

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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**DATE:** APRIL 11, 2018   
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**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** AGENDA ITEM #6(b)(iii) –Review of Proposed Budget for Fiscal  
Year 2018-19

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## **BACKGROUND:**

As the Commission begins the annual review of its budget, a couple of significant changes are on the threshold. It will be hiring a full-time Executive Officer, the first in 8 years, and its longtime Legal Counsel will be leaving. So, this hearing will begin a potential change in the management of the Commission, the first major change in more than 30 years.

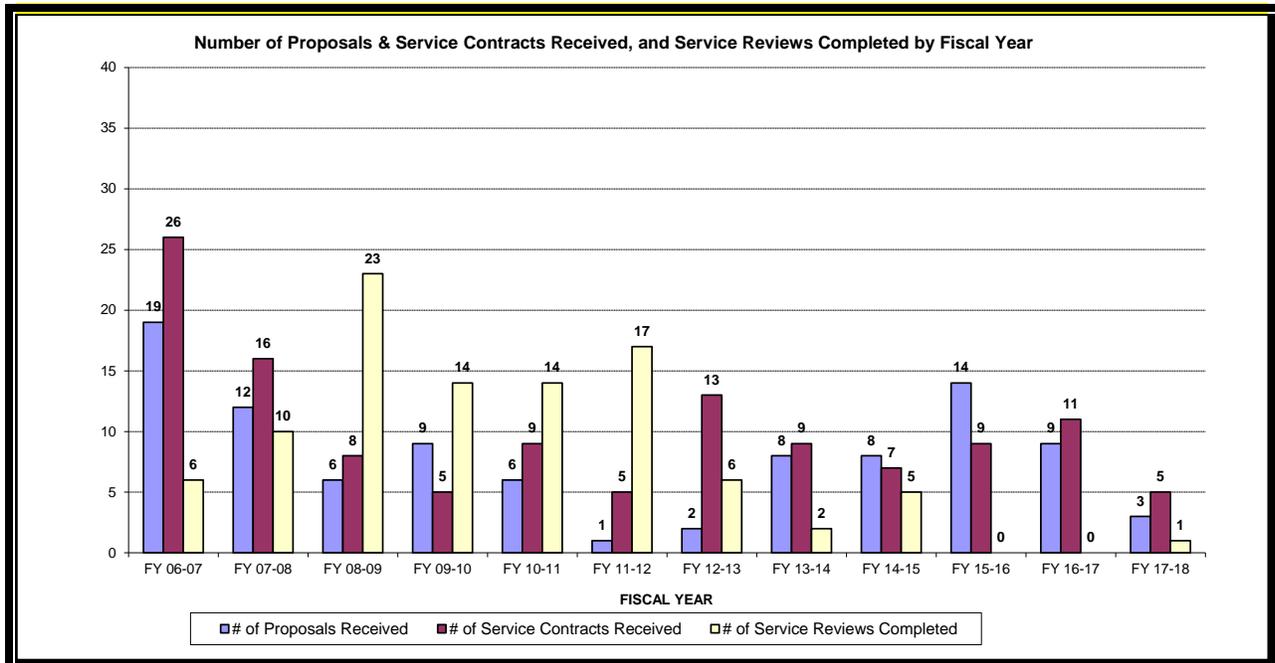
At this hearing, LAFCO staff is presenting the preliminary budget for Fiscal Year 2018-19 for Commission consideration. During the past year four key factors, all a financial challenge in their own way, have set the stage for the discussion of the upcoming Fiscal Year budget:

1. The Commission has again been asked to consider a fire reorganization, this one for the Hesperia Fire Protection District, to help stabilize the service delivery in the community and to allow for a permanent transition of service under the San Bernardino County Fire Protection District rather than a contractual basis. This proposal, as with all fire reorganizations, is nuanced and presents a unique set of complex circumstances for evaluation.
2. The Commission has been faced with significant exposure to potential litigation not directly related to a proposal for which there is no reimbursement of costs. This has required the Commission to use its general reserves to cover the \$67,468 expense for the current year (with a total expense of more than \$86,000 crossing fiscal years) plus other legal costs.
3. Staff has set the framework for consideration of service reviews on a countywide basis, recognizing the unique regional divisions in the vast San Bernardino County landscape.

- Finally, the LAFCO office has moved to a permanent location at the San Bernardino Depot and implemented the recruitment for a full-time Executive Officer.

From this perspective, staff has prepared a budget for the upcoming Fiscal Year which includes a 9.5% increase in the apportionment to the County, Cities and Independent Special Districts. This apportionment maintains the ongoing services following the need to use reserves to balance expenditures in Fiscal Year 2017-18, addresses a methodology to replenish reserves over a three to four year period to minimum standards of Commission policy, and funds the transition to full-time employee status for all Commission personnel. So this is the scenario in which we begin the State mandated process outlined in Government Code Section 56381 to establish the Commission's budget for the upcoming fiscal year - one that establishes a new team for moving the Commission forward.

The next step in the budget process for staff was to address the requirements to fund the Commission's ongoing operations. Staff is concerned that the current Fiscal Year application submission rate has not met expectation, having precipitously dropped from the prior four years. Based on this change, staff has projected the receipt of six proposals in the upcoming year with the increased fees proposed in a separate action for the Commission. The projections estimate that the proposals to be received will remain complex, labor intensive and highly likely to be contentious. The chart which follows shows the current status in proposal activity (through March 30, 2018) that has taken place to date (a 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. In the past, the Commission has used contracts for service with consultants and the ongoing contract Executive Officer to hold down its expenses during the recession and its aftermath.

However, that will change as of Fiscal Year 2018-19. LAFCO will return to a full-time staff pattern with the completion of the recruitment for Executive Officer anticipated to occur in June. The budget for FY 2018-19 and the forecast years presented anticipate a full-time, six person staff with all benefits provided but no consultants.

In reference to those benefits, the past several years, the staff has identified the continuing escalation of retirement rates as an area of concern with the notation in the FY 2016-17 budget that these rates were stabilizing. That euphoria was short lived, as SBCERA has once again revised its projections escalating the increases through FY 2022-23 based upon reduced revenue projections and other items. The passage of the California Public Employees' Pension Reform Act (PEPRA) related to the management of public retirement benefits has divided employees into two categories: (a) those employees employed prior to its passage (Tier 1 on the chart below) generally identified as legacy employees and (b) those employed after its passage (Tier 2). The budget as presented anticipates that there will be five full-time employees under the Tier 1 schedule (including new Executive Officer) and one under the Tier 2.

The chart below outlines the projections for retirement contribution rates noting that stabilization is now anticipated to occur in Fiscal Year 22-23 (beyond the forecast period included in this budget).

YEAR	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24
TIER 1	33.05	34.53	37.03	37.55	38.12	38.34	37.90	37.87
TIER 2	29.50	30.09	34.30	34.82	35.39	35.61	35.17	35.14

For the past several years, the Commission has taken the position that it will maintain the core LAFCO staff positions and augment those with contract employees. That is not the case for the Budget being presented for FY 2018-19 and the forecast years due to the funding constraints that are necessary to replenish the Commission's general reserve and contingency accounts. The budget anticipates no contract employees (except for the completion of the existing Executive Officer contract) and no consultants.

As noted above, the activity level of the Commission in reference to application submission and processing has dipped during Fiscal Year 2017-18, and staff is projecting the trend continuing into Fiscal Year 2018-19 and beyond. Staff is not aware of any new discussions on annexations to County Fire; however, if such are submitted the Commission's direction to prioritize the processing of these applications as paramount will continue.

The staff is projecting the continuation of the county-wide second cycle service reviews in the upcoming Fiscal Year. During the current Fiscal Year, information on the discussion of land use, demographics, disadvantaged unincorporated communities and disadvantaged areas as well as the requisite mapping has been done. This streamlining will translate into the use of this regional data in all the reports for service reviews in the second cycle. This approach has allowed for the development of "hot spots", which will be highlighted in each municipal service type review allowing for further discussion and potential action on sphere of influence updates.

The five-year plan, as modified, is shown below. The initial effort (water review) required a great deal more effort as it prepared all the regional calculations for population, disadvantaged communities and their requisite mapping needed for use in all reports. Staff is preparing to implement the balance of the municipal-type services for consideration as shown below. However, if the Commission believes a review of a specific service is warranted, it can provide that direction and staff will modify the schedule. The proposed schedule is:

<u>Year 2 (FY 2017-18):</u>	Water completed in July 2017 and Wastewater tentatively scheduled for presentation June/July 2018
<u>Year 3 (FY 2018-19):</u>	Fire Protection/Emergency Medical Response/Ambulance (groundwork to begin in late April/early May 2018) and Healthcare Districts
<u>Year 4 (FY 2019-20):</u>	Streetlights, Park and Recreation, Solid Waste, and Roads
<u>Year 5 (FY 2020-21):</u>	Additional municipal-type services at direction of Commission

Based upon the approach outlined above, staff has prepared the Proposed Budget for Commission consideration. As is the practice of the Commission, the budget includes Fiscal Year 2018-19 and two forecast years addressing the changed dynamic of the return to a full-time staffing pattern which provides for a full-time Executive Officer. Attachment #1 to this report provides the Budget Spreadsheet for Fiscal Year 2018-19 with a forecast for Fiscal Years 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 for Fiscal Year 2018-19 to the County, Cities/Towns and Independent Special Districts based upon the proposed budget target of \$1,109,583, or \$368,499 per category. This represents a total increase of \$95,914 or 9.5% from the prior year. 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 operation of the Commission including the transition to a full-time, six member staff, the replenishment of reserves over a three to four year period, and the ability to maintain existing projects and programs.

## **SALARIES AND BENEFITS** **WORKLOAD CONSIDERATIONS**

### **FISCAL YEAR 2017-18**

Staffing levels for Fiscal Year 2017-18 include five full-time positions and the contract for the Executive Officer position paid under the 1000 series of accounts and the consultant contract paid under the 2000 series (Services and Supplies) accounts.

The estimated year-end expenditures for salaries and benefits are \$722,640, which is \$8,879 below the budgeted amount.

### **FISCAL YEAR 2018-19**

The Salaries and Benefits categories for Fiscal Year 2018-19 include funding for six positions, payment of step increases, retirement costs and the implementation of the salary changes approved in the County Exempt Compensation Plan (outlined in Item 6(b)(ii) of the budget presentation). The projections include the 3% salary cost-of-living increase for all regular employees, the 2% longevity payments for two employees and the funding of one-quarter transition for the contract Executive Officer (July 1 through September 30, 2018). The retirement calculations include five employees as Tier 1 (legacy employees under PEPRA including the new Executive Officer) and one employee as Tier 2.

### **Fiscal Years 2019-20, and 20-21**

As is the Commission's practice, a forecast for Fiscal Years 2019-20 and 20-21 has been provided. These forecasts are:

- a. **FY 2019-20:** The projections are for staffing of six permanent employees with the addition of a permanent Executive Officer, all full-time staff positions, with 3% salary increases anticipated in the current compensation plan, including retirement costs. Five of the full-time employees are in the Tier 1 rate for retirement benefits for forecasting, and the GIS/Database Analyst position is a Tier 2 employee.
- b. **FY 2020-21:** The projections maintain the staff level at six full-time employees and project a 3% across the board cost of living increase.

## **SERVICES AND SUPPLIES**

### **FISCAL YEAR 2017-18**

Fiscal Year 2017-18 included the monumental task of moving the staff office to the Santa Fe Depot occupying the former Harvey House area. Renovations and construction were completed and the move took place on July 26, 2017. In addition, the fiscal year has seen a return to a lower level of application submissions for processing but those submitted retain

a high level of both complexity and contentiousness. During the year, staff also presented the first major service review of the second cycle – retail water in July 2017. It is anticipated that the second cycle review of the county-wide wastewater municipal service will be presented at the June/July hearing. The groundwork to begin the Fire Protection/ Emergency Medical Response/Ambulance service review is anticipated to begin in late April/early May 2018.

LAFCO staff continues to operate under the direction provided by the Commission in September 2015 hearing, that the staff 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 has helped this year with the processing burden as well as assisting on the compilation and development of the complex service review reports.

The Services and Supplies categories are estimated to have expenditures of \$636,364 at year-end.

The Commission has expressed its desire to provide continuing governance training for the special districts within the County. The Commission continued this program for FY 2017-18 and staff developed an education program in coordination 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.

<b>Educational Training Program Timeline</b>		
<b>Training Session</b>	<b>Collaboration</b>	<b>Date</b>
Technology and the Public Records Act: Recent Legal Developments and Current Challenges	California Special Districts Association	December 2017
Transparency Strategies	Institute for Local Government	January 2018
Fraud Detection and Prevention for Local Government Agencies	California Special Districts Association	March 2018

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 2018-19**

The total budgeted amount for Services and Supplies for FY 2018-19 is \$372,535 which is a decrease of roughly \$265,794 or 41.6% from the 2017-18 estimated year-end. This is

attributed to the completion of the office move and staff's projection that no further anticipated litigation unrelated to a LAFCO proposal will occur. The following work plan items are included in the staff's budget projections:

- It is anticipated that proposal processing activity for FY 2018-19 will continue at the same magnitude as the prior year, a reduction from the previous two years.
- Ongoing projects include the continuation of the Fiscal Indicators program adding the data for 2017 for viewing on the LAFCO website by December 2018.
- The workload related to jurisdictional change applications is being maintained at FY 2017-18 levels. Staff has identified nine proposals that are anticipated to be received in FY 2018-19 or earlier. Staff anticipates that these proposals will remain complex and controversial.
- The Commission will be transitioning its Legal Counsel from Clark Alsop to Paula De Sousa Mills from Best Best & Krieger. Mr. Alsop has represented the Commission for 43 years, first as a Deputy Counsel beginning in July 1975 through his employment with Best Best & Krieger in 1985. This change also necessitates a review and update to the contract for service which is included in this budget review as Item 6(b)(ii). The change in Legal Counsel rate has been included in the budget projections.
- The Commission's Governance Training program is budgeted to continue for the special districts and other governments within the County. We extend the opportunity for participation to special districts and governments within Riverside County. For the coming year, the budget anticipates at least three courses by either the California Special Districts Association (CSDA) or the Institute for Local Government (ILG) plus a general LAFCO 101 to be conducted by LAFCO staff and the CALAFCO Executive Director. The total program cost for the year is estimated at roughly \$7,500.

<b>Proposed Educational Training Program Fiscal Year 2018-19</b>		
<b>Training Session</b>	<b>Collaboration</b>	<b>Date</b>
LAFCO 101	San Bernardino LAFCO & CALAFCO	December 2018
Policy and Procedure Writing	California Special Districts Association	January 2019
Customer Service in the Public Sector	Institute for Local Government	February/March 2019

Staff proposes to continue to outsource the Commission's environmental processing through its contract with Tom Dodson and Associates, the annual audit with the firm Davis Farr, the processing of its accounting operations through the County Auditor's office, and

the maintenance of computer systems and electronic communication through the County's Information Services Department. The budget projections also include maintenance of hearings at the Norton Regional Event Center and the payments for the office lease, amortized loan payment, and Common Area Maintenance costs to SBCTA. The budget does not include any funding for outside consultants or contract staffing.

**FISCAL YEARS 2019-20 and 20-21**

Based upon the approval of the staff recommendations for FY 2018-19, 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 in FY 2019-20 and 20-21. In addition, the payment of amortized tenant improvements have been included in the projections.

**REVENUES**

**FISCAL YEAR 2017-18**

The chart below shows the budgeted and the estimated year-end balances for the accounts that comprise the Fee categories, accounts that are sensitive to activity levels. This includes the withdrawn proposals for the sphere amendment and reorganization involving the San Bernardino Valley Municipal Water District and the Inland Empire Utilities Agency (refund of \$10,064) and the failure to receive the fire proposals anticipated. By year's end, staff estimates fee revenue receipts will be 60% below the amended budget amounts. The chart below outlines the Revenue Categories:

<b>FEE/DEPOSIT CATEGORY</b>	<b>AMENDED BUDGET</b>	<b>ESTIMATED YEAR-END</b>
Individual Notice Deposit	\$42,320	\$5,077
Legal Service Deposit	\$40,185	\$37,928
Protest Hearing Deposit	\$43,620	\$1,500
GIMS Fees	\$7,520	\$5,790
Environmental Deposit	\$6,000	\$2,531
LAFCO Fee	\$127,773	\$42,321
<b>TOTAL FEE REVENUE</b>	<b>\$267,417</b>	<b>\$95,147</b>

This reduced revenue directly impacts the funding of the expenditure items within the current year budget and the carryover anticipated for the upcoming fiscal year.

**FISCAL YEAR 2018-19**

As noted in other portions of this narrative, FY 2018-19 is anticipated to continue the reduced activity level as shown for the current fiscal year, a normal submission count for proposal activity. Staff has identified nine proposals that are anticipated to be received in FY 2018-19 or earlier, which anticipates the submission of a formation of a community services district application.

Activity	FY 2018-19
Proposals	9
Service Contracts - Commission approval	2
Service Contracts - EO approval	4
Protest Hearing Deposits	6

Revenues consisting of interest, mandatory apportionment contributions (9.5% increase from prior year), and fee revenue are estimated to be \$1,258,597. Refunds from Prior Years, Miscellaneous Charges, and Carryover increase revenues to a total of \$1,289,596. The addition of Reserves from Prior Year (as modified at this hearing) adds \$501,235, for a grand total of \$1,790,830.

The apportionment presented in the budget materials is \$1,105,497, which represents a total of \$368,499 for each category. This is a 9.5% increase in the apportionment for the upcoming year to accommodate the other ongoing service delivery expenses coupled with the reduction in reserves necessitated during Fiscal Year 2017-18. 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, 2018.

At the time the Unaudited Year-End report is presented to the Commission (anticipated at the July hearing), staff will determine the actual carryover and make recommendation for any further actions, if necessary.

**REVENUE FORECAST FOR FISCAL YEAR 2019-20 and 20-21**

The forecast included for years two and three of the budget assumes a maintenance of proposal activity and an increase in apportionment of net costs by 4.0% each year. The following chart conservatively maintains proposal activity at nine proposals each year for the following two years.

Activity	19-20	20-21
Proposals	9	9
Service Contracts - Development	2	2
Service Contracts - Administrative	6	6
Protest Hearing Deposits	5	5

**RESERVES AND CONTINGENCIES**

The staff is proposing the maintenance of reserves and contingency amounts but is proposing that the Commission override its policy related to establishment of the General

Reserve (set by policy at a minimum \$200,000) and the Contingency at 10% of estimated total expenditures. This policy override is necessitated by the need to utilize contingency funding in Fiscal Year 2017-18 to accommodate non-recoverable legal expenses and the Fiscal Year 2018-19 transition to full-time staffing. The projections included for the forecast years of FY 2019-20 and FY 2020-21 set in motion a method to replenish the General Reserve and Contingency appropriations.

In addition, LAFCO staff received notification of the unfunded net pension liability from SBCERA in February 2018. This amount has increased to \$769,173. In keeping with Commission policy, and to maintain the original 20-year amortization schedule, staff has recalculated the schedule for this updated liability amount. For Fiscal Year 2018-19, the contribution to the Net Pension Liability Reserve is \$36,513, for a total of \$184,963. The reserve amounts presented for Fiscal Year 2018-19 are:

Account 6025 – General Reserve/Litigation	\$ 85,608
Account 6030 – Compensated Absences Reserve	\$ 97,377
Account 6010 – Net Pension Liability Reserve	\$184,963

In addition, staff is recommending a contingency of \$20,000 (Account 6000) which does not, as noted above, represent the established practice of 10% of total budgeted expenditure appropriations. Due to the limited nature of this account for the upcoming year, the use of these dollars must be judiciously monitored by staff and reviewed by the Commission in taking its action to transfer monies into the appropriate expenditures series.

The forecast years provide for a method to return to the Commission’s policy that general/litigation reserves are set at a minimum of \$200,000, but is anticipated to take four years. It is staff’s position that at the year-end review, any funds in excess of current projections should be allocated to General Reserves.

### **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:

<b>ACCOUNT TYPE</b>	<b>FY 2017-18 AMENDED BUDGET</b>	<b>FY 2018-19 PROPOSED BUDGET</b>
SALARIES AND BENEFITS	\$ 766,331	\$1,028,605
SERVICES AND SUPPLIES	\$ 789,491	\$ 373,835
RESERVES AND CONTINGENCIES	\$ 501,235	\$ 388,390
<b>SUBTOTAL</b>	<b>\$2,057,057</b>	<b>\$1,790,830</b>
FEE, GENERAL AND CARRYOVER REVENUE	\$1,047,474	\$ 685,334
<b>NET COST</b>	<b>\$1,009,583</b>	<b>\$1,105,497</b>

Pursuant to Government Code Section 56381(a), the proposed and final budget at a minimum shall be equal to the budget adopted for the previous fiscal year unless the Commission makes certain determinations. The budget for Fiscal Year 2018-19 is less than that for Fiscal Year 2017-18 but does not include the renovation costs for the office move nor anticipates further non-recoverable legal expense. Therefore, the Commission can determine that the reduced program costs allow it to fulfill its statutory obligations with the reduced budget proposed. 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/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 16, 2018 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 2018-19 presented by staff including the override of Commission policy related to its General Reserve funding level being no less than \$200,000 for the Fiscal Year and that Contingencies are less than 10% of anticipated expenditures, and the determination that the reduced budget for Fiscal Year 2018-19 allows the Commission to fulfill its statutory obligations;
- 2) Direct staff to forward the adopted Proposed Budget, as may be modified at this hearing, to all the independent special districts, cities/towns, and the County for their comment pursuant to Government Code Section 56381; and
- 3) Schedule a public hearing for May 16, 2018 for the formal adoption of the Final Budget for Fiscal Year 2018-19.

KRM/MT

Attachments:

1. [Proposed Budget -- Spreadsheet and Narrative Related to Individual Accounts](#)
2. [Auditor's Apportionment Distribution for the County, Cities and Towns and Special Districts](#)