

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

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DATE: JANUARY 13, 2009

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
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TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #6: Mid-Year Budget Review for Fiscal Year 2008-09, and
Consideration of Amendment of Local Agency Formation Commission
Human Resources Policies and Guidelines

RECOMMENDATION:

Staff recommends that the Commission take the following actions:

1. Note report and file.
2. Transfer \$10,000 from Account 6000 (Contingency) to Account 5012 (Services Out) in order to account for the County's billing practice for Office Depot charges and to continue utilization of the County's contract with Office Depot.
3. Adopt LAFCO Resolution 3047 amending the San Bernardino Human Resources Policies and Guidelines and Internal Operations Guidelines to reflect the approved amendments.
4. Direct the Executive Officer to forward a copy of Resolution 3047 to the County Administrative Office, Auditor/Controller-Recorder and EMACs System Manager.

BACKGROUND:

Staff is presenting the Commission with its mid-year budget review for FY 2008-09. This report presents the financial activity through December 31, 2008 and includes forecasts for the balance of the fiscal year as outlined on the spreadsheet that accompanies this report (Attachment #1). Additionally, staff is recommending amendments to the employee policies and guidelines to define the appointing authority for LAFCO employees and to reflect the full scope of the tuition reimbursement benefit currently authorized.

EXPENDITURES:

Overall, total expenses incurred through the mid-year are at 55% of expenditure authority. This amount includes one-time, full-year, unbudgeted expenses, and reimbursable costs paid during the first half of the fiscal year.

Salaries and Benefits

Expenditures for Salaries and Benefits (1000 series of accounts) through the mid-year represent 50% of budget authority. The first half included the mandatory administrative leave balance cash-out for staff at the end of December (end of calendar year) and an extra pay period (there are 27 pay periods this fiscal year with 14 in the first half).

The forecast for the second half of the fiscal year includes the standard 13 pay periods, anticipated additional leave cash-outs from staff, the annual accrual/reversal process for salaries and benefits payable, anticipated step increases for four employees, and a possible pay increase to stem from the Executive Officer's annual evaluation. No other changes are anticipated to occur to Salaries and Benefits for the remainder of the year. The projected year-end total for the Salaries and Benefits categories is \$804,071, or 99% of budget authority.

Services and Supplies

Full-year and one-time payments, expenditure items sensitive to activity levels, and unbudgeted expenses have brought expenditures within Services and Supplies (2000 series of accounts) to 64% of budget authority. The expenditures identified on the spreadsheet for the first half of the Fiscal Year include:

- Full-year payments totaling \$43,941 in Accounts:
 - 2075 (Memberships) for membership in professional organizations (\$7,060). One membership remains (\$776) with payment anticipated in January.
 - 2405 (Auditing) for the independent auditor to conduct the annual financial report of the Commission's activities (\$5,668) with an additional payment anticipated in February (\$632).
 - 2245 (Other Insurance) for property liability purchased through SDRMA (\$9,148). This is the full-year cost and no additional costs are anticipated.
 - 2415 (COWCAP - Countywide cost allocation plan) for costs incurred from FY 2006-07 (\$22,065).
- One-time payments totaling \$20,419 for the following:
 - LAFCO support for maintenance of the County's Street Network Basemap totaling \$10,500 (Account 2460 - GIMS charges).

- Payment for breakdown and installation of furniture and purchase of additional furnishings to accommodate the expansion of the LAFCO office totaling \$3,419 (Account 2305 – Office Expense).
- Attendance and travel expenses related to the CALAFCO conference totaling approximately \$6,500 (various accounts).
- Expenses for the first half of the year were higher than anticipated for activities related to processing of service reviews and proposals, the bulk of which are reimbursable according to the Commission’s existing policies. The amounts in excess of budget target total \$26,962 and are comprised of legal notices, postage, environmental consultant, and in-house printing. To date, \$7,358 has been recovered and \$4,451 is a billed and outstanding receivable. The remainder of the current reimbursable costs is scheduled for billing during January and February.
 - Account 2085 (Legal Notices) for legal advertising of proposals and municipal service reviews has incurred \$10,968 more than anticipated.
 - Account 2310 (Postage) for mailing of proposals and municipal service reviews has incurred \$3,739 more than anticipated.
 - Account 2424 (Environmental Consultant) for environmental review of proposals and municipal service reviews has incurred \$11,151 more than anticipated. Many of these costs are reimbursable pursuant to the Commission’s existing policies. Specifically, services provided by the Commission’s environmental consultant related to the processing of LAFCO 3076 – Consolidation of the San Bernardino Valley Municipal Water District and the San Bernardino Valley Water Conservation District account for \$4,970 of that total. LAFCO has received reimbursement of \$4,477 of that amount.
 - Account 2895 (Lease of the staff copier) has incurred \$1,104 more than anticipated for processing municipal service reviews. Lease payments include a per page rate for amounts over the lease amount of 15,000 pages per month, charged at \$0.003 per page.
- Additional activities include:
 - Additional costs related to the remodeling of the staff office, and the unanticipated cost for purchase of additional filing cabinets and dictating equipment for CD transcription totaling approximately \$2,500 in Account 2305.
 - CEQA litigation related to LAFCO 3076 (Account 2449 – Outside Legal) totaling \$41,076. Pursuant to the Commission’s existing policies, all these costs are reimbursable. To date, all of these costs have been recovered.

- Costs attributable to FY 2007-08 but paid in FY 2008-09 totaling \$3,079.

After the adoption of the budget, two budgeted activities are now reflected in different accounts. The following provides an outline of these changes:

- At the time of the LAFCO budget adoption, all legal expenses were budgeted in Account 2400 (Legal Counsel). LAFCO utilizes the County's chart of accounts, and after adoption of the budget the County made available an account for the purpose of outside legal expenses. LAFCO staff has separated outside legal activities (litigation and special counsel) into this line item shown as Account 2449 (Outside Legal).
- LAFCO utilizes the County's contract with Office Depot for office supplies. LAFCO has historically budgeted for Office Depot charges in Account 2305 (General Office Expense). Per County direction, Office Depot charges are now reflected in Account 5012 (Office Depot). However, the 5000 series of accounts was not budgeted for the fiscal year and requires authorization by the Commission for its use. To account for this change in practice and to continue utilization of the County's contract with Office Depot, staff recommends that the Commission transfer \$10,000 from Account 6000 (Contingencies) to Account 5012 (Office Depot).

The budgeted amount for Office Depot included as a part of Account 2305 (General Office Expense) cannot be transferred to the 5000 series since additional costs due to the remodeling of the staff office and the purchase of additional filing cabinets are pushing that account over its budgeted amount. Further, staff anticipates Account 5012 to incur \$5,044 through year's end, and a transfer of \$10,000 from the Contingencies account would provide the cushion to ensure that charges do not exceed authority. At year's end, the difference will be a part of the balance forward for re-allocation into FY 2009-10.

For the second half of the year, staff projects that the expenses in the Services and Supplies series of accounts will total \$179,213. Significant legal advertisement, postage, and printing costs are anticipated for the upcoming months as the Commission begins its consideration of the San Bernardino Valley Municipal Water District and San Bernardino Valley Water Conservation District consolidation and completes its consideration of the municipal service reviews. This figure includes an estimated \$40,000 for litigation related to LAFCO 3076, which is a reimbursable cost. The projected year-end total for the Services and Supplies categories is \$429,762, or 111% of budget authority.

As described earlier, the first half of the year incurred higher than anticipated expenses for activities related to processing of service reviews and proposals, most of which, according to the Commission's existing policies, are reimbursable. These activities include, but are not limited to, legal notices, postage, environmental consultant, and in-house printing. Finally, CEQA litigation related to LAFCO 3076 is a high cost activity, but the costs are reimbursable. At year's end, Salaries and Benefits are projected to incur 99% of budget authority and Services and Supplies is projected to incur 111% of budget authority. Together, total expenditures are anticipated to incur 103% of the budgeted amount, or an excess of approximately \$32,000.

As mentioned, CEQA litigation related to LAFCO 3076 is a high yet reimbursable cost. Nonetheless, costs are projected to exceed budget authority. To accommodate for the excess expenditures, budget authority of Services and Supplies (2000 series of accounts) will need to be increased. However, litigation charges are a variable cost. Therefore, staff will be deferring until April any changes to budget appropriation to be discussed as a part of the preliminary FY 2009-10 LAFCO budget process. In April, staff will provide the Commission with the expenditure activity to date and the projected expenditures through the year-end, to include costs that have been reimbursed such as litigation charges and municipal service review processing. At that time, staff will recommend that the Commission make the changes necessary to budget appropriation in the Services and Supplies series of accounts, make necessary changes to recognize reimbursements in the revenue series of accounts and if necessary transfer the appropriate amount from Reserves (Account 6025) to balance the budget. .

REVENUES:

As the Commission is well aware, the national, state, and local economies are experiencing financial challenges. Locally, the current economic conditions have led to mortgage problems and a downturn in development activity, and there is a strong correlation between the planning process for development activity and proposal submissions to LAFCO. These circumstances have significantly contributed to the decline in proposals received through the mid-year, as well as the prior Fiscal Year.

Attachment #2 to this report is a chart outlining a comparison of the Commission's proposal type activity through December 31, 2008 with prior Fiscal Years. To date, the Commission has received four proposals (eight anticipated for the year) and five service contracts (eight anticipated for the year). Twenty-one service reviews have been completed: Mojave Water Agency, nine for the Apple Valley community, four for the Hesperia community, and seven for the Barstow community.

The items below summarize the revenue activity through the mid-year.

- The Commission has received 99.3% of apportionment payments, and the remaining \$7,831 is anticipated to be deposited during late January – through transfer from the distribution of tax proceeds.
- In addition to the apportionment revenues, filing fees and deposits are a significant source of revenue. Excluding the deposits received for payment of the contracted EIR, through the mid-year revenues are:
 - Total Revenues is at 98% of the budgeted amount.
 - Total Fee Revenue (the fee and deposit accounts) is at 70% of the budgeted amount.

In developing the revenue projections for the second half of year, staff is taking a very conservative position which includes acknowledgement of the overall economic conditions. Staff is projecting the receipt of:

- One city annexation proposal
- One city island annexation proposal
- In addition, staff anticipates reimbursements for litigation related to LAFCO 3076; additional billings for costs incurred in excess of deposits received; receipt of outstanding payments for environmental review, landowner and registered voter notice, and legal costs for applications processed and service reviews conducted during the year. The revenue projections also account for refunds to agencies where costs incurred were less than deposits received.

To date, the Commission has incurred \$19,302 in costs related to the processing of municipal service reviews and proposals which can be recovered pursuant to the Commission's existing policies. Of this amount, \$7,358 has been recovered, \$4,451 has been billed, and \$7,493 is scheduled for billing. Further, it is likely that the second half of the year will include costs related to the processing of the municipal reviews and proposals which can be recovered.

Of concern to staff is the Commission's ability to recover these reimbursable costs from certain agencies, as is likely from those that oppose the Commission's sphere of influence actions. Should staff not be able to recover these costs it will have a direct impact on the year-end revenues. As a part of the budget discussions for Fiscal Year 2009-10, staff will have to discuss a potential policy for cost recovery.

At the mid-year, the Commission's operating fund had a balance of \$678,098. Taking into account projected expenditures and anticipated revenues for the second half of the year, staff is projecting a fund balance forward into FY 2009-10 of \$134,184.

POLICIES AND GUIDELINES:

Staff is requesting that the Commission consider two amendments to LAFCO's policies and guidelines.

Human Resources Policies and Guidelines

At the August 2008 hearing, the Commission amended the San Bernardino LAFCO Human Resources Policies and Guidelines and Benefits Plan to reflect recently amended County Exempt Compensation Plan benefit changes. Among these was a change to the Tuition Reimbursement benefit available to LAFCO employees. In order to reflect the full scope of the benefit, staff recommends amendment of the language in Section 501 (Tuition Reimbursement) to include reimbursement for memberships in professional organizations for full-time employees of LAFCO who have been employed for at least 90 days. Amendment of the language does not authorize an additional benefit but clarifies the action the Commission took at the August 2008 hearing. Section 501 is included as Attachment

#3 with the changes identified in bold italic. The portion of Section 501 recommended for amendment is shown below:

All regular Full-Time employees of SB LAFCO, who have been employed for at least 90 days prior to enrollment, are eligible to receive educational assistance.

Upon pre-approval by the employee's supervisor and Executive Officer, the following reimbursement policies have been outlined to cover tuition, **and** course/seminar or degree related expenses, **and membership dues in professional organizations**:

- Maximum SB LAFCO reimbursement is \$1,000 per fiscal year **for membership dues** and all course expenses plus the cost of books.
- Courses **and memberships in professional organizations** must be related to the work of the employee's position or occupation and **courses** must be taken at accredited institutions.

Internal Operation Guidelines

The LAFCO policies and guidelines refer to "appointing authority" for LAFCO employees but do not define "appointing authority". Staff recommends that the Commission define the LAFCO Commission as the appointing authority for the Executive Officer and the Executive Officer as the appointing authority for all other LAFCO employees. The recommended placement for this language is in the 200 series (Employment Procedures) of the Internal Operations Guidelines as Section 201. The addition of this section would renumber the existing sections within the 200 series (current 201-206 will become 202-207). Section 201 is included as Attachment #4 and is shown below:

The LAFCO Commission is the appointing authority for the LAFCO Executive Officer. The LAFCO Executive Officer is the appointing authority for all other LAFCO employees.

Staff will be happy to respond to any questions on the information presented in this report prior to or at the hearing.

MT/

Attachments:

1. Mid-year Status Report Spreadsheet Expenditures and Revenues
2. Chart Illustrating Proposal Activity through December 31, 2008
3. Draft Section 501 of Human Resources Policies and Guidelines
4. Draft Section 201 of Internal Operation Guidelines
5. Draft Resolution 3047