

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: APRIL 8, 2020
FROM:  SAMUEL MARTINEZ, Executive Officer
MICHAEL TUERPE, Senior Analyst
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #10(b) – Proposed Budget for Fiscal Year 2020-21

RECOMMENDATION:

Staff recommends that the Commission take the following actions:

1. Adopt the Proposed Budget for Fiscal Year 2020-21 as presented by staff.
2. Direct the Executive Officer to sign the contract amendment with the Inland Valley Development Agency for the Commission's use of the Norton Regional Event Center.
3. 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.
4. Schedule a public hearing for May 20, 2020 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 2020-21.

SUMMARY:

Staff's goals for this budget are to: (1) not increase the apportionment burden on the small districts, (2) fund statutory regulations, and (3) maintain Commission operations. To meet these goals, staff's position is that a reduction in costs should be sought wherever possible.

As with prior years, the Executive Officer and the Administrative Committee discussed the budget process, staff's goals and position, and the Committee's goals and position. The Proposed Budget includes no across-the-board changes to Salaries and Benefits, scheduling of six hearings instead of 10, defers migration to a new website platform to FY

2021-22, reduces our allocated capacity in the County server, limits the number of participants at CALAFCO Conference and Workshop, and does not increase the apportionment burden on the small districts.

There is no way to sugarcoat the circumstance, no question the economy is taking a major hit, with no blueprint for this current shock. However, there is hope that the country's economic rebound will occur in the third quarter. Nonetheless, the statutory mandates placed upon municipal service delivery have not been waived. Therefore, the Commission's work must continue. There are three new circumstance for the coming year.

First, with a reduction in sales taxes, cities will be seeking ways to provide more efficient and more effective delivery means. Second, the housing crises remains which most likely will result in annexations to cities. Third, the pension systems incurred significant losses since March, which will most likely result in additional employer contributions to the retirement systems; thereby causing agencies to seek more efficient and effective delivery means. LAFCO has a role to play in all of these scenarios. All the while, we need to remain cognizant of the local agencies that contribute to LAFCO's net operating costs—specifically the small special districts—whose apportionment does not increase in this budget.

The first three pages of this report include staff's recommendations, a basic summary, and the attachment listing. Beginning on page 4 are policy discussions and narratives for the budget categories: (1) Salaries and Benefits, (2) Services and Supplies, (3) Reserves, and (4) Revenues.

Attachments #2 (Salaries and Benefits), #3 (Services and Supplies), and #4 (Revenues) include a detail of each account to include: account description, charge measurement, identification of increase or decrease, and total cost.

Below is a bulleted summary of the budget categories followed by a basic summary of the FY 2020-21 budget, with notation on where to access the summary and detail information:

Salaries and Benefits

- This fiscal year has an additional Pay period (once every 10 years).
- Recommend to amend the Policy Manual by rescinding the adoption of a 3.0% COLA effective July 2020.
- Will not adopt the compensation changes adopted by the County Board to take effect July 2020, at this time, and will return this matter for consideration at a later date.

Services and Supplies

- Defer migration to a new website platform to FY 2021-22.
- Reduce the size of our allocated capacity in the County server to reduce costs.
- Reduce hearings from 10 to 6 to reduce costs.
- Limit the number of participants at CALAFCO Conference and Workshop.

Reserves

- Fund Net Pension Liability Reserve with payment to SBCERA in June 2021.

- Fund Compensated Absences Reserve by the annual liability increase.
- Amend Policy Manual to add a Salary Reserve for Extra Pay Period (Committed Reserve). The first contribution would be in FY 2021-22.

Revenues

- Overall apportionment increases by \$30,000. However, the amount that the small districts contribute would not change due to two agencies moving up a level.
- 11 proposals. Staff reviewed each agency and determined that 11 proposals would likely arrive between March 2020 and June 2021.

FY 2020-21		Narrative Summary	Account Detail
OPERATIONS			
EXPENDITURES			
Salaries and Benefits	(838,641)	Page 4	Attachment 2
Services and Supplies	(350,981)	Page 6	Attachment 3
	\$ (1,189,622)		
REVENUES			
Apportionment	1,120,497	Page 11	Attachment 4
Fees and Deposits	116,454		
Interest	19,000		
Carryover of Open Proposals	10,000		
	\$ 1,265,951		
RESERVES (Increases)			
Contingency (Assigned)	0	Page 9	
Net Pension Liability Reserve (Committed)	(43,852)		
General Reserve (Assigned)	0		
Compensated Absences Reserve (Committed)	(32,477)		
	\$ (76,329)		

Attachments:

1. [Proposed Budget Spreadsheet with Prior Year Actuals](#)
2. [Salaries and Benefits Detail](#)
3. [Services and Supplies Detail](#)
4. [Revenue Detail](#)
5. [Auditor's Apportionment Distribution for the County, Cities and Towns, and Independent Special Districts](#)
6. [Contract Amendment with Inland Valley Development Agency for Hearing Lease](#)

SALARIES AND BENEFITS

The current fiscal year includes the following staffing structure: Executive Officer, Senior Analyst, LAFCO Analyst-GIS/Database, Clerk to the Commission/Office Manager, and Administrative Assistant. Additionally, the Commission contracted with Robert Aldrich for supplemental staffing services (said services are paid from Services and Supplies). This budget includes retention of the current staffing model, with supplemental staffing used during peak proposal work and funded by proposal fees.

Compensation and Benefit Changes

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.

After reviewing current staffing and compensation, the FY 2020-21 budget proposes policy amendments to (1) Rescind the previously approved COLA for FY 2020-21, (b) Forgo adopting the changes adopted by the County Board for its Exempt employees to take effect July 2020, at this time, and direct staff to return this matter for Commission consideration at a later date.

Given the current circumstances, staff recommends no across-the-board increases take place. This includes rescinding previously approved increases and forgoing any additional increases. These include:

- In April 2018, the Commission approved a 3.0% across-the-board COLA, effective July 2020.
- In January 2020 the County Board approved increases to take effect July 2020. The increases are to Medical Premium Subsidy, Medical Reimbursement Plan, Retirement Medical Trust and a 3.0% COLA for three consecutive years. At this time, staff recommends forgoing these increases and direct staff to return this matter for Commission consideration at a later date.

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 20 hearing, when it reviews and adopts the final budget.

The financial effect would be savings of roughly \$30,000.

FY 2020-21 Highlights

Attachment #2 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 2020-21 and forecasts for three additional years.

Earnable Compensation (Account 1010) totals \$507,972 and includes:

- No COLA for all employees;
- One-step increase for three eligible employees;
- 2% longevity pay for those employees with 15 years of service - three employees;
- Leave cashouts as permitted by policy (Note: leave cashouts reduce the compensated absences liability);
- 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 recommends creation of a Salary Reserve to fund the next occurrence, which would take place in another ten years. The annual budget would include a 1/10th contribution, beginning in FY 2021-22.

On a positive note, LAFCO is the only SBCERA member whose contribution rates will decrease for the fiscal year. This is a result of the Commission making an additional payment to SBCERA of roughly \$185,000 in June 2019. The rates, with decreases, approved by the retirement board for FY 2020-21 are:

- Tier 1. Decreases by 5.9% to 35.76%
- Tier 2. Decreases by 6.7% to 33.24%

FY 2021-22, 2022-23, 2023-24 Forecasts

The forecast for FY 2021-22 (Year 2 of this budget) includes retention of the staffing model recommended in this budget, with no COLA to salaries but adopting the benefit increases of the County Exempt Compensation Plan.

The forecast for FY 2022-23 (Year 3) calculates a COLA for salaries, in line with the County Exempt Compensation Plan.

For FY 2023-24 (Year 4), a LAFCO employee is scheduled to have retired in Year 3. For budget purposes, the position is funded for Year 4. However, it is the position of the Executive Officer that when an employee separates, the office staffing model, duties, and compensation would be evaluated.

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 #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 section contains highlights for FY 2020-21.

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 for the next fiscal year.

The Commission continues to outsource its environmental processing through its contract with Tom Dodson and Associates.

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 second round service reviews have been Water (2017), Wastewater (2018), and Fire/Emergency Medical Services/Dispatch (2020).

At the January 2019 workshop, the Commission determined that subsequent service reviews occur in the following order: healthcare districts, solid waste, street lighting, parks & recreation, roads, and any other review as determined by the Commission. In light of the COVID-19 outbreak, staff recommends that healthcare districts be deferred and instead proceed with solid waste followed by street lighting.

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 2019 data by August. 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. Should social distancing orders or measures continue, rather than an in-person session LAFCO could sponsor a webinar. Staff will apprise the Commission the course and forum at the First Quarter update. Either way, the costs should be the same – roughly \$2,500 per session.

Agency Costs

In addition to processing proposals and conducting programs and projects, there are costs associated with running a government agency. The Commission continues to outsource its 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.

Highlights for the year include:

- 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). The insurance quote for the year is \$14,238.
- Account 2405 Auditing. We will be entering the fifth and final year of a 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. COWCAP charges decrease by 45% to \$7,345, broken down as follows: \$2,645 Auditor; \$2,144 Human Resources; \$1,660 County Administrative Office; \$99 Purchasing; and \$797 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. LAFCO uses the County's off-site virtual server to store its digital information. The County's fee schedule is based on allocated space not used space, and LAFCO's allocation is far more than its used space. LAFCO staff worked with County ISD to reduce our allocated space, which reduces costs by at least one-third.
- Account 2905 Rent. The lease for use of the Norton Regional Event Center expires June 2020. Management of the facility has provided a contract renewal for the

Commission's review (see Attachment #6). Should the Commission support the contract renewal, staff recommends that the Commission authorize the Executive Officer to sign the contract amendment.

- Ongoing costs associated with being at the Train Depot are as follows:

<u>Account 2905 Rent.</u> Office Lease	\$ 37,813
<u>Account 2905 Rent.</u> Common Area Maintenance	\$ 27,164
<u>Account 2905 Rent.</u> Amortization (matures June 2022)	\$ 33,793
<u>Account 2090 Building Expense.</u> HVAC & janitorial	\$ 7,150
<u>Account 2180 Electricity.</u>	\$ 5,200
Total	\$111,120

As a part of the budget process, the Executive Officer discussed with the Administrative Committee the high costs being located at the Train Depot. In addition to rent, the Commission has to pay for the other items outlined above. The Executive Officer reached out to SBCTA (landlord) regarding charges outside of the standard office lease payment. The Administrative Committee has also reached out to SBCTA. Staff will inform the Commission should any savings occur.

In FY 2022-23, the Commission will no longer have to make amortization payments to SBCTA of roughly \$34,000 related to the office retrofit.

RESERVES

At this time, the Commission has two Committed Reserves and two Assigned Reserves.

Committed Reserves

Compensated Absences – The budget adds \$32,477 to this account to fund the increase in compensated absences. The increase is due to natural increases and the rate assigned Mr. Martinez’s leave balance of his new position as Executive Officer.

Net Pension Liability – The Net Pension Liability is two-years in the rears and is a moving figure. LAFCO’s FY 2018-19 audit identifies the liability as \$885,247 with a measurement date of June 30, 2018. Since the 2018 measurement date LAFCO:

- Contributed \$184,963 in June 2019
As a part of last year’s Third Quarter Financial Review the Commission approved the contribution of the entirety of its Net Pension Liability Reserve to SBCERA to credit the unfunded liability. This contribution resulted in LAFCO being the only SBCERA member to experience a reduction in the contribution rate for FY 2020-21.
- Is scheduled to contribute \$42,500 this June
The FY 2019-20 Third Quarter Financial Review (see Item 9 of this month’s agenda) requests that the Commission approve this payment as a credit to the liability.
- Is scheduled to contribute \$43,852 in June 2021
For FY 2020-21, the budget adds \$43,852 to this reserve to keep with the amortization schedule.

NET PENSION LIABILITY				
RESERVE SCHEDULE				
	(A)	(B)	(C)	(A)+(B)+(C)
			LAFCO	
FISCAL	NPL	Actuary	Contribution	NPL
YEAR	Begin	Increase	to SBCERA	End
2015	581,103	-		581,103
2016	581,103	-		581,103
2017	581,103	3,628		584,731
2018	584,731	96,716		681,447
2019	681,447	87,726	(184,963)	584,210
2020	584,210	95,787	(42,500)	637,497
2021	637,497	20,287	(43,852)	613,932
2035			(43,852)	
TOTAL			(885,247)	

Assigned Reserves

A combination of low proposal receipts and the pandemic are the cause of low revenue receipts for FY 2019-20. As a result, the current year will end in a deficit which will require a transfer from reserves to balance the budget. As of this time, the deficit is estimated to be roughly \$91,000. Staff will wait until the year-end financial review to request an exact figure for transfer from the Commission – most likely all of the Contingency (roughly \$50,000) and the remainder from General.

Contingency – The Contingency Reserve is not defined in the Policy and Procedure Manual. Instead, it has been the Commission’s practice to fund a Contingency Reserve for unanticipated expenses. Due to the FY 2019-20 deficit, it is probable that there will be no funds in this reserve for FY 2020-21. The FY 2020-21 budget does not include additional funds for this reserve. The hope is that the Commission would be able to rebuild this reserve beginning FY 2021-22.

General – Due to the FY 2019-20 deficit, it is probable that there will be roughly \$100,000 in this reserve for FY 2020-21. The FY 2020-21 budget does not include additional funds for this reserve. The hope is that the Commission would be able to rebuild this reserve beginning FY 2021-22.

Salary Reserve

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. Staff recommends creation of a Salary Reserve to fund the next occurrence, which would take place in another ten years. The annual budget would include a 1/10th contribution, beginning in FY 2021-22.

Should the Commission support the new reserve category, then staff would present the related amendment to the Policy and Procedure Manual to the Commission at the May 20 hearing, when it reviews and adopts the final budget.

REVENUES

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.

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. The budget includes these revenue receipts.

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 \$373,499. This results in an increase of \$10,000 for each group; however, the small districts as a group will pay the same amount as two districts moved up a contribution level. The County Auditor will be required to apportion this amount on July 1, 2020 pursuant to the requirements of law and Commission policies (see Attachment #5).

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.