

**LOCAL AGENCY FORMATION COMMISSION
COUNTY OF SAN BERNARDINO**

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DATE: APRIL 11, 2005
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: AGENDA ITEM #6 – Preliminary Review of Budget For Fiscal Year 2005-06, ITEM (B) Review of Proposed Budget

RECOMMENDATION:

- 1) Adopt the following changes for LAFCO employees:
 - a) An across-the-board 2.5% Cost-of-Living-Adjustment based upon data received from the Commission's Human Resources Consultant; and,
 - b) Provide a \$25 per pay period/\$54.17 per month allowance to the Executive Officer for the purpose of providing a cell phone for use on LAFCO business.
- 2) Adopt Resolution No. 2873 amending the current Benefit Plan and Salary Schedule for LAFCO Employees to reflect the adopted changes.
- 3) Review and adopt the Proposed Budget for FY 2005-06 and take the following actions related to policy items:
 - a) Authorize the Executive Officer to sign the "Production Support Agreement for 2005-06" with the County's Information Services Department to provide information technology services for the Commission for the upcoming fiscal year; and,
 - b) Approve contracting with the accounting firm of Moreland & Associates Inc. to perform financial audit services for the year ending June 30, 2005, with an option to extend for two additional years; and,

- c) Authorize the purchase of computer equipment to replace five (5) computer workstations, a replacement printer and the necessary software to operate system.
- 4) Direct staff to forward the adopted Proposed Budget to all the independent special districts, all cities, and the County for their comment pursuant to Government Code Section 56381; and,
- 5) Schedule a public hearing for May 18, 2005 for the formal adoption of the Final Budget for Fiscal Year 2005-06.

BACKGROUND:

At the April hearing, the Commission begins its annual rite of spring commencing its budget review for the upcoming Fiscal Year. The Commission's budget for Fiscal Year 2005-06 must take into account the annual discussion of a State budget crisis and the ongoing problems for local governments to provide for their services with ever-dwindling revenues. Staff in preparing its budget estimates is ever cognizant of the Commission's impact on the budgets of the entities mandated to fund LAFCO. However, the upcoming year will continue the escalating activity level for the Commission, with the discussion of the County's Fire Reorganization anticipated to begin in the fall if submission takes place this Fiscal Year and the need to work toward completion of the Service Reviews for the North County. Based upon this, staff's approach to the budget is to: (1) provide the funding for increased activity levels, as well as maintenance of programs and services provided by the Commission; (2) reduce costs wherever possible; and (3) enhance revenues where possible.

With this approach identified, the staff is presenting the Commission with the necessary budgetary information to begin its review. Pursuant to the provisions of Government Code Section 56381, the Commission is required to adopt a proposed budget by May 1st of each year and a final budget by June 15th. Staff hereby presents the Commission with a Proposed Budget for FY 2005-06 to review and consider. As a part of this review, the staff is seeking direction from the Commission on any additions, deletions, or modifications to the line items presented.

EXPENSE CATEGORIES:

Salaries and Benefits:

The staff is recommending that the Commission provide a 2.5% cost-of-living adjustment (COLA) for the current four (4) LAFCO employees and the additional LAFCO Analyst position currently being recruited. The COLA was

reviewed by the Commission's Human Resource Consultant, Ms. Mary Alcock of Alcock and McFadden. In addition, it has been proposed to include a Salary Reserve account for the provision of merit increases based upon the Commission's adopted Human Resources Policies and Procedures. The amount of \$10,800 has been established as this reserve on the attached spreadsheet.

The salaries and benefits category includes funding for providing a cell phone allowance for the Executive Officer rather than the purchase of a cell phone through the County. The purpose for this change is that the County's current provider of choice, Cingular, has no service available in the vicinity of the Executive Officer's residence, while an alternative provider which does, Verizon, is not available through County Purchasing. The provision of the \$25 per pay period/\$54.17 per month allowance will cover the cost of this service, allowing the Executive Officer universal service.

The salaries and benefits categories presented in the Proposed Budget accommodate the payment of costs for five (5) full-time employees, the increase in Retirement costs through the San Bernardino County Employees Retirement Association to 17.94% of earnable compensation, and includes the payment of the 2.5% cost-of-living increase effective July 1, 2005 for all employees. It includes the anticipated accrual of one-half of a pay period for the upcoming fiscal year and the payment of all current contract benefit amounts.

Services and Supplies:

In reference to the expense categories within the overall Services and Supplies section, the staff is proposing the maintenance of current levels of support to activities begun in prior years, such as website activities, maintenance of city and district digitized maps, etc. The Proposed Budget accommodates the increased costs associated with the preparation of color maps for presentation to the Commission; use on the website and for distribution of staff reports. The staff has also included the maintenance of the production support agreement with the County's Information Services Department. The budget includes the payment to the County Sheriff's Department for the attendance of a Deputy at Commission hearings, a requirement added during the current fiscal year.

Legal Counsel costs have been reduced for the upcoming year due to the transfer of expense responsibility to the California Association of LAFCOs (CALAFCO) for Counsel Alsop's services. Legal Counsel Alsop has provided a request to provide for an automatic increase in his hourly rate based upon the Consumer Price Index for the area, not to exceed 5% in any given year. The increase proposed for Fiscal Year 2005-06 will be an increase in per hour

charge to \$180 from the current \$175 per hour. At the Final Budget hearing, staff anticipates providing a request for further consideration by the Commission of its current Legal Counsel Waiver Policy and the possibility of expansion of waiver of conflict issues.

Staff is requesting authorization to purchase new computer equipment for the staff office including five new workstations, a new printer and necessary software to enhance our capabilities to provide for visual displays in the staff reports and presentations. A cost estimate for this equipment has been received through the County's Information Service Department, noting that hardware purchases (workstations and printer) are estimated at \$15,250 and software needs are estimated at \$4,500. This cost estimates will be finalized as a part of the Final Budget review at the May hearing.

In addition, the budget as presented includes the transition to an outside Auditing Firm. Over the last several months the staffs of the Orange LAFCO, Riverside LAFCO and our LAFCO have participated in a joint Request for Proposal (RFP) process seeking outside auditing services. The choice of the Committee was the firm of Moreland and Associates Inc. for the upcoming year, with an option for two additional years. The cost estimate for this service was identified as \$5,600 for the year, a \$180 decrease from the County's current year cost.

The budget presented proposes the inclusions of a contingency account, set at \$15,000, and the maintenance of a reserve account for the Commission in the amount of \$32,176.54 for Fiscal Year 2005-06. The Commission's reserve, by past practice, has been annually established.

REVENUE CATEGORIES:

Revenue receipts during the current Fiscal Year are nearly double targets established in the Fiscal Year 2004-05 budget. This escalating activity level for the Commission is displayed on the chart included as Attachment #2 to the report and staff does not foresee a slowing of this activity level. It is estimated, at this time, that current year revenues from all categories will exceed budget targets by approximately \$130,000. This estimate is based upon the following determinations:

- a. The County Fire Reorganization is anticipated to be initiated during the current Fiscal Year. Staff has been in consultation with the County staff members regarding the fees that would be attributable to this Reorganization proposal – totaling \$95,250. County staff has indicated that they will be requesting a reduction in the total fee charge to approximately \$56,250, which proposes to reduce the charges for service

reductions and dissolutions to one-half their charge. Since the determination on whether or not to reduce the fees will be determined following application submission by the Commission, the staff has included the reduced fee in its revenue calculations so as not to over-estimate revenues.

- b. It is anticipated that an additional five proposals will be received prior to the end of the Fiscal Year.

For the upcoming Fiscal Year, pursuant to the provisions of Government Code Section 56381, the net costs of LAFCO are to be divided equally among the County, Cities, and Independent Special Districts. The staff is projecting that the cost to be apportioned next fiscal year will be \$545,000, an increase of \$89,000 over the prior year, or roughly a 20% increase. This increase in cost to the entities that fund LAFCO is attributable to the need for additional staff to accommodate completion of Service Reviews/Sphere of Influence Updates and to handle the increased workload. In the prior year, staff attempted to hold costs due to the uncertainty of funding changes to the entities that support LAFCO, so that the number of staff was held to four. However, this is no longer feasible. The following chart provides a comparison of the charges in prior years:

FISCAL YEAR	COUNTY	CITY	DISTRICT
1999-2000	\$564,567	0	0
2000-01	\$564,567	0	0
2001-02 (total \$474,567)	\$158,189	\$158,189	\$158,189
2002-03 (total \$509,922)	\$169,974	\$169,974	\$169,974
2003-04 (total \$489,999)	\$163,333	\$163,333	\$163,333
2004-05 (total \$456,000)	\$152,000	\$152,000	\$152,000
2005-06 (total \$545,000)	\$181,667	\$181,667	\$181,667

As a comparison, in Fiscal Year 1999-2000, the Commission had five staff members and a reduced activity level, but the cost to the County only at the time (prior to implementation of AB 2838) was \$564,567.

This net cost will be apportioned in amounts estimated to be \$181,667 for each category, with the costs for processing by the County Auditor/Controller added to this charge (the cost for 2004-05 was \$2,176). An estimate of the distribution of these costs to the Cities (by the formula identified by statute) and the Independent Special Districts (by alternative formula adopted in 2002) are included as Attachment #3. The Auditor is required by Government Code

Section 56381 to prepare this calculation by July 1 of each year based upon the most current State Controller Reports. The estimates provided are based upon the State Controller's Report for Fiscal Year 2001-02 for Independent Special Districts, and Fiscal Year 2002-03 for Cities. If new reports are issued between the adoption of the budget and the mandatory July 1 distribution of charges, the individual agency costs may change.

In addition, the Proposed Budget anticipates revenue receipts from the modified Schedule of Fees and Charges proposed for consideration as Agenda Item #6A. If these changes are not adopted, the revenues presented in the Proposed Budget would need to be adjusted accordingly.

The Proposed Budget, including spreadsheet and narrative discussion, is attached for Commission review and consideration. The staff will be happy to answer any questions at the hearing on April 20th regarding the items presented.

/krm

Attachments:

1. Proposed Budget -- [Spreadsheet](#) and Narrative
2. Chart of Proposals Received
3. Estimated Distribution for City and Special District Costs
4. Draft Resolution #2873 Granting Cost-of-Living Adjustment and Benefit Change
5. Orange LAFCO Letter Selecting Auditing Firm for FY 2004-05
6. Draft Production Support Agreement with ISD for FY 2005-06
7. Letter from LAFCO Legal Counsel Regarding Increase in Hourly Rate