dollars be required, it will take an action by the Commission to transfer the appropriation authority.

CONCLUSION:

The information contained in this report outlines and discusses the Fiscal Year 2011-12 budget considerations for the Commission. These determinations provide for the following:

ACCOUNT TYPE	FY 2010-11 AMENDED BUDGET	FY 2011-12 PROPOSED BUDGET
Salaries and Benefits	\$707,672	\$544,500
Services and Supplies	\$435,777	\$366,948
Reserves and Contingencies	\$159,305	\$256,510
SUBTOTAL	\$1,302,754	\$1,167,958
Fee and General Revenue	\$268,843	\$264,319
NET COST TO BE APPORTIONED	\$1,033,911	\$903,639

Staff believes that the Policy Items outlined in this report related to the filling of the Executive Officer position by contract, reduction of benefits as outlined in the County Exempt Compensation Plan 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 it 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 18, 2011 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:

- 1) Approve the extension of the contract with Kathleen Rollings-McDonald to serve as the Executive Officer through June 30, 2013 with salary increases as identified in the staff report and direct staff to return with the contract amendments for approval and authorization for signing by of the Chairman.
- 2) Upgrade management staff positions to Assistant Executive Officer and Project Manager and direct staff to return at the May 18, 2011 hearing with a resolution implementing this change.
- 3) Take the following actions for policy items including directions to staff:
 - a) Direct staff to amend the LAFCO Benefit Plan and Human Resource Policies, which mirror the County's Exempt Compensation Plan, to address benefit reductions as outlined in County ordinances;
 - b) Based upon the deferral of the recruitment contract with Alcock and McFadden, authorize that \$4,200 be redirected from Account 2115 – Software from Account 2445 – Other Professional Services to purchase the Arcview and Google Pro software packages;
 - c) Establish a policy to fully fund the Compensated Absences of LAFCO Employees. This amount will be the full required payment amount in effect at April 1 of the prior fiscal year; and,
 - d) Authorize the extension of the contract with Ms. Anna Raef for preparation of the minutes of Commission hearings and the contract proposed with Riverside LAFCO to share a staff position.
- 3) Schedule a public hearing for May 18, 2011 for the formal adoption of the Final Budget for Fiscal Year 2011-12 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 review and comment pursuant to Government Code Section 56381.

KRM:

Attachments:

1. [Proposed County Ordinance for Modification to Exempt Compensation Plan](#)
2. [Job Descriptions for Assistant Executive Officer and LAFCO Project Manager](#)
3. [Proposed Budget Spreadsheet for Fiscal Year 2011-12 and Fiscal Year 2012-13](#)
4. [Narrative Related to Individual Accounts for Fiscal Year 2011-12](#)
5. [Draft Contract with Riverside LAFCO to Share Staff Position](#)
6. [Proposed Apportionment Distribution for City/Town and Special Districts](#)