

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: APRIL 11, 2019 *Samuel Martinez*
FROM: SAMUEL MARTINEZ, Executive Officer
MICHAEL TUERPE, Project Manager
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #12(b) – Proposed Budget for Fiscal Year 2019-20

RECOMMENDATION:

Staff recommends that the Commission take the following actions:

1. Adopt the Proposed Budget for Fiscal Year 2019-20 presented by staff which includes:
 - a. Proposed changes to Salaries and Benefits as identified on pages 3 and 4 of this report; and,
 - b. Continuance of the contract with Robert Aldrich for staffing support services.
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 15, 2019 for formal:
 - a. Approval of the amendments to the Policy and Procedure Manual for Salaries and Benefits; and,
 - b. Adoption of the Final Budget for Fiscal Year 2019-20.

BACKGROUND:

Spring is here – baseball returns and so does the LAFCO budget. You will notice a different format, but the same detailed information is included. The first two pages of this report include staff's recommendations, a basic summary, and the attachment listing. Beginning on page 3 are policy discussions and narratives for the budget categories: (1) Salaries and Benefits, (2) Services and Supplies, (3) Reserves, and (4) Revenues.

Attachments #3 (Salaries and Benefits), #4 (Services and Supplies), and #5 (Revenues) include a detail of each account to include: account description, charge measurement, identification of increase or decrease, and total cost.

The chart below is a basic summary of the FY 2019-20 budget, with notation on where to access the summary and detail information.

SAN BERNARDINO LAFCO			
FY 2019-20			
		Narrative Summary	Account Detail
OPERATIONS			
EXPENDITURES			
Salaries and Benefits	(823,068)	Page 3	Attachment 3
Services and Supplies	(437,882)	Page 5	Attachment 4
	\$ (1,260,950)		
REVENUES			
Apportionment	1,090,497	Page 10	Attachment 5
Fees and Deposits	177,740		
Interest	16,000		
Carryover of Open Proposals	31,982		
	\$ 1,316,219		
RESERVES			
INCOMING RESERVES			
Contingency (Assigned)	50,000	Page 8	
Net Pension Liability Reserve (Committed)	184,963		
General Reserve (Assigned)	150,000		
Compensated Absences Reserve (Committed)	97,377		
	\$ 482,340		
FY 2019-20 BUDGETED RESERVES			
Contingency (Assigned)	(50,000)		
Net Pension Liability Reserve (Committed)	(227,463)		
General Reserve (Assigned)	(150,000)		
Compensated Absences Reserve (Committed)	(110,146)		
	\$ (537,609)		

Attachments:

1. [Proposed Budget Spreadsheet with Prior Year Actuals](#)
2. [Senior Analyst Job Description](#)
3. [Salaries and Benefits Detail](#)
4. [Services and Supplies Detail](#)
5. [Revenue Detail](#)
6. [Auditor's Apportionment Distribution for the County, Cities and Towns, and Independent Special Districts](#)

SALARIES AND BENEFITS

The current fiscal year includes the following staffing structure: Executive Officer, contract Executive Officer (transition of 360 hours which ended September 30), Project Manager, LAFCO Analyst-GIS/Database, Clerk to the Commission/Office Manager, and Administrative Assistant. With one less full-time person in the office, the Commission contracted with Robert Aldrich for supplemental staffing services (said services are paid from Services and Supplies).

After reviewing current staffing and compensation, the FY 2019-20 budget proposes amendments to (1) Compensation in relation to (a) salary step advancement and (b) reclassification of LAFCO position and (2) Benefits associated with the Executive Officer allowances. Should the Commission support these proposed changes, then staff would present the related amendments to the Policy and Procedure Manual to the Commission at the May 15 hearing, when it reviews and adopts the final budget.

Compensation Changes

In April 2018, the Commission approved a policy whereby an eligible employee receives two step increases per year, until the top step is reached. This budget recommends a return to one step increase per year. The financial effect would be savings of at least \$4,989 for the first year then an ongoing annual savings of \$8,689.

When the Executive Officer position was filled from within, the Executive Officer chose not to fill the Assistant Executive Officer position. With one less full-time person in the office, the current Project Manager has assumed additional duties. In reviewing the job descriptions available, the duties currently performed are in line with the Senior Analyst position, which is between Project Manager and Assistant Executive Officer. Therefore, this budget recommends that Michael Tuerpe's position of Project Manager (Range 62) reclassify to Senior Analyst (Range 67) in order for compensation to be commensurate with duties performed. The Senior Analyst job description is included as Attachment #2. Mr. Tuerpe would enter at Step 11 and be eligible for an annual step increase until he reaches Step 14. The financial effect would be an ongoing annual cost of \$6,680.

As discussed throughout this report, the current fiscal year is experiencing historically low proposal activity. However, staff anticipates numerous significant proposals for the coming year. Therefore, it would be prudent for the reclassification not to take effect until the proposal level (financial position) improves. Such effective date would be determined by the Executive Officer.

Benefit Changes

The current auto and phone allowances provided to the Executive Officer are \$561.54 and \$92.31 per pay period, respectively. These allowances far exceed actual costs. As a part of this review, information was gathered of the surrounding LAFCOs on their auto and phone allowances. With both the actual cost and surrounding LAFCO allowances in mind, this budget recommends the allowances per pay period be reduced to: auto \$300 and

phone \$50. The financial effect would be an ongoing annual savings of \$9,385 (auto) and \$1,507 (phone).

FY 2019-20 Highlights

Attachment #3 to this report includes a detail of each account to include: account description, charge measurement, identification of increase or decrease, and total cost. The remainder of this page contains highlights for FY 2019-20 and FY 2020-21 forecast.

LAFCO mirrors the salary schedule and benefits provided in the County’s Exempt Compensation Plan as identified in the LAFCO Policy and Procedure Manual and contracts with the County to administer the benefits for its employees. In April 2018, the Commission approved the following salary and benefit increases, effective July 20, 2019:

- 3.0% across-the-board COLA
- Medical Premium Subsidy, as shown below

Declaration	Employee only	E+1	E+2
Current	\$234.50	\$361.19	\$495.34
Effective 7-20-19	\$243.33	\$379.03	\$529.94

Earnable Compensation (Account 1010) totals \$503,357 and includes:

- 3.0% COLA for all employees;
- One-step increases for three eligible employees;
- 2% longevity pay for those employees with 15 years of service - two employees,
- Leave cashouts as permitted by policy (Note: leave cashouts reduce the compensated absences liability); and,
- Reclassification of one employee (Note: the Executive Officer would determine the effective date of the employee’s reclassification; however, the budget liberally calculates for a full year of this position).

Contributions to the SBCERA retirement plan are per the SBCERA and Retirement Board approved rates. The Tier 1 rate increases by 0.99% to 38.02%, and the Tier 2 rate increases by 1.31% to 35.61%.

FY 2020-21 Forecast

The forecast for FY 2020-21 includes retention of the staffing model recommended in this budget, and a 3.0% across-the-board salary increase approved by the Commission in April 2018. The current Policy Manual does not include any salary or benefit increases beyond July 18, 2020. Additionally, FY 2020-21 has an additional pay period. Since the County pay schedule is every two weeks, rather than twice a month, the result is an additional pay period every ten years. As discussed in the Reserves portion of this report, staff will recommend to the Policy Committee the creation of a Salary Reserve to fund the next occurrence, which would take place in another ten years.

SERVICES AND SUPPLIES

Generally, services and supplies include payments for: proposal processing, Commission-approved programs and projects, and costs associated with running a government agency. Attachment #4 to this report includes a detail of each account to include: account description, charge measurement, identification of increase or decrease, and total cost. The remainder of this section contains highlights for FY 2019-20 and FY 2020-21 forecast.

LAFCO staff still continues to operate under the direction provided by the Commission, that the staff prioritize its activities in the following order: fire proposals, other jurisdictional changes, and service reviews. Continuing the contract with Robert Aldrich for supplemental staffing will help the processing burden as well as assisting on the completion and development of the complex service reviews (*Recommendation 1b on page 1 of this report*).

Proposal Processing

The current year has seen a precipitous drop in application submission, reducing funded activity level. However, staff has been coordinating with agencies regarding many likely and potential applications. A good number will be complex and controversial such as a city incorporation and formation of a community services district. The budget includes processing these proposals.

The Commission continues to outsource its environmental processing through its contract with Tom Dodson and Associates, conduct of the annual audit with an independent auditor, Davis Farr LLP, processing of its accounting operations through the County Auditor's office, and the maintenance of computer systems through the County's ISD.

The Commission expressed its desire to transition to digital media and reduce paper circulation. Staff has reviewed the life span of a proposal and identified that excess paper or CD reproduction occurs in the staff circulation, required noticing agenda, staff reports, and resolutions. To staff's surprise, mailing a CD in a small envelope actually costs more due to its unique size. Further, the materials are then placed onto the LAFCO website anyway. With this in mind, staff will move forward with the Commission's position and focus on digital access of materials. However, it is paramount that we still adhere to the statutory requirements of providing proper notices and agendas. The notice and agenda will still be mailed via USPS with staff signing a declaration of mailing, with the mailing list attached, for the administrative record. The mailing would then reference the LAFCO website for access to the reference materials. The mailed items would also state that if a CD or paper copy is needed, to contact the office. Staff estimates that the ongoing annual savings would be \$1,500 in materials and postage and \$1,200 in staff time.

Programs and Projects

Service Reviews

LAFCOs are required by Govt. Code 56430 to conduct reviews of municipal services. This LAFCO chose to conduct its first round by community and its second round by service, countywide. The Countywide Service Review for Water was completed last fiscal year, with

Wastewater completed this fiscal year. In late summer/early fall, the Commission will review Fire/Emergency Medical Services/Ambulance/Dispatch.

At the January workshop, the Commission determined that subsequent service reviews occur in the following order: healthcare districts, solid waste, streetlighting, parks & recreation, roads, and any other review as determined by the Commission.

Fiscal Indicators

In 2014 LAFCO advanced the use of audits and implemented an online Financial Indicators program. The purpose of the program is to provide more robust information on the financial condition of local agencies within San Bernardino County which will allow for better understanding of where an agency has been. Additionally, LAFCO uses the information in conducting state-mandated service reviews as a means to make the required determination of the financial ability of an agency to provide services.

Staff is working towards completion of 2017 data by July. Although there are nominal costs related to services and supplies, costs for this program mainly relate to LAFCO staff time.

Governance Training

The Commission’s Governance Training program is budgeted to continue for the special districts and other governments within the County. For the coming year, the budget anticipates two courses, as shown below. The total cost for the year is estimated to be \$5,000.

<i>Training Session, Partner</i>	<i>Date</i>
<i>How to Handle Pension Cost and Liability</i> California Special Districts Association	December 2019
<i>LAFCO 101</i> CALAFCO	January/February 2020

Agency Costs

In addition to processing proposals and conducting programs and projects, there are costs associated with running a government agency. As a part of the preliminary budget review, the Executive Officer and Administrative Committee discussed cost savings measures to include the preparation of meeting minutes. Currently, the minutes are a narrative summary of the meeting. To provide such detail requires the Clerk to prepare the draft, management to review the draft, followed by legal counsel review. In the end, the written narrative requires much time and cost. Further, this written product replicates the content available on the video file that is accessible on the LAFCO website. As a result, one could question the narrative as not reflective of what was actually said at the meeting. Therefore, in order to reduce this exposure and as a cost savings measure, this budget recommends that the minutes of the Commission meetings be action minutes. Staff estimates that the ongoing

annual savings would be at least \$4,800 in staff time and at least \$1,250 in legal counsel charges.

Highlights for the year include:

- Account 2075 Membership Dues. Due to funding challenges, the CALAFCO board approved a dues increase of 16% for this fiscal year (\$10,376). The CALAFCO board is currently working on a long-term strategy of revising its dues structure to a more sustainable and equitable model.
- Account 2125 Inventoriable Equipment. No inventoriable equipment is budgeted for purchase this or next fiscal year.
- Account 2245 Other Insurance. Liability insurance is purchased through the Special District Risk Management Authority (SDRMA). SDRMA notified LAFCO that due to catastrophic fires and increasing liability court judgements, liability rates are increasing 5% and property rates are increasing 11%. The insurance quote for the year is \$14,238.
- Account 2405 Auditing. We will be entering the fourth year of a four-year contract with Davis Farr LLP for independent auditing services. A joint RFP was issued in 2016 with the other Southern California LAFCOs. This matter will be addressed with the Southern California LAFCO group during the year.
- Account 2415 COWCAP. After a few years of low COWCAP charges, the County's FY 2019-20 charge is \$13,328, broken down as follows: \$7,265 Auditor; \$3,874 Human Resources, \$1,587 County Administrative Office; \$84 Purchasing; and \$518 Information Services Department (County ISD).
- Account 2418 Enterprise Storage Data. Instead of housing and maintaining a server at the LAFCO office, when staff moved to the new office we transitioned from storing and maintaining an in-house server to the County's virtual server. For the past two years, the County has not charged LAFCO for use of its server, with the expectation that the County would adopt charges beginning FY 2019-20. As adopted, the County's schedule is based on allocated space not used space. LAFCO's allocation is roughly three times its actual use. As a result, the cost estimate is \$8,457 for the year. LAFCO staff is working with County ISD to reduce our allocation, but this most likely will not take effect until FY 2020-21.
- Ongoing costs associated with being at the Train Depot are as follows:

<u>Account 2905 Rent.</u> Office Lease & Common Area Expense	\$ 66,085
<u>Account 2905 Rent.</u> Amortization (matures June 2022)	\$ 33,793
<u>Account 2090 Building Expense.</u> HVAC & janitorial	\$ 7,000
<u>Account 2180 Electricity.</u>	\$ 6,000
Total	\$112,878

RESERVES

Reserve Policy

The Commission's Reserve policy was last updated in 2014, and reads as follows:

The Commission will require the maintenance of three separate reserves which shall be funded as a part of the annual budget adoption process as follows:

- A. *The balance of San Bernardino LAFCO employee compensated absences at April 1 of each fiscal year shall be funded and placed in a committed reserve account in the following fiscal year budget;*
- B. *Annually the Commission shall set aside a minimum of \$200,000 in a committed reserve account for payment of potential litigation or other special need; and,*
- C. *A committed reserve account shall set aside funds for future payment of the Commission's net pension liability to the San Bernardino County Employees Retirement Association (SBCERA).*

Reserve Funding Cycle

Per policy and practice, reserves have been a part of the budget - in essence funded at the beginning of the year, before revenues are received, then reset in the next year's budget. If one were to look at the annual budget (see Attachment #1), history is shown for prior year Expenditures but on the same page Reserves are blank because Reserves are tied to the budget column, not actuals. As a result, fluctuations to Assigned Reserves occur with the budget, not with actual transactions, as shown below:

Fiscal Year Budget	14-15	15-16	16-17	17-18	18-19	19-20
<i>Significant Activity</i>			<i>Move deposit \$100,000</i>	<i>Move costs \$149,401 Legal \$67,376</i>		
ASSIGNED						
Contingency	98,356	105,501	155,501	139,116	20,442	50,000
General	300,000	291,007	279,841	225,229	85,608	150,000
TOTAL ASSIGNED	398,356	396,508	435,342	364,345	106,050	200,000
COMMITTED						
Compensated Absences	72,897	83,329	87,222	89,708	97,377	110,146
Net Pension Liability	40,503	82,750	109,170	148,450	184,963	227,463
TOTAL COMMITTED	113,400	166,079	196,392	238,158	282,340	337,609

Staff will be working with the Policy Committee to amend the Reserve Policy by transitioning away from a budget adoption process. One option would be to fund the Assigned Reserves

only when funds are received. For example, the budget can plan for a Reserve increase, but only after the funds are received will a recommendation be provided to the Commission to increase the Reserve accounts. Staff's position is that the change would promote transparency and reduce the fluctuations for the Assigned Reserves. Should funds be needed during the budget process, then a specific line item would require Commission approval.

Net Pension Liability

Please refer to Item 11 on this month's agenda for a discussion on contributing the Net Pension Liability Reserve funds to credit the unfunded liability. This budget staff report does not assume that the Commission will adopt the recommendation in Item 11 for payment to SBCERA. Should the Commission take action to contribute the funds, then this budget would be modified accordingly. Either way, this year the budget includes an increase of \$42,500 to this reserve to keep with the 20-year amortization schedule.

Salary Reserve

FY 2020-21 has an additional pay period (27 instead of the usual 26). Since the County pay schedule is every two weeks, rather than twice a month, the result is an additional pay period every ten years. Staff will recommend to the Policy Committee the creation of a Salary Reserve to fund the next occurrence.

FY 2018-19

With the Assistant Executive Officer position being unfilled, in July the Commission increased the following Assigned Reserve accounts:

- Contingencies by \$34,852 from \$15,148 to \$50,000; and
- General/Litigation Reserve by \$64,392 from \$85,608 to \$150,000

FY 2019-20

When combined the two Assigned Reserves, Contingency and General, meet the Commission's policy of a minimum \$200,000 for general/litigation. Therefore, the budget does not necessitate an increase to these reserves. For the Committed Reserves, Compensated Absences and Net Pension Liability, the budget increases these reserves per current Commission policy.

	Incoming	FY 2019-20 Budget
ASSIGNED		
Contingency	50,000	50,000
General	150,000	150,000
COMMITTED		
Compensated Absences	97,377	110,146
Net Pension Liability	184,963	227,463
TOTAL	\$ 482,340	\$ 537,609

REVENUES

Attachment #5 to this report includes a detail of each account to include: account description, charge measurement, identification of increase or decrease, and total cost. The remainder of this section contains highlights for FY 2019-20 and FY 2020-21 forecast.

Proposal Activity (Accounts 8545-9800)

Fees, charges, and deposits ordinarily involve the appropriate LAFCO filing fee and deposits for the recovery of the outside costs, for such items as LAFCO Legal Counsel, environmental review, Registrar of Voters, individual notification, etc.

The current year has seen a precipitous drop in application submission, reducing funded activity level. However, staff has been coordinating with agencies regarding many likely and potential applications. A good number will be complex and controversial such as a city incorporation with district dissolutions and formation of a community services district with dissolution of a county service area. The budget includes these revenue receipts.

During the previous Fee Schedule review in April 2018, the Commission expressed its desire for the Schedule not to experience long gaps with no increases (2010 to 2018), followed by a sudden large increase. One possibility the Commission identified is for the Fee items to increase annually with inflation. This works well for Fees because the Fees are generally tied to the Commission and staff's costs. Item 9a on this month's agenda is the Fee Schedule staff report, which recommends that Fees increase with the 2019 inflation rate of 3.0%¹. There are two proposed changes for Deposits: (1) an increase of \$300 for Individual Noticing, and (2) a decrease of \$300 for Legal Counsel.

Apportionment (Account 8842)

Government Code Section 56381 requires that the net costs for LAFCO be apportioned equally to those seated on the Commission: the County, the 24 Cities, and the 51 Independent Special Districts within the county. The proposed apportionment to each group is \$363,499 (a decrease of \$5,000 for each group, or 1.4%). The County Auditor will be required to apportion this amount on July 1, 2019 pursuant to the requirements of law and Commission policies (see Attachment #6).

Interest and Other Revenues

LAFCO participates in the County's interest pool and is apportioned interest receipts quarterly. Interest rates have been steadily increasing but do not result in significant revenue.

Cost recovery for proposals and service contracts is not addressed in the budget due to its speculative nature.

¹ 3.047% for Riverside-San Bernardino-Ontario, CA