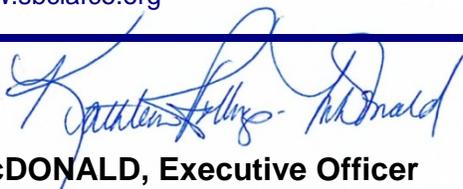


LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: APRIL 8, 2014
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
TO: LOCAL AGENCY FORMATION COMMISSION



SUBJECT: AGENDA ITEM #5 –Review of Proposed Budget for Fiscal
Year 2014-15

BACKGROUND:

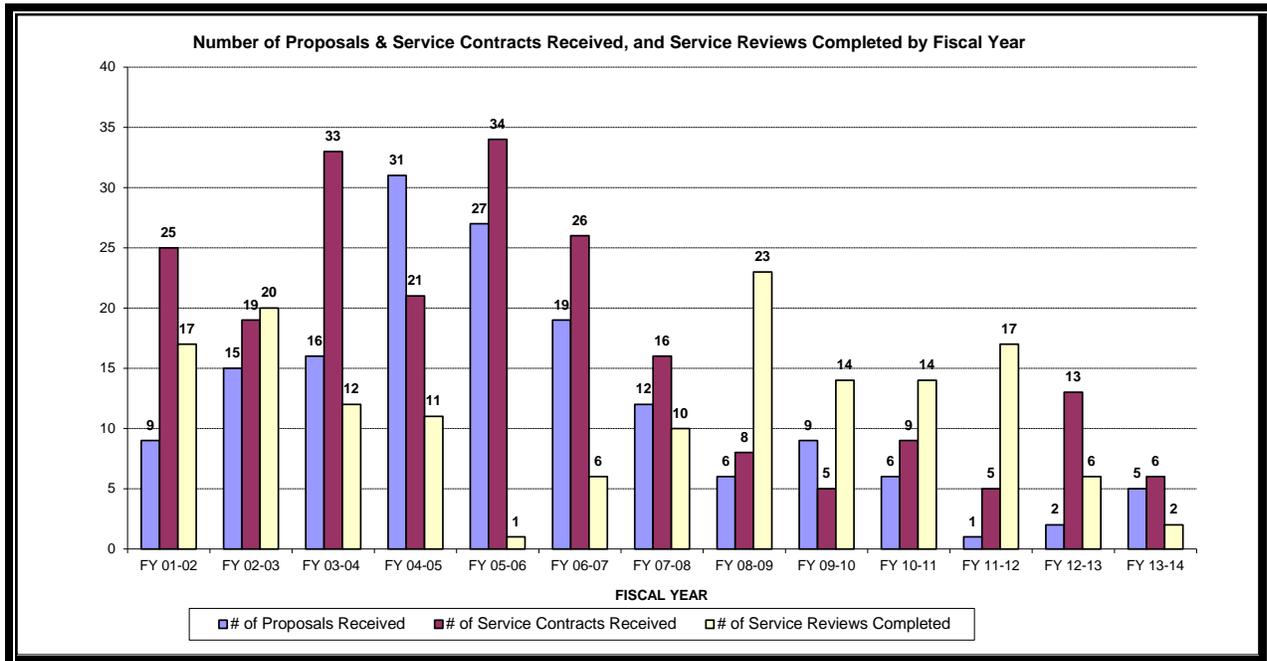
March has exited like a lamb, we are hoping for April showers, and it is that time of year when LAFCOs throughout the State begin to consider their budgets. Nationally income taxes are due and locally the last installment of property tax payments must be paid, while at this hearing the Commission will identify the costs to be apportioned to our constituent agencies for the upcoming Fiscal Year. The past year has been one of optimism as far as the changes in the economy locally and at the State level. Economic indicators are showing that the tentative steps toward recovery from the recession continue as evidenced by the almost monthly announcement of new proposals being submitted. However, the financial crisis is not over for many; the City of San Bernardino bankruptcy continues, other cities have declared fiscal emergencies, and some special districts are still reducing services.

As outlined in prior years, it remains difficult to gauge whether the Inland Empire is in full recovery or holding steady without further decline. But while there are positive notes, our smaller agencies remain constrained in their ability to fund a larger Commission cost. So this is the scenario we begin the State mandated process outlined in Government Code Section 56381 to establish our budget for the upcoming fiscal year; one of cautious optimism.

Staff began the required budget review by considering potential changes to the Schedule of Fees, Deposits and Charges and determined that no additional changes for Fiscal Year 2014-15 would be proposed (having just recently approved the change to differentiate between Valley/Mountain and Desert proposals); therefore no action will be required from the Commission.

Next, staff began addressing the ability to fund the Commission's ongoing operations through discussion with the Chair and Vice-Chair. For the last several years staff has

come to the annual budget hearing providing information on the ever declining proposal activity. However, this year the tide has shifted and we appear to be gaining ground on paying applications. The chart which follows shows the positive increase that has taken place:



The largest expenditure category for the Commission is its personnel costs and those will continue to climb due to increases in retirement payments required by the San Bernardino County Employees Retirement Association (SBCERA). The LAFCO employer required retirement contribution rate will increase this year by 8.02% to a total of 29.91% of earnable compensation, over the preceding ten years this represents an increase of 238%. The forecast rate for FY 15-16 is 30.55%, an additional increase of 2.14%, which signals a leveling off of the rates to address fund losses from the recession.

During Fiscal Year 2013-14 staff completed the recruitment of the LAFCO Secretary position bringing staff to its full complement. However, during this year it became apparent that with the staff's acquisition of the responsibility to maintain the Commission's website and the need for input and maintenance of the databases such as the Fiscal Indicators, the staffing structure and assignments needed to be reorganized. As of April 2014 the structure will reassign the Deputy Clerk and LAFCO Secretary to an Administrative Assistant and LAFCO Analyst position, respectively. This represents a total increase in cost of about \$4,600 in the 1000 Series for the upcoming year. The Commission has adopted the same benefit plan as provided by the County Exempt Compensation Plan. At the time of this report, no changes to the Exempt Compensation Plan have been identified by the County Administrative Office.

Two significant actions are proposed within the Services and Supplies budget category; the first is the recruitment of the LAFCO Executive Officer. The 2014-15 Budget includes \$15,000 for the recruitment of the permanent Executive Officer with the process set to begin in May of 2015. The employment of a full-time Executive Officer in Fiscal Year 2015-16 will represent a \$165,014 increase in the Salaries and Benefits series of expenses over the identified budget for Fiscal Year 2014-15 with a contract Executive Officer. The second is the implementation of the Shared Services database as a part of the ongoing service review efforts. Staff is estimating an expense of approximately \$15,000 to address software and database development with the County's Information Services Department. The balance of the Services and Supplies categories anticipate the maintenance of all other current activities.

It is currently anticipated that the Commission will receive six (6) proposals for jurisdictional change during the upcoming Fiscal Year, a return to a more normal year of application activity. However, the bulk of the Commission's activities will remain in the arena of addressing the second round of Service Reviews and Sphere Updates, as required by statute. The continuing State mandates to address disadvantaged unincorporated communities, additional requirements to address infrastructure deficiencies and potential consolidations have and will continue to affect the service review process. State law does not allow for charging fees for these types of reviews so only direct costs will be recovered for the processing of sphere of influence updates as necessary.

Attachment #1 to this report provides the Budget Spreadsheet for Fiscal Year 2014-15 with a forecast for FY 2015-16 and the narrative description of the budget.

Staff has requested that the County Auditor-Controller apportion the net costs for LAFCO operations to the County, Cities/Towns and Independent Special Districts based upon the proposed budget target of \$864,821, or \$288,274 per category. Any changes to the budget information presented at this hearing may impact this determination. Once the proposed budget is adopted, the apportionment information will be provided as a part of the materials forwarded to the County, Cities/Towns and Independent Special Districts for their review and comment as required by Government Code Section 56381. The allocation information is included as Attachment #2 for Commission information.

The proposed budget is more fully outlined below and on the Budget Spreadsheet and Budget Narrative included as attachments to this report. Staff believes that the actions outlined for the upcoming Fiscal Year will provide for the efficient operations of the Commission's office, will maintain reserve accounts established to cover potential and/or future costs, and will maintain the apportionments to entities required to fund Commission operations.

SALARIES AND BENEFITS **WORKLOAD CONSIDERATIONS**

FISCAL YEAR 2013-14

Staffing levels for Fiscal Year 2013-14 include five full-time positions, and the contract for the Executive Officer position. The Commission continued to outsource much of its geographic technology needs with the County's Geographic Information Management System (GIMS), its environmental processing through its contract with Tom Dodson and Associates, and the maintenance of computer systems to the County's ISD.

Accomplishments by the Commission for the year include:

- The new San Bernardino LAFCO website was launched and the update and general maintenance of the LAFCO website is currently handled in-house, eliminating a major portion of the Commission's COWCAP costs. The ArcGIS mapping page updates are set to launch by the end of the Fiscal Year.
- The Fiscal Indicators program has been developed utilizing input from the affected agencies; the materials are being input and it is anticipated that the program will be launched with information for the Valley agencies by the end of the Fiscal year.

The estimated year-end expenditures for salaries and benefits are \$615,268, which is \$52,576 below the budgeted amount.

FISCAL YEAR 2014-15

The Salaries and Benefits categories for Fiscal Year 2014-15 include the funding for five positions, payment of step increases, an increase in retirement costs and the contract Executive Officer position.

Additional workload responsibilities include the Executive Officer's participation as a member of the CALAFCO Legislative Committee, as the designated SCAG representative for the CCL on the Technical Working Group for SCAG and on conference and workshop planning committees. In addition, the Assistant Executive Officer is currently the Deputy Executive Officer for the Southern Region on CALAFCO, the Program Chair for the 2014 Annual Conference to be held in Ontario in October 2014. The upcoming year will also include the labor intensive discussion with the stakeholder groups regarding the service reviews for the Valley region.

Fiscal Year 2015-16

As is the Commission's practice, a forecast for Fiscal Year 2015-16 has been provided. This includes the hiring of a full-time Executive Officer, a one-quarter contract with the existing Executive Officer for transition purposes, and the payment of costs, including increased retirement costs for a full six person staffing. All employees are anticipated to be at the Tier 1 rate for retirement benefits. This represents an increase of \$165,014 over Fiscal Year 2014-15. Beyond this change, the forecast for this Fiscal Year carries forward proposed staffing levels, existing practices and anticipated workloads.

SERVICES AND SUPPLIES

FISCAL YEAR 2013-14

For the current year, the Commission began its implementation of the second round of Service Reviews through development of its Fiscal Indicators program. The Services and Supplies categories expenditures of \$326,819 are estimated at year-end. This is \$37,252 below the budgeted amount. No budget amendments are proposed at this time.

FISCAL YEAR 2014-15

Staff is recommending a total Services and Supplies budget of \$365,884, an increase of \$1,813 from Fiscal Year 2013-14 budgeted amount. In reference to the expense categories within the overall Services and Supplies section, staff is proposing the development of a Shared Services program (\$15,000), the recruitment for the LAFCO Executive Officer (\$15,000), and maintenance of other activities. On balance the budget appropriations provide for maintenance of current levels of support for on-going activities. Toward the end of the Fiscal Year, it is anticipated that computer, iPad and other items needed for the new Executive Officer will be purchased and those expenses have been accommodated in the budget line items.

Economic and workload indicators show a new, and mostly optimistic, level in jurisdictional change for the upcoming fiscal year. However, the second round of service reviews and sphere of influence updates continue to be processed for the Valley region utilizing a stakeholders group for the municipal service types: water (retail, wholesale, and reclamation), wastewater treatment, fire protection, law enforcement and quality of life (parks, resource conservation and habitat preservation, streetlighting, and roads [maintenance, street sweeping, detention basin]), and others which may be determined by the Commission. The stakeholders group will assist staff in addressing the service review factors and assist staff in the gathering and review of information. It is anticipated that this type of approach will allow for discussions about the potential for shared services by agencies and will be staff time intensive at the outset with limited

service and supply needs. Staff anticipates that there will be limited service and supply costs until preparation of the final reports for presentation to the Commission.

At the time this proposed budget is being presented to the Commission, continuation of the Video Production arrangement with the City of San Bernardino is anticipated, on a month-to-month basis. Staff has been notified that there may be a change during the year to require additional payments for storage of media for access via DVD and on our website. This is cause for staff concern given the Commission’s reliance on the availability of video recordings of the hearings for placement on the website and elimination of the detailed minutes previously the Commission’s practice. Should there be a termination of this support service, we will need to look at other places to conduct our meetings and/or provide the video recordings we require and do so quickly. As previously identified, the only venues which can support our needs (1) the number of Commissioners for LAFCO at the dais, (2) video recording available to the public and (3) convenient for Commissioners traveling to hearings from throughout the County are the Cities of Fontana and Rancho Cucamonga. At this time, the budget includes the continuation of the \$300 per meeting charge through the City of San Bernardino staff, but LAFCO staff will be prepared to change direction quickly should the service be terminated.

FISCAL YEAR 2015-16

Based upon the approval of the staff recommendations for FY 2014-15, it is anticipated that a 3% consumer price index increase will be applied to those categories sensitive to such changes for purchases and the maintenance of the other existing levels of service.

REVENUES

FISCAL YEAR 2013-14

As identified earlier in this report, while staff has historically lamented the trend of lower submission of proposals for change of jurisdiction, for FY 2013-14 we are happy to report a more robust filing of applications and commensurate revenues. The chart below identifies the proposal activity for the current fiscal year:

Activity	Budget	MARCH ACTUAL		Year-End Projected	
		No.	% of Budget	No.	% of Budget
Proposals	3	5	167%	6	200%
Service Contracts – Development	1	1	100%	1	100%
Service Contracts - Admin approval	3	5	167%	5	167%
Protest Hearing Deposits	3	0	0	1	33%

Staff estimates that year-end totals for all revenues will be at 340% of budgeted appropriation. The total revenue (fees and deposits) received from the five applications submitted during the year is \$69,811 and for the six service contracts is \$10,750. In addition, approximately \$8,000 in cost recovery has taken place during the year.

FISCAL YEAR 2014-15

Information gleaned from economic forecast reports and local economists as reported in media publications indicates that the Inland Empire continues in its more modest jobs recovery. Based upon the activities of FY 2013-14, staff anticipates that proposal filings for the upcoming Fiscal Year will hold steady. In order to remain conservative in revenue projections, staff anticipates the submission of six proposals next year at the basic fee level, for fee revenue of \$58,475. The chart below identifies staff's projections for the upcoming year:

Activity	FY 2013-14 PROJECTED YEAR END	FY 2014-15 BUDGET
Proposals	6	6
Service Contracts - Development Related	1	1
Service Contracts - Admin approval	3	4
Protest Hearing Deposits	1	6

Interest income remains low as earnings rate remain depressed. All reserve accounts will be carried forward from the prior year and an estimated \$176,807 in other fund balance is anticipated to be carried forward. This provides for the maintenance of the annual apportionment of \$864,821, \$288,274 for each category required to pay a portion of the Commission's net costs.

The apportionment process will take place pursuant to the provisions of Government Code Section 56381 and is administered by the County Auditor. Staff has requested that the Auditor provide for the distribution, pursuant to statute and the alternative funding formula for Special Districts, included as Attachment #2. Per adopted Commission policy, the amount identified at this hearing will be the apportionment required as of July 1, 2014. At the time the Unaudited Year-End report is presented to the Commission, staff will determine the actual carryover and make recommendation for any further actions, if necessary.

The apportionment presented in the budget materials is \$864,821, the same as Fiscal Year 2013-14. This complies with the provisions of Government Code Section 56381(a) for the maintenance of prior year funding.

Revenues consisting of interest, mandatory contributions, and fee revenues are estimated to be \$927,296. Refunds from Prior Years, Miscellaneous Charge, and Carryover including all reserve accounts increases brings total anticipated revenues to \$1,566,875.

FISCAL YEAR 2015-16

Revenues forecasts for FY 2015-16 builds upon the continuing health of the local economy anticipating an increase in proposal activity for an increase in Fees and Deposits of \$49,220 over Fiscal Year 2014-15. The chart below compares the proposal activity forecast for FY 2014-15 to that proposed for FY 2015-16:

PROPOSAL ACTIVITY	PROPOSED BUDGET FY 2014-15	FORECAST BUDGET FY 2015-16
Proposals	6	9
Service Contracts - Develop.	1	2
Service Contracts - Admin	4	5
Protest Hearing Deposits	6	9

The anticipated apportionment increases by \$15,569 to a total of \$880,390, but remains less than the apportionment in Fiscal Year 2010-11.

RESERVES AND CONTINGENCIES

The staff is proposing the maintenance of reserves and a contingency amount as outlined by Commission policy. The amounts presented for Fiscal Year 2014-15 are:

Account 6025 – General Reserve/Litigation	\$300,000
Account 6030 – Compensated Absences Reserve	\$ 72,897
Account 6010 – COWCAP Reserve	\$ 40,503

In addition, staff is recommending a contingency of \$98,356 (Account 6000) which represents about 9.7% of expenditures, within the suggested range of between 5-10% of expenditures. Should the use of these dollars be required, it will take an action by the Commission to transfer monies into the appropriate expenditures series.

CONCLUSION:

The information contained in this report outlines and discusses the budget considerations before the Commission which provides for the following determinations required by Government Code Section 56381 to be made:

ACCOUNT TYPE	FY 2013-14 ADOPTED BUDGET	FY 2014-15 PROPOSED BUDGET
SALARIES AND BENEFITS	\$ 667,844	\$ 686,735
SERVICES AND SUPPLIES	\$ 364,071	\$ 364,684
RESERVES AND CONTINGENCIES	\$ 463,272	\$ 515,409
SUBTOTAL	\$1,495,187	\$1,566,828
FEE REVENUE AND GENERAL REVENUE	\$ 630,366	\$ 702,007
NET COST	\$ 864,821	\$ 864,821

Staff believes that the policy items outlined in this report related to the development of the Shared Services program and the recruitment of the Executive Officer are appropriate; therefore, staff is requesting Commission support of all 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 21, 2014 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) Determine that there are no amendments for the Schedule of Fees, Charges and Deposits;
- 2) Adopt the Proposed Budget for Fiscal Year 2014-15, presented by staff, by taking the following actions:
 - a) Approve the costs associated with the development of the Shared Services database with the County's Information Services Department for an estimated cost of \$15,000; and,
 - b) Approve the recruitment of the Executive Officer position to commence in May 2015; direct the Executive Officer to circulate a Request for Qualifications to conduct the required recruitment in time to meet that timeframe.

- 3) Direct staff to forward the adopted Proposed Budget, as may be modified at this hearing, to all the independent special districts, cities, and the County for their comment pursuant to Government Code Section 56381.
- 4) Schedule a public hearing for May 21, 2014 for the formal adoption of the Final Budget for Fiscal Year 2014-15.

KRM:

Attachments:

1. [Proposed Budget -- Spreadsheet and Narrative Related to Individual Accounts and Activity Chart](#)
2. [Estimated Apportionment Distribution for City/Town and Special District Costs](#)