

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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**DATE:** FEBRUARY 6, 2012   
**FROM:** KATHLEEN ROLLINGS-McDONALD, Executive Officer  
MICHAEL TUERPE, Project Manager  
**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item #12: Mid-Year Budget Review for Fiscal Year 2011-12

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## **RECOMMENDATION:**

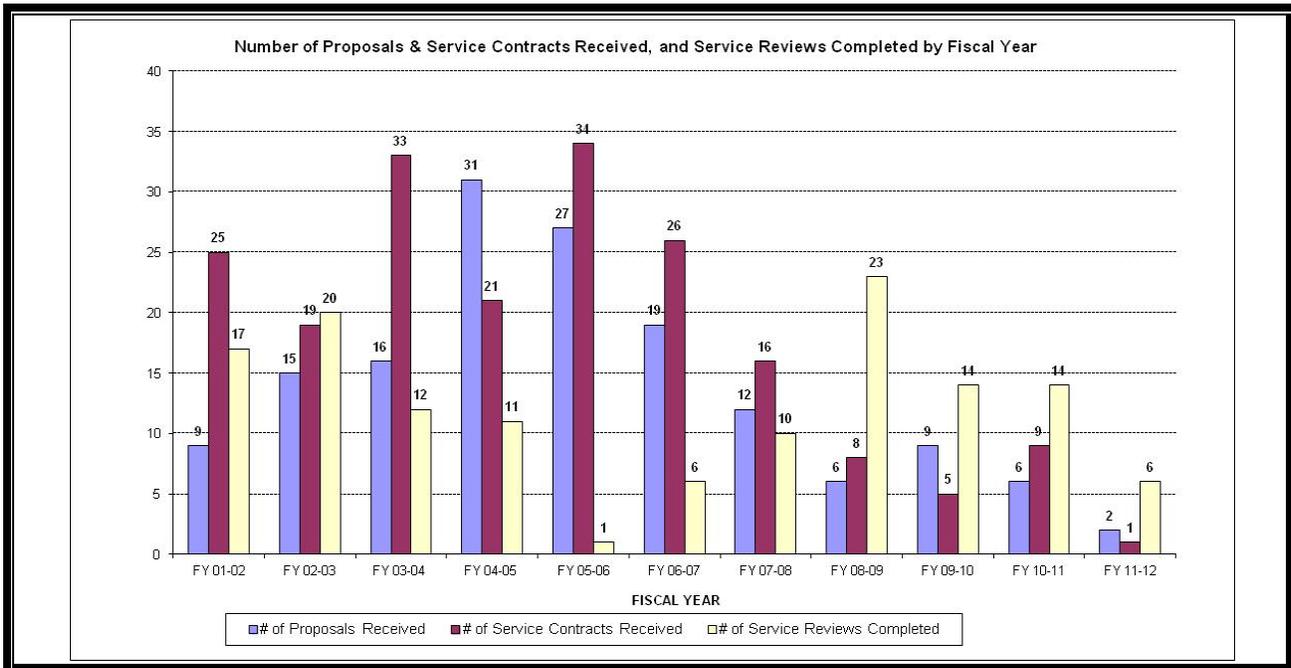
Staff is recommending that the Commission take the following actions:

1. Note receipt of this report and file.
2. Approve the following amendments to the FY 2011-12 Budget and direct the Executive Officer to take the actions necessary to effectuate the changes identified as:
  - a. Decrease Expenditure Account 1000 (Salary Reserve) by \$30,000 to \$9,000, and
  - b. Increase Reserve Account 6025 (General Reserve) by \$30,000 to \$180,000 as committed funds to reduce the FY 2012-13 Apportionment.

## **BACKGROUND:**

Staff is presenting the Commission with its mid-year review of the FY 2011-12 Budget. This includes a review of the mid-year activities and the provision of a spreadsheet (Attachment #1) outlining expenditures and revenues as well as looking at a potential budget amendment.

As in past years, staff is providing the Commission with a chart describing application activity during the fiscal year. The chart, shown below, illuminates the continuing concern of staff that activity levels have yet to bottom out. The chart identifies a reduced activity level from the prior year (a copy is also included as Attachment #2) which is not forecast to meet budget targets for the number of proposals by the close of the fiscal year.



Much of the Commission's current workload is related to state mandated activities, such as, completion of the initial round of service reviews, preparation for implementation of the second cycle of service reviews, development and update of policies and procedures, and working with governmental entities on plans for service and/or environmental documentation. Additional information in narrative form regarding the mid-year review is provided below.

### **EXPENDITURES AND RESERVES:**

Expenditures are comprised of two categories of accounts: 1) Salaries and Benefits (1000 Series), and 2) Services and Supplies (2000 and 5000 Series). Through the mid-year, Total Expenditures are at 45% of budget authority and are estimated to be at 93% at year's end. In reference to Reserve Accounts (6000 Series), in September, the Commission authorized a transfer from Contingency to fund the unanticipated replacement of the Executive Officer's laptop computer. No other expenditure activity has been authorized by the Commission to take place in the Reserves accounts through the first half of the fiscal year.

#### **1. Salaries and Benefits (1000 series)**

At the end of December 2011, expenditures for Salaries and Benefits (1000 series of accounts) are at \$266,931, or 49% of budget authority. The overall expenditures for Salaries and Benefits are within normal mid-year activity.

There are no extraordinary activities anticipated for the second half. Salaries and Benefits are projected to end the year at 98% of budget authority. However, there are two Benefit accounts that will end the year significantly over 100% of the budgeted amount.

- Account 1215 (Dental Insurance and Health Subsidy) is estimated to be at 735% at year's end. However, the County has made changes to the accounts it charges for health subsidies. A portion of the costs originally budgeted in Account 1200 (Health Subsidy) are now paid from Account 1215. Since Account 1215 is only budgeted at \$251, any additional costs result in a large year-end percentage. Importantly, when combining the estimated year-end costs for both accounts against the combined budgeted amounts, the combined year-end total is 98% of the budgeted amount.
- Account 1225 (Social Security, Medicare) now includes payments for the contracted Executive Officer.

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

Expenditures for Services and Supplies (2000 and 5000 series of accounts) are at \$158,674 for the first half of the fiscal year, or 39% of budget authority. The overall expenditures for Salaries and Benefits are within normal mid-year activity. However, budgeted and anticipated activities for the second half of the fiscal year include significant expenditures totaling \$193,094, to include:

- Digital Archiving Project to scan the closed proposal files and other records that are back-logged and need to be scanned (\$35,462). Staff is nearing the end of its work to prepare the files for scanning and a vendor has been selected, AML of Los Angeles. Work to be performed by the vendor is anticipated to commence during the month of March 2012. Staff will provide a project status update in April as a part of the FY 2012-13 Preliminary Budget considerations.
- Two quarterly transfers to the County for COWCAP, for a total of \$9,396, have been processed. Of significance, LAFCO's payment in FY 2011-12 will be \$20,458 less than the previous fiscal year and \$34,553 less than FY 2009-10 based upon billed costs for LAFCO activities. Of note, this represents a substantially reduced Information Services Department billed activity level. However, while this can be viewed as a positive, in this case it identifies a backlog of mapping needs and mandates which LAFCO and GIMS staff are working to resolve. At the October quarterly review, the Commission approved a set aside of funding in reserves to fund the completion of GIS activities. The chart below identifies the COWCAP charges paid by LAFCO for services from the County for the past six years and the County's projection for Fiscal Year 2012-13:

PAYMENT YEAR	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
ACTIVITY YEAR	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<b>County Equipment</b>	<b>6,450</b>	<b>6,416</b>	<b>19</b>	-	-	-	-
Space Use	1,668	1,723	-	-	-	-	-
Utilities	4,782	4,693	19	-	-	-	-
<b>Facilities Management</b>	<b>5,228</b>	<b>6,454</b>	<b>24</b>	-	-	-	-
Custodial	2,532	3,644	14	-	-	-	-
Grounds	244	329	2	-	-	-	-
Maintenance	2,420	2,365	8	-	-	-	-
Admin	32	116	-	-	-	-	-
<b>County Administrative Office (Budget)</b>	<b>663</b>	<b>893</b>	<b>1,121</b>	<b>1,625</b>	<b>1,881</b>	<b>1,662</b>	<b>1,525</b>
<b>Human Resources (Employee Benefits)</b>	<b>255</b>	<b>456</b>	<b>172</b>	<b>563</b>	<b>852</b>	<b>985</b>	<b>640</b>
<b>Purchasing</b>	-	<b>5,344</b>	<b>3,529</b>	-	-	-	<b>443</b>
<b>Auditor-Controller</b>	<b>22,807</b>	<b>3,282</b>	<b>3,675</b>	<b>4,760</b>	<b>4,855</b>	<b>3,694</b>	<b>238</b>
Accounts Payable	1,142	774	1,368	1,436	1,715	1,280	76
County Single Audit	142	214	310	396	444	352	32
General Accounting	2,678	1,484	1,521	2,107	2,163	1,417	109
Audit Division	18,322	265	-	-	-	-	-
Payroll	523	545	476	821	533	645	21
<b>Information Systems</b>	<b>7,737</b>	<b>1,383</b>	<b>13,525</b>	<b>46,377</b>	<b>31,642</b>	<b>12,431</b>	<b>6,374</b>
GIS	6,108	-	3,065	1,415	7,735	2,161	1,495
Countywide Tech	28	-	57	326	191	172	103
Systems Development	(380)	-	7,841	29,590	10,100	2,159	1,155
Direct Charges	1,981	1,383	2,562	15,046	13,616	7,939	3,621
<b>TOTAL COWCAP CHARGE</b>	<b>\$ 43,140</b>	<b>\$24,228</b>	<b>\$22,065</b>	<b>\$ 53,325</b>	<b>\$39,230</b>	<b>\$18,772</b>	<b>\$ 9,220</b>

As noted above, the Commission established a reserve of \$56,000 to cover the estimated GIMS COWCAP charges to be applied in a future year.

- Consultant support for updating the LAFCO Environmental Policies (\$4,000).
- 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 remainder of the South Desert communities.

Services and Supplies are projected to end the year at 87% of budget authority.

### 3. Contingency and Reserves (6000 series)

In September, the Commission authorized the transfer of \$3,000 from Contingency (Account 6000) to fund the unanticipated replacement of the Executive Officer's laptop computer. No other expenditure activity has been authorized by the Commission to take place in the Reserves accounts through the first quarter.

In addition, as a part of the first quarter budget review, the Commission:

- Established a COWCAP Reserve (Account 6010) of \$56,000 from a portion of the FY 2010-11 year-end unassigned fund balance carried over into FY 2011-12 as described in #2 above.
- Decreased the General Reserve (Account 6025) by \$62,003 and with those funds established a Compensated Absence Reserve (Account 6030).

**REVENUES:**

1. Revenues through the Mid-Year

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

- Account 8500 - Interest received is lower than anticipated due to a continuation of low interest rates.
- Account 8842 - Through the mid-year, 99.9% of the mandatory apportionment payments from the County, cities, and independent special districts billed by the County Auditor has been received. As of the date of this report, the remaining \$277 has been received through transfer from the distribution of tax proceeds.
- Accounts 9545-9800 - The spreadsheet identifies that 46% of Total Fees and Deposits has been received (\$28,989). However, proposal activity is not meeting expectations with only two proposals received through the mid-year. The bulk of the receipts are reimbursements for direct service review costs and protest hearing deposit.

2. Proposal Activity

The chart below compares the budgeted proposal activity with mid-year actual and year-end forecast activity. Through the mid-year, two proposals and one service contract were received. By the end of the fiscal year, staff projects a total of three proposals and two service contracts received. The graph showing the yearly comparison of proposal activity is provided on page 2 of this report and included as Attachment #2.

Activity	Budget	Mid-Year Actual		Year-End Projected	
		No.	% of Budget	No.	% of Budget
Proposals	6	2	33%	3	50%
Service Contracts - over 4 units	1	0	0%	0	0%
Service Contracts - 4 units & under	0	0		0	
Service Contracts - Admin approval	2	1	50%	2	100%
Service Review Deposits	13	0	0%	0	0%
Protest Hearing Deposits	4	2	50%	4	100%

Six service reviews/sphere updates were completed during the first half – all within the Bear Valley community. Additionally, five service reviews/sphere updates were presented to the Commission in the first half of the year but have been continued to later hearings. Nine service reviews/sphere updates are anticipated to be heard in the

second half of the fiscal year, bringing the estimated year-end total to 20. However, this is a state mandated program, therefore, they do not submit application fees for processing.

As Commissioners are well aware, the economic and housing challenges continue for the greater Inland Empire and this situation continues to affect proposal activity and LAFCO revenue streams. Staff's understanding of current forecasts for the Inland Empire is that they are not projecting an easing of this situation for some time. The activity level of the Commission remains stagnant and staff is concerned that even the conservative revenue projections provided for Fiscal Year 2011-12 may be optimistic. Staff had hoped that the stagnation of the filing of applications would have hit bottom in each of the preceding three years; however, as the chart illustrates, that has not been the case. Staff is closely monitoring the Commission's revenue receipts and expenditures processed, and will apprise the Chairman and Commission quickly of any worsening of the situation. However, on a positive note, current projections are that based upon the efforts of the Commission and staff to constrain expenditures, we will have sufficient fund balance to complete the current fiscal year in the black and carry forward the restricted reserves identified by staff as shown below.

**FUND BALANCE:**

As of December 31, 2011, the Commission's balance in the County Treasury was \$842,016. This amount is comprised of the categories shown in the chart below. Taking into account expenditure and revenue projections, staff is projecting that all of the Reserves and Contingencies will carry forward into FY 2011-12.

<b>DECEMBER 2011 Cash Balance</b>	<b>\$842,016</b>
<i>Liabilities (as of January 23, 2011)</i>	
Unearned Revenue from open applications	14,547
Deposits Payable to be spent or refunded from open applications	9,438
<b>FUND BALANCE (Cash - Liabilities)</b>	<b>\$818,031</b>
<i>Committed (formal action to implement, use, or remove)</i>	
Digital Archiving Project (Account 2245)	35,462
Contingency (Account 6000)	41,507
COWCAP Reserve (Account 6010)	56,000
General Reserve (Account 6025) *	180,000
Compensated Absences Reserve (Account 6030)	62,003
<b>Remaining Projected Expenditures (minus Archiving Project)</b>	<b>424,417</b>
<b>Estimated Additional Carryover into FY 2012-13</b>	<b>\$18,642</b>
* Includes \$30,000 committed to reduce the FY 2012-13 Apportionment	

**CONSIDERATION OF BUDGET AMENDMENTS:**

At the April 2011 hearing during the Preliminary Budget discussion, it was identified that at that time two of the County employee bargaining units did not accept the benefit reductions proposed by the County Executive Officer. The reductions in the Benefit Plan were only to be effective if all the bargaining units accepted the changes. The action of the Commission at the April hearing placed the \$30,000 benefit reduction in a salary reserve account (Account 1000) for the possibility that these benefits were to be reinstated. As a part of the budget actions, staff was directed to return to the Commission to discuss refunding the \$30,000 if the benefits were not reinstated.

At the October 2011 hearing, as a part of the first quarter budget review, staff informed the Commission that the benefits were not reinstated. The Commission action at that hearing was rather than refund the agencies this fiscal year, the funds were retained and committed to reduce the FY 2012-13 Apportionment. In keeping with the Commission's direction, staff recommends that the \$30,000 be transferred from Salary Reserve (Account 1000) to General Reserves (Account 6025).

**CONCLUSION:**

The Commission in approving the Fiscal Year 2011-12 Budget emphasized actions to constrain spending to within anticipated revenue streams which were projected conservatively. As this review identifies, even those conservative projections for applications could be overestimated. However, the Commission's expenditures are within budget targets and forecasts provided show that anticipated expenditures at year-end will be below budget estimates. These are positive budgetary findings in a very difficult financial environment.

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 and Fund Balance](#)
2. [Chart Illustrating Proposal Activity through December 31, 2011](#)