

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

215 North D Street, Suite 204, San Bernardino, CA 92415-0490
(909) 388-0480 • Fax (909) 885-8170
E-MAIL: lafco@lafco.sbcounty.gov
www.sbclafco.org

DATE: APRIL 13, 2016

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager

TO: LOCAL AGENCY FORMATION COMMISSION

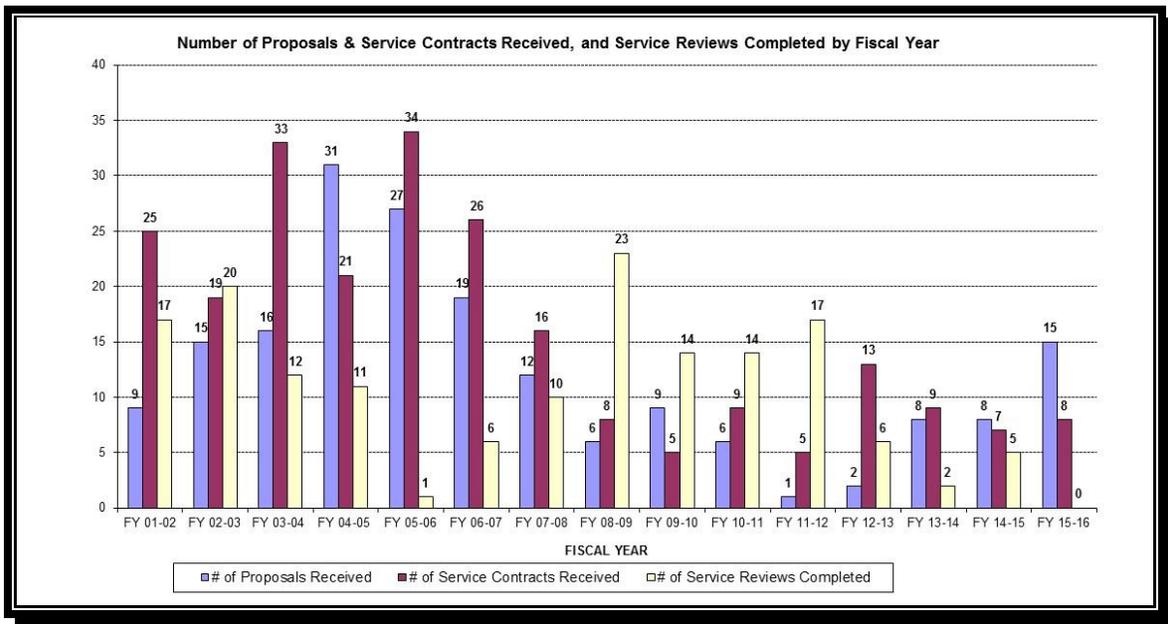


SUBJECT: AGENDA ITEM #9B –Review of Proposed Budget for Fiscal
Year 2016-17

BACKGROUND:

At this hearing, LAFCO staff is presenting the preliminary budget for Commission consideration. The past year has been one in which the Commission has been presented with fire reorganization proposals for its consideration that were viewed as making or breaking the City of San Bernardino's bankruptcy, addressing the continuing emergency medical response and fire protection to the Twentynine Palms community and the unfunded retirement issues to allow for a transition to County Fire. The processing of these proposals was in addition to the standard requirements for service reviews which as a part of this consideration staff is proposing a change in the manner in which the regional perspectives of these mandatory actions are addressed. With this in mind, LAFCO staff has prepared a budget which includes an increase in apportionment (5%) to maintain the ongoing services and reserves of the Commission. 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.

The next step in the process for staff was to address the requirement to fund the Commission's ongoing operations which includes the need to address a new office location at the direction of the commission. Staff continues to be encouraged by the proposal activity for the current year as it bodes well for the upcoming fiscal year since FY 2015-16 represents a return to an activity level reflective of FY 2006-07. The chart which follows shows the positive increase that has taken place to date (c copy of which is included as a part of Attachment #1 to this report):



The largest expenditure category for the Commission is its personnel costs. For the past several years the staff has identified the continuing escalation of retirement rates as an area of concern; however, those rates have now stabilized and for the upcoming fiscal year and the forecast years SBCERA has indicated a rate of between 33.05 and 32.61 percentage.

As noted above, the activity level of the Commission in reference to application submission and processing has increased over the past fiscal year and is projected to continue for at least the next two years with movement to fire reorganizations continuing. Based upon the Commission’s direction to prioritize the processing of these applications, they will again take priority.

In addition, in response to the Commission’s direction to change the office location, staff has been working with the staff of SANBAG and the Santa Fe Depot management firm to review leasing the historic Harvey House portion of the Depot. This area needs renovation and LAFCO would participate in the funding of that effort should the site be chosen. The budget as presented to the Commission anticipates funding upfront \$100,000 in renovation with the balance amortized over 5 years. The estimate received by SANBAG was \$230,000; however that construction budget has not been finalized and LAFCO staff has not outlined its desires for the space specifically. Our preference would be to return the area to its former beauty as the Harvey House restoring it historically while providing for 21st century technological amenities. The final dollar figure will be determined within the ongoing lease negotiations should this be the Commission’s choice. While this is the preference of staff due to the synergy of working closely with SANBAG and SCAG employees, it is tempered by the position of the City of San Bernardino regarding the transfer of its fire service and the potential that if LAFCO 3198 fails there will be significant reductions in law enforcement and fire protection services. The area around the Depot has moving toward gentrification but problems remain and the move cannot be supported if

LAFCO 3198 fails. However, the budget appropriations provided will accommodate the relocation to the Depot or other site by the termination of the current lease June 30, 2017.

While staff anticipates ongoing significant fire reorganizations, it also has the responsibility to provide for the ongoing processing of the state mandated service reviews of municipal services providers within our County. As staff has undertaken the second round of its mandatory service reviews, it has become clear that a better approach would be to focus on service type throughout the County broken down into subregions rather than focus on the four individual regions and the services provided within. In March 2016, the Commission expanded the service review for Habitat Conservation and Open Space to encompass the entire County in order to align its efforts with the Countywide Habitat Preservation/Conservation Framework Study being prepared through the County's Vision Element and SANBAG which also allows staff to evaluate gaps in service and address other service issues. This is an example of the direction in approach for the balance of the service reviews. Based upon this approach, staff is now proposing that the Commission modify the service review plan to approach the individual services on a countywide basis, with the subregions recognized in the reports. The specific rationale for this proposed change in processing are as follows:

- Since the same approach and format can generally be used for each service type, a countywide approach can decrease the redundancies in the setup and overall presentation, increasing efficiencies in report preparation. Importantly, this approach would also lessen the participation burden of the agencies under review since the focus will be on the service rather than an agency review and would improve the use of staff resources.
- In addition, in the first round LAFCO was able to charge for direct costs when a sphere update was taken in conjunction with a service review. Without a sphere update as a function of the service review, there is no mechanism to recover outside costs; therefore, efficiencies in the overall process need to occur to best utilize the Commission's resources (staff time and material costs).

Even with a countywide approach, the uniqueness of each region will still be addressed as the reports will be segregated by region for presentation purposes. Additionally, each service review would include, where appropriate, structure and sphere modification recommendations to be reviewed in a later report. Should additional review for an individual agency or community be warranted, then staff would request Commission approval to initiate a focused service review/sphere update much like the special studies recently undertaken.

The four-year plan for this approach is shown below. Law Enforcement has been excluded from the review schedule as its service delivery is statutorily restricted to a County or City and an evaluation of service delivery would not result in a sphere of influence or service area description change. However, if the Commission believes a review of this service is warranted, it can be placed on to the schedule. The proposed schedule is:

<u>Year 1 (FY 2016-17):</u>	Water, Wastewater, Vector Control (current proposal for change)
<u>Year 2 (FY 2017-18):</u>	Fire Protection and Emergency Response, Animal Control, Streetlights
<u>Year 3 (FY 2018-19):</u>	Park and Recreation, Roads, Resource Conservation, Habitat Conservation and Open Space (previously approved by the Commission for expansion to a countywide report)
<u>Year 4 (FY 2019-20):</u>	Airport, Cemetery, Healthcare
<u>Year 5 (FY 2020-21):</u>	Additional Services at direction of Commission

Based upon the approaches outlined above, staff has prepared the Proposed Budget for Commission consideration. Staff has chosen to expand the forecasting for an additional year to identify significant changes which are on the horizon for the Commission. Those are the end of the lease at the current staff office and the desire to change locations prior to the beginning of FY 2016-17 with the need for funding tenant improvements over a five-year period and the recruitment of a permanent LAFCO Executive Officer (FY 2017-18) with transition funding. . Attachment #1 to this report provides the Budget Spreadsheet for Fiscal Year 2016-17 with a forecast for FY 2017-18, 2019-20 and 20-21 and the narrative description of the budget and its line items.

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 \$926,223, or \$308,741 per category. This represents a 5% increase from the prior year to accommodate anticipated one-time costs and continuing programs. 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. This year the allocation process is utilizing data from the State Controller's office but it is not the official reports of years past. The State Controller no longer prepares these reports and staff has reviewed this question with representatives of the Auditor's office who have confirmed the use of this new database material complies with the provisions of Government Code Section 56381. In addition, due to changes in total revenues for the larger independent special districts as recognized in the adopted alternative formula, only 19 out of the 50 special districts will be required to pay the apportionment. 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 provide funding for the move of the LAFCO office, and will maintain reserve accounts established to cover potential and/or future costs.

SALARIES AND BENEFITS **WORKLOAD CONSIDERATIONS**

FISCAL YEAR 2015-16

Staffing levels for Fiscal Year 2015-16 include five full-time positions and the contract for the Executive Officer position. During the year, the LAFCO Analyst position was unfilled from August until December due to the separation of an employee, resulting in a savings of salary and benefits expenses for roughly four months. Following the filling of the LAFCO Analyst – GIS/Database Manager position in December, the Assistant Executive Officer was on medical leave for which the short-term disability program paid a portion of the employee's salary during that time, an additional savings during the period.

With the savings from these two occurrences, the Commission approved a consulting contract with Robert Aldrich in September 2015. It is anticipated that the full extent of this contract will be used during the fiscal year. The costs for the consulting contract are accounted for in Account 2245 (Other Professional Services) in the Services and Supplies series of accounts.

Additionally, the Commission approved the County Exempt Compensation Plan amendments approved on December 15, 2015 to include a one percent (1.0%) across-the-board salary increase retroactive to January 9, 2016 along with other changes through July 1, 2018 (discussed below). The effect on the current year's budget is not significant.

The Personnel/Budget Ad Hoc committee and the Executive Officer have been reviewing salary issues related to the contract position as a part of the overall budget preparation process. Meetings have been held, either in person or by conference call, on February 17, March 16, March 31, April 4 and April 7. At the time of this report those negotiations have not been completed, however the budget authority is sufficient in the current year to accommodate the salary increase requested and a reserve account is included in the materials for the upcoming fiscal years to accommodate any change authorized. A closed session has been scheduled for the April 20 hearing to provide for an evaluation of the Executive Officer and to further discuss this contract process.

The estimated year-end expenditures for salaries and benefits are \$707,270 (including salary reserve), which is \$31,179 below the budgeted amount.

FISCAL YEAR 2016-17

The Salaries and Benefits categories for Fiscal Year 201617 include the funding for five positions, payment of step increases, a stabilizing of retirement costs and the maintenance of the existing payment schedule for contract Executive Officer position. The projections include the 1% salary cost-of-living increase for all regular employees and a 2% longevity increase for two employees effective in December 2016. Negotiations are currently underway with the Executive Officer so budget projections include a salary reserve amount of \$64,587.

The current fiscal year has involved the staff in some of the most complex and controversial proposals seen in many years – the fire reorganizations for the City of San Bernardino (which was one of the linchpins of its bankruptcy proceedings) and the Twentynine Palms Water District which broke new ground in assuring payment of unfunded retirement obligations. The upcoming year anticipates a continuation of these types of proposals, including the currently filed Hesperia Fire Protection District reorganization, and two other cities indicating they will submit a proposal this summer.

Fiscal Years 2017-18, 18-19, and 19-20

As is the Commission's practice, a forecast for Fiscal Year 2017-18 has been provided. However, staff has provided two additional years of forecasting due to impending changes in the salary and benefits categories – the hiring of a permanent Executive Officer – and other significant changes in budget categories. These forecasts include the maintenance of the contract Executive Officer (contract terminates in September 2018), five full-time staff positions with salary increases anticipated in the current compensation plan, including retirement costs. Four of the full-time employees are in the Tier 1 rate for retirement benefits for forecasting and the new GIS/Database Analyst position is a Tier 2 employee. The forecasts for these Fiscal Years carries forward current staffing levels for FY 2017-18, and the new staffing structure for FY 2018-19 (with a three month overlap with the contract Executive Officer) and FY 2019-20 without any contract employees, implementation of a 2% and 3% across the board salary increase for regular staff and all other existing practices and anticipated workloads.

SERVICES AND SUPPLIES

FISCAL YEAR 2015-16

This year is shaping up to be a banner year for LAFCO - one not only with above normal activity, but also one with complex proposals which could directly impact the quality of life of hundreds of thousands of residents of our County. By action taken at the September 2015 hearing, the Commission directed staff to prioritize its activities to address the fire proposals submitted as the top priority, other jurisdictional changes next, and service reviews to follow. The approval of a consultant for supplemental

staffing is helping with the processing burden including the response to the individual notices on the extension of the fire special taxes. The staff has implemented the direction of the Commission on its priorities.

The Services and Supplies categories are estimated to have expenditures of \$424,168 at year-end. This is \$93,584 below the budgeted amount as amended throughout the fiscal year to reflect increased costs. No budget amendments are proposed at this time in these categories.

In the Services and Supplies categories items of significance occurred during the current fiscal year:

- Due to the County Workforce Development Department vacating the building where the LAFCO office is located, LAFCO was required to install its own dedicated communications line, totaling roughly \$20,000. Consequently, monthly charges to Verizon of \$926 are now required to have access to the internet, County intranet, and telephone via a fiber line – charges previously the responsibility of County WDD.
- Significant unanticipated individual notice costs of roughly \$67,000 for the proposals related to annexations to County Fire that include the extension of a special tax (San Bernardino, Twentynine Palms, and Needles). However, these costs have been or will be recovered by LAFCO from the applicants.
- Round 2 of the Fiscal Indicators program (now includes data for 2013 and 2014) has been available on the LAFCO website since January 2016.
- The consulting contract with Bob Aldrich for staffing services – the Commission approved this contract in September 2015 not to exceed \$75,000.
- The Commission has expressed its desire to provide continuing governance training for the special districts within the County. As a part of the FY 2015-16 budget, staff developed an education program with the California Special Districts Association (CSDA) and the Institute for Local Government (ILG) – see chart below. The sessions were well attended with positive survey results.

Educational Training Program Timeline		
Training Session	Collaboration	Date
Understanding the Brown Act – Beyond the Basics	California Special Districts Association	September 28, 2015
Partnering with Community-based Organizations for more Inclusive Public Engagement	Institute for Local Government	January 13, 2016
Positioning Your Agency for Successful Financing (webinar)	California Special Districts Association	February 24, 2016

The balance of the Services and Supplies categories anticipate the maintenance of current activities.

The Commission continues to outsource its environmental processing through its contract with Tom Dodson and Associates, the processing of its accounting operations through the County Auditor’s office, and the maintenance of computer systems through the County’s ISD.

FISCAL YEAR 2016-17

Staff is recommending a total Services and Supplies budget of \$650,105, a significant increase from FY 2015-16. Much of this increase is related to the anticipated relocation of the staff office, currently proposed to be to the historic Harvey House area of the San Bernardino Depot. In reference to the expense categories within the overall Services and Supplies section, staff is proposing continuation of the ongoing educational programs for special districts in our county, management of website activities in-house, and the conversion of the mandatory service reviews to a County-wide approach with internal division to the four regions. The services anticipated to be reviewed in the upcoming year are water and sewer service (the Vector Control review is related to an application). On balance the budget appropriations provide for maintenance of current levels of support for on-going activities.

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 with ongoing discussions on a contract extension. In addition, software updates and maintenance of a contract for software to allow for manipulation of large pieces of data for service reviews are included in the appropriation authority request.

FISCAL YEARS 2017-18, 18-19, and 19-20

Based upon the approval of the staff recommendations for FY 2016-17, it is anticipated that a 2% 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 in FY 2017-18, 18-19, and 19-20. In addition, the payment of amortized tenant improvements have been included in the projections. In FY 2017-18 the recruitment process for a permanent LAFCO Executive Officer will be undertaken with an estimated cost of \$20,000 through the use of Robert Aldrich to perform the services in-house at the direction of the ad hoc Budget and Personnel Committee.

REVENUES

FISCAL YEAR 2015-16

Not only is proposal activity resulting in a more robust filing of applications and commensurate revenues, this year has been an unprecedented one due to the complexity and magnitude of the proposals present to the Commission. The chart below identifies the proposal activity for the current fiscal year but cannot reflect the enormity of the decisions made by the Commission:

Activity	Budget	Through Feb	
		No.	% of Budget
Proposals	6	15	250%
Service Contracts - Commission approval	1	2	200%
Service Contracts - Commission approval for exemption	0	2	
Service Contracts - Admin (E.O.) approval	4	3	75%
Protest Hearing Deposits	5	2	40%

Staff estimates that year-end totals for all proposal activities will be at 142% of budgeted appropriation. The total revenue (fees and deposits) received from the fifteen applications and seven service contracts submitted during the year is \$377,278. In addition, approximately \$8,000 in cost recovery has taken place during the year.

FISCAL YEAR 2016-17

Based upon the activities of FY 2015-16, staff anticipates that proposal filings for the upcoming Fiscal Year will at least hold steady as to number and complexity. It is anticipated that an additional two proposals for fire reorganizations will be submitted this summer. In order to remain conservative in revenue projections, staff anticipates the submission of 10 proposals next year at the basic fee level, for fee revenue of \$208,077. The chart below identifies staff's projections for the upcoming year:

Activity	FY 2015-16 PROJECTED YEAR END	FY 2016-17 BUDGET
Proposals	15	10
Service Contracts - Commission approval	4	4
Service Contracts - Admin approval	3	4
Protest Hearing Deposits	2	5

Interest income remains low as earnings rate remain depressed. All reserve accounts will be carried forward from the prior year and an estimated \$224,611 in other fund balance is anticipated to be carried forward from FY 2015-16 into FY 2016-17.

The staff is recommending a 5% increase in the apportionment for the upcoming year, to accommodate the tenant improvements necessary to relocate the staff office, and other ongoing service delivery expense. The apportionment process will take place pursuant to the provisions of Government Code Section 56381 with the acknowledgement that the State Controller no longer prepares the reports outlined in 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, 2016. 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 \$926,223, which represents a total of \$308,741 for each category. Revenues consisting of interest, mandatory contributions, and fee revenues are estimated to be \$1,476,061. Refunds from Prior Years, Miscellaneous Charge, and Carryover including all reserve accounts increases brings total anticipated revenues to \$2,081,926.

FISCAL YEAR 2017-18, 18-19, and 19-20

Revenues forecasts for FY 2017-18 builds upon the continuing health of the local economy anticipating an increase in proposal activity for an increase in Fees and Deposits of \$28,975 over Fiscal Year 2015-16. The forecast for FY 2017-18 maintains the increased level of activity with an estimate of a 2.5% increase in fees that year for a revenue increase of \$30,450 over FY 2016-17. The chart below compares the proposal activity forecast for FY 2015-16 to that proposed for FY 2016-17 and FY 2017-18:

Activity	17-18	18-19	19-20
Proposals	9	9	8
Service Contracts - Develop.	2	2	3
Service Contracts - Admin	6	5	6
Protest Hearing Deposits	5	5	5

The anticipated apportionment increases to a total of \$944,747 in FY 2017-18 and to \$963,642 in FY 2018-19 a 2.0% increase in each year. While it is proposed that the apportionment increase, staff will point out that it remains less than the apportionment in FY 2010-11 of \$1,033,911.

RESERVES AND CONTINGENCIES

The staff is proposing the maintenance of reserves and a contingency amounts as outlined by Commission policy. The General Reserve is by policy set at a minimum of \$200,000; and projections exceed this amount. The amounts presented for Fiscal Year 2016-17:

Account 6025 – General Reserve/Litigation	\$284,917
Account 6030 – Compensated Absences Reserve	\$ 87,222
Account 6010 – Net Pension Liability Reserve	\$109,170

In addition, staff is recommending a contingency of \$155,501 (Account 6000) which represents slightly more than 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 2015-16 AMENDED BUDGET	FY 2016-17 PROPOSED BUDGET
SALARIES AND BENEFITS	\$ 738,449	\$ 800,024
SERVICES AND SUPPLIES	\$ 517,752	\$ 651,105
RESERVES AND CONTINGENCIES	\$ 605,865	\$ 636,810
SUBTOTAL	\$1,862,066	\$2,087,939
FEE REVENUE AND GENERAL REVENUE	\$ 979,949	\$1,161,716
NET COST	\$ 882,117	\$ 926,223

It is the staff’s position that the expenditures and revenue items outlined in this report 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 18, 2016 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) Adopt the Proposed Budget for Fiscal Year 2016-17, presented by staff including the change in methodology for the completion of service reviews to provide for a county-wide approach by service with reporting for the four regional divisions internal to that report;
- 2) 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.
- 3) Schedule a public hearing for May 18, 2016 for the formal adoption of the Final Budget for Fiscal Year 2016-17.

KRM/MT/RA:

Attachments:

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