

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

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

**SUBJECT: Agenda Item #10A: Mid-Year Budget Review for Fiscal Year 2009-10:
Financial Report for Period July 1 through December 31, 2009**

RECOMMENDATION:

Staff is recommending that the Commission take the following actions:

1. Note receipt of this report and file.
- 2, Authorize the Executive Officer to negotiate a contract for the preparation of the minutes of Commission hearings for the balance of the fiscal year at a cost not to exceed \$600 per hearing.

BACKGROUND:

Staff is presenting the Commission with its mid-year review of the FY 2009-10 Budget which includes information related to forecasts for the balance of the fiscal year. Staff is presenting the Commission with a spreadsheet that summarizes the financial activity for the period of July 1, 2009 through December 31, 2009 (included as Attachment #1) and a narrative discussion included within this report of its forecasts.

EXPENDITURES AND RESERVES:

Expenditures 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. Through the mid-year, total expenditures are at 58% of budget authority. No activity has been authorized by the Commission for utilizing the appropriation authority within the Contingency and Reserve accounts.

1. Salaries and Benefits (1000 series)

At the end of December 2009, expenditures for Salaries and Benefits (1000 series of accounts) are at \$467,659, or 57% of budget authority. This higher than normal percentage includes the activities listed below. Excluding these activities, the overall expenditures for Salaries and Benefits would be within normal activity.

- This fiscal year includes an additional pay period (a total of 27), with 14 pay periods paid in the first half.
- Budgeted activities related to the separation of the former Clerk occurred in the first half of the fiscal year.
 - Termination payments totaling \$73,546 (one-time payment that was budgeted) to include requested leave cashouts and mandatory sick-leave conversion to the Retirement Medical Trust Fund, and
 - The separated Clerk served two pay periods within FY 2009-10 and received salary and benefits payments for three pay periods and a single lump sum payment of final leave balances totaling roughly \$13,000.

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 three employees, and will include one pay period for the incoming Executive Officer. 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 \$821,847, or 99.5% of budget authority.

Staff is requesting that the Commission authorize the Executive Officer to contract for the preparation of the minutes of Commission hearings with an outside source. When the Clerk to the Commission position was eliminated the functions and duties were reassigned to others within the office. The preparation of the minutes is a time consuming process, which is impacting other activities within the LAFCO staff office. Staff anticipates discussing the ability of either former Clerk to provide this service through the balance of the fiscal year through a contract. Staff anticipates the cost of this contract to be approximately \$600 per hearing.

2. Services and Supplies (2000 and 5000 series)

Expenditures for Services and Supplies (2000 and 5000 series of accounts) are at \$224,845 for the first half. Expenditure items sensitive to activity levels in addition to one-time payments have brought expenditures within Services and Supplies (2000 and 5000 series) to 60% of budget authority. The expenditures identified on the spreadsheet include:

- Full year and one-time payments totaling \$86,591 in the following Accounts:

- 2075 (Memberships) for membership in professional organizations totaling \$7,776 (CALAFCO and California Special Districts Association). This is the full year cost and no additional costs are anticipated.
- 2115 (Computer Software) for yearly licenses to operate software programs to include digital archiving software of LAFCO's records in order to comply with archiving mandates (\$1,410) and the purchase of license for Adobe software for three users to reduce staff processing and archiving time (\$741)
- 2245 (Other Insurance) for property liability purchased through SDRMA (\$8,048). This is the full year cost and no additional costs are anticipated.
- 2415 (COWCAP – Countywide cost allocation plan) for costs incurred from FY 07-08 (\$53,325). This is the full year cost and no additional costs are anticipated.
- 2460 (GIMS) for maintenance of the County's Street Network Basemap (\$10,500).
- 2941 (Conference/Training) for conferences and training courses for Commissioners and staff (\$4,791). Of this amount, \$2,730 is for registration for the CALAFCO Conference, the largest anticipated expenditure for this account.
- Application, legal, and environmental processing related to LAFCO 3076 (Consolidation of the San Bernardino Valley Municipal Water District and the San Bernardino Valley Water Conservation District) totaling \$27,718. The costs identified below have been recovered from the applicant:
 - 2400 (Legal Counsel) for legal counsel and environmental processing totaling \$23,832.
 - 2424 (Environmental Consultant) for CEQA support from the Commission's Environmental Consultant totaling \$1,530.
 - 2445 (Other Professional Services) - The remaining costs for the Independent Financial Analysis total \$2,356. This expense was covered by the deposits received in FY 2008-09 from the San Bernardino Valley Municipal Water District and the San Bernardino Valley Water Conservation District.
- Litigation related to LAFCO 3048 – Fontana Islands Reorganization (Account 2449 Outside Legal) totaling \$6,438. These costs are not recoverable.

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 \$17,226 and are comprised of legal notices, postage, environmental

consultant, and in-house printing. Of these costs, \$10,245 has been billed to proponents in December and January.

- Account 2310 (Postage) for mailing of proposals and municipal service reviews has incurred \$4,903 more than anticipated, of which \$3,485 is attributable to the processing for the San Bernardino Island proposals.
- Account 2400 (Legal Counsel) for legal counsel for proposals and general activity has incurred \$6,404 more than anticipated. However, this account has incurred costs for the legal processing for LAFCO 3076, a budgeted activity but all taking place in the first half. Isolating this activity which has ceased, general legal counsel services are at 48% of expenditure authority for the first half of the fiscal year.
- Account 2424 (Environmental Consultant) for environmental review of proposals and municipal service reviews has incurred \$3,126 more than anticipated. Of these costs, \$1,530 has been recovered for processing of LAFCO 3076. Many of these costs are reimbursable pursuant to the Commission's existing policies upon closure of the proposals.
- Account 2445 (Other Professional Services), for outside services that do not have their own dedicated account, has incurred \$2,793 more than anticipated. Of this amount \$2,355 is related to the final payments for the Fiscal Analysis for LAFCO 3076 by Rosenow Spevacek Group.

For the second half of the year, staff projects that the expenses in the Services and Supplies series of accounts will total \$161,460. Significant legal advertisement, publication, and printing costs are anticipated for the upcoming months as the Commission begins consideration of sphere of influence proposals for the Helendale Community Services District and the City of Victorville and the service reviews and sphere of influence updates for the South Desert and Mountain communities. An additional full year cost that did not take place in the first half is the payment for the independent auditor to conduct the annual financial report of the Commission's activities (\$6,570). The projected year-end total for the Services and Supplies categories is \$386,305, or 102.5% of budget authority.

3. Contingency and Reserves (6000 series)

No activity has been authorized by the Commission for the Contingency and Reserve accounts through mid-year. However, staff anticipates that at the April hearing adjustments will need to be made to balance the Services and Supplies overrun identified above.

As described earlier, the first half of the year incurred higher than anticipated expenses for activities related to processing of service reviews and proposals, some 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. At year's end, Salaries and Benefits are projected to incur 99.5% of budget authority and

Services and Supplies is projected to incur 102.5% of budget authority. Together, total expenditures are anticipated to incur 100.4% of the budgeted amount, or an excess of approximately \$5,310.

Staff is proposing to defer until April any changes to budget appropriation to rectify the cost overrun to be discussed as a part of the preliminary FY 2010-11 LAFCO budget process. In April, staff will be able to provide the Commission with a more definitive forecast of expenditure activity to date as well as the projected expenditures through the year-end. At that time, staff will make the recommendations necessary for the Commission to make the changes necessary to budget appropriation in the Services and Supplies series of accounts to address overruns, make the changes necessary to recognize reimbursements in the revenue series of accounts, where appropriate, and if necessary transfer the appropriate amount from Contingencies (Account 6000) or Reserves (Account 6025) to balance the budget.

REVENUES:

For the past three years staff has identified the precarious economic climate of the nation, the State of California and the local economies when discussing revenue projections. While staff has on many occasions lamented it has never seen times as bad as these, we will continue that refrain for Budget Year 2009-10. Locally, the current economic conditions have led to mortgage problems and a downturn in development activity, which directly correlates to 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 of 2009-20, as well as the prior fiscal year.

1. Revenues through the Mid-Year

The Commission has received 97% of its anticipated revenues through the mid-year. Revenue receipts include:

- 99.3% of the mandatory apportionment payments from the County, cities, and independent special districts billed by the County Auditor/Controller-Recorder. The remaining \$7,117 is anticipated to be deposited during late January/early February through transfer from the distribution of tax proceeds.
- \$30,987 has been recovered this year for proposal processing (not a part of the budget). Of this amount, \$26,568 is related to legal and environmental processing that has occurred in FY 2009-10.
- The spreadsheet identifies that 55% of fee revenues has been received (\$74,156). However, \$26,568 of this amount is related to reimbursements received for proposal processing. Adjusting for these reimbursements received, Total Fee Revenues are at 35%; therefore, proposal activity is not meeting expectations.

- Refunds processed for closed proposals where costs within deposit categories were less than the deposits received by the applicant total \$9,951. These refunds are paid from the corresponding revenue accounts.

The current economic and housing challenges continue and will continue to affect proposal activity. All indicators known to LAFCO staff identify an upswing in the economy in either the first or second quarter of 2011. This requires that the Commission will the need to closely monitor its revenue receipts, assure that billing of activity occurs promptly and that the Commission is presented with any changes or actions that may be necessary quickly for the balance of this Fiscal Year.

2. Proposal Activity

The chart below identifies the number of proposals, service contracts, and service review deposits anticipated through the budget process as well as those actually received during the fiscal year. The chart identifies that three proposals were received in the first half. Actually, four proposals were received, but an active proposal was withdrawn by the applicant (sphere expansion to the Town of Yucca Valley). The result is three for the first half. Attachment #2 to this report is a graph showing the yearly comparison of proposal activity.

Activity	Projected	Received	% Received
Proposals	6	3	50%
Island Annexation	2	0	0%
Service Contracts - 5 or more units	0	0	-
Service Contracts - up to 4 units	1	0	0%
Service Contracts - Non Develop.	1	2	200%
Service Review Deposits	13	4	31%

Five service reviews were completed during the first half: Daggett, Newberry, and Yermo Community Services Districts; City of Adelanto; and Victor Valley Wastewater Reclamation Authority.

3. Revenue Projections

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 island annexation proposal which was required as part of processing of another annexation proposal
- One dissolution proposal
- Reimbursements for 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.

- Additionally, due to modification of an active proposal \$7,600 in fees and deposits was received in January.

To date, the Commission has incurred \$25,272 in costs related to the processing of service reviews and proposals which can be recovered pursuant to the Commission's existing policies. Of this amount, \$10,245 has been billed in December and January and is still outstanding. Further, it is likely that the second half of the year will include costs related to the processing of the service 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.

At the mid-year, the Commission's operating fund had a balance of \$618,624. Taking into account projected expenditures and anticipated revenues for the second half of the year, including the anticipated new proposals, staff is projecting a fund balance forward into FY 2010-11 of \$145,488, which is \$2,170 less than the current total of the contingency and reserve accounts.

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

KRM/MT

Attachments:

1. Mid-year Status Report Spreadsheet of Expenditures and Revenues
2. [Chart Illustrating Proposal Activity through December 31, 2009](#)