

# LOCAL AGENCY FORMATION COMMISSION COUNTY OF SAN BERNARDINO

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**DATE:** AUGUST 26, 2009

**FROM:** KATHLEEN ROLLINGS-McDONALD, Executive Officer  
MICHAEL TUERPE, LAFCO Analyst

**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item 6: Budget Review for Fiscal Year 2008-09:  
A: Unaudited Year-end Financial Report  
B: Consideration of Refund Procedures for LAFCO Apportionment  
Process for Fiscal Year 2009-10

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## **RECOMMENDATION:**

Staff recommends that the Commission:

1. For the year-end financial report, note and file the report which outlines that total expenditures are within total appropriation authority and that revenue receipts have exceeded budget projections.
2. Approve the refund procedures as identified in this report for the County, the cities, and the independent special districts and shown in Attachment #3 to this report, and direct the Executive Officer to take the actions necessary to issue the refunds.

## **BACKGROUND:**

This report includes a review of the year-end activity of the Commission's budget for Fiscal Year 2008-09 and Commission consideration to refund additional funds available as of June 30, 2009 to those agencies that are apportioned LAFCO's net operating costs.

## **FY 2008-09 YEAR-END BUDGET REVIEW:**

Staff is presenting the Commission with a spreadsheet (Attachment #1) and narrative that outlines the year-end status of the Commission's financial activity which includes expenditures and receipts for FY 2008-09. The spreadsheet identifies that total expenditures were within appropriation authority for all fund categories. Total revenues were slightly above projections; however, as described in detail below, a considerable portion is attributable to cost recovery and not additional proposal activity.

Appropriations (Expenditures and Reserves):

Appropriations are comprised of three categories of accounts: 1) Salaries and Benefits, 2) Services and Supplies, and 3) Contingency and Reserves. Together, Salaries and Benefits and Services and Supplies comprise Total Expenditures. The unaudited Total Expenditures at year's end is \$1,181,822 (91% of the budget); the difference of \$114,359 between the budget and unaudited total is explained in detail below. The entirety of the Commission's reserve, \$126,739, is carried forward into FY 2009-10.

*1. Salaries and Benefits (1000 series)*

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$763,253 for the year, or 94% of budget authority. This total is in contrast to the year-end estimate of \$802,606 identified in the FY 2009-10 Budget materials and shown on the attached spreadsheet. This has taken place due to budgeted activities that did not occur - leave cashouts and the final pay period being paid on July 1, 2009 instead of June 30, 2009 as originally budgeted. As for the final pay period, salary and benefit compensation is paid every two weeks, and normally there are 26 pay periods for a fiscal year. However, the accumulation of an extra day each year outside the payroll calendar and an extra leap year day every four years results in a 27<sup>th</sup> pay period every 10 years. The FY 2008-09 Budget included funding for 27 pay periods, however, only 26 payments were made.

The funds to accommodate these expenses were received in FY 2008-09 (\$36,198), and have been carried forward into FY 2009-10. Additional action will be necessary during the First Quarter review for FY 2009-10 to increase appropriation authority to accommodate the additional payments in the Salaries and Benefits series of accounts for Fiscal Year 2009-10 and acknowledge the carryover.

*2. Services and Supplies (2000 and 5000 series)*

The Services and Supplies series of accounts (2000 and 5000 series) had expenditures of \$418,569 for the year, or 87% of budget authority. This total is in contrast to the year-end estimate of \$475,601 identified in the FY 2009-10 Budget materials and shown on the attached spreadsheet. The difference of \$57,032 between the year-end estimate and unaudited year-end is mainly attributed to the following:

- Litigation costs were averaging \$8,000 monthly and staff expected that activity to continue through the end of the year. However, these costs slowed markedly in the last three months of the year resulting in expenditures being \$26,000 less than projected.
- Roughly \$24,200 in costs associated with proposal and service review processing did not occur. Staff anticipated additional presentations to the Commission in May and June, but these activities were deferred to July, August, and September. These costs will be incurred in FY 2009-10.
- Contracted cost for the Independent Financial Analysis for LAFCO 3076 was not a part of the original budget. The \$25,000 expense was covered by the deposits from the San Bernardino Valley Municipal Water District and the San Bernardino Valley Water Conservation District. The majority of the expense was paid in FY 2008-09, but \$2,356 will reflect in FY 2009-10.

- Due to a revised billing from the County Information Services Department, participation in aerial imagery costs were \$4,500 less than estimated.

3. *Contingency and Reserves (6000 series)*

The entirety of the Commission’s reserve, \$126,739, is carried forward into FY 2009-10.

Revenues

The unaudited total of Revenues at year’s end is \$1,426,407, which exceeded budget projections by \$3,487 or 0.25%. However, this figure alone does not reveal the revenue received from proposal activity. The following outlines the significant revenue actions in comparison with the Final Budget:

1. Interest (Account 8500) exceeded budget projections by \$9,613, or 78%. The sharp increase is due to carryover funds and the receipt of the apportionments in the first quarter.
2. LAFCO Fees (Account 9800) exceeded the budget projection of \$77,500 by \$29,844 (39%). However, this account includes the \$25,000 for the independent financial report for LAFCO 3076. Excluding this dedicated revenue, LAFCO fees would be only \$4,844 above budget. Additionally, received towards the end of the year were completion fees and cost recovery for completed applications in addition to three proposals that were anticipated to be received in FY 2009-10. The costs for these activities will occur in FY 2009-10.
3. Excluding the litigation, environmental processing, and independent financial report for LAFCO 3076, costs eligible for cost recovery totaled \$33,653. Through the end of the year, only \$491 remains outstanding.

Proposal Activity

The chart below identifies the number of proposals, service contracts, and service review deposits received during the year. Receipts met or exceeded projections for two categories of service contracts and service review deposits. Proposal, island annexations, and one category of service contracts received one less than projected. Specifically, seven proposals were projected and six were received; however, three of the six proposals were anticipated to be received during FY 2009-10. Attachment #2 provides a yearly comparison of proposal activity.

Activity	Projected	Received	% Received
Proposals	7	6	86%
Island Annexation	1	0	0%
Service Contracts - 5 or more units	1	0	0%
Service Contracts - up to 4 units	1	3	300%
Service Contracts - Non Develop.	5	5	100%
Service Review Deposits*	27	19	70%

\* 27 were projected as a part of the budget but 8 were received in FY 2007-08

Twenty-three service reviews were completed during the year: Mojave Water Agency, County Service Area 64, Big River Community Services District, Apple Valley Community (9), Hesperia Community (4), and Barstow Community (7).

**CONSIDERATION OF REFUND PROCEDURES FOR LAFCO APPORTIONMENT PROCESS FOR FY 2009-10:**

The Commission’s fund balance at the end of the year was \$244,585. Minus reserves, the carryover total is \$117,846. However, the FY 2009-10 Budget projected a FY 2008-09 year-end balance of \$17,296 (not including reserves), a difference of \$100,550. The summary of the accounting for the \$100,550 is as follows:

Salaries and Benefits (to be incurred in FY 09-10)	\$ 36,198
Services and Supplies (to be incurred in FY 09-10)	\$ 2,358
Revenues (year-end estimates assumed no additional proposals, processing costs to be incurred in FY 09-10)	\$ 29,498
Expenses not incurred or under estimate and costs recoverable	\$ 32,496
<b>Total</b>	<b>\$100,550</b>

As identified above, \$68,054 has been dedicated for either payment or activity to occur in FY 2009-10. The remaining \$32,496 is additional funds that are comprised of costs under year-end estimates and cost recovery revenues which have been received. Pursuant to Government Code Section 56381, the “net operating expenses” of the Commission are apportioned by the county auditor in one-third shares to the county, cities, and independent special districts. Net operating expenses are to be determined following calculation of the carryover from the prior fiscal year. The additional carryover of \$32,496 is considerable, and in the staff view, the Commission is obligated to refund the \$32,496 to those agencies that are apportioned LAFCO’s net operating costs. Staff recommends that Commission approve the refund procedures for the County, the cities, and the independent special districts using the methods identified below and shown in Attachment #3 to this report, and direct the Executive Officer to take the actions necessary to issue the refunds.

The refund would be \$10,832 to the county, cities, and independent special districts. The staff recommendation for calculating the refund would be as follows:

- The County would receive its \$10,832 by transfer.
- The cities one-third share is apportioned in proportion to each city’s total reportable revenues as a percentage of the combined city revenues. Staff proposes that the \$10,832 be refunded in the same proportional manner.
- The independent special districts have adopted an alternative formula for the apportionment of their one-third share of the LAFCO cost. Staff proposes that the \$10,832 be refunded inversely whereby the smaller districts will be refunded the majority of their apportionment share.

Item 8 on the agenda addresses a request to the County Auditor/Controller-Recorder to collect outstanding city or district apportionment amounts from the first proceeds of property tax revenues. If the Commission approves staff’s recommendation to refund excess carryover (Recommendation #2 to this report) this action would adjust the respective agency’s apportionment obligation accordingly. Additionally, staff would notify the County Auditor-Controller/Recorder of the respective apportionment reductions.

**CONCLUSION:**

Total expenditures were within appropriation authority for all fund categories. Total revenues were slightly above projections; however, as described in detail above, a considerable portion is attributable to cost recovery and not additional proposal activity. The entirety of the Commission's reserves is carried forward into FY 2009-10, \$126,739.

The information contained in this report identifies the carryover balance into FY 2009-10, minus reserves, was \$100,550 over the year-end estimate provided in April. Of this amount, \$68,054 is has been dedicated for either payment or activity to occur in FY 2009-10. The remaining \$32,496 is additional funds that are comprised of costs under year-end estimates and cost recovery revenues which have been received. Staff recommends that Commission approve the refund procedures for the County, the cities, and the independent special districts using the methods identified in this report and shown in Attachment #3, and direct the Executive Officer to take the actions necessary to issue the refunds totaling \$32,496.

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Attachments:

1. [Spreadsheet of Year-end Expenditures, Reserves, and Revenues for Fiscal Year 2008-09](#)
2. [Chart Illustrating Yearly Proposal, Service Contract, and Service Review Activity](#)
3. [Proposed Refund Listing](#)