

# LOCAL AGENCY FORMATION COMMISSION COUNTY OF SAN BERNARDINO

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**DATE:** APRIL 12, 2010

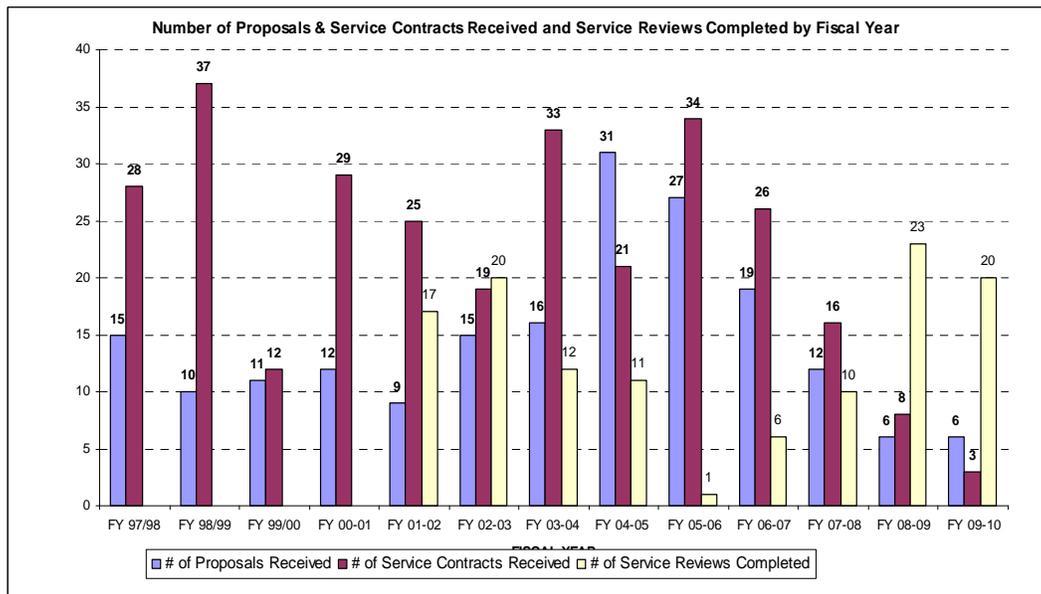
**FROM:** KATHLEEN ROLLINGS-McDONALD, Executive Officer  
MICHAEL TUERPE, LAFCO Analyst

**TO:** LOCAL AGENCY FORMATION COMMISSION

**SUBJECT: AGENDA ITEM #10 – ITEM (B) – Proposed Budget for Fiscal Year 2010-11**

## **BACKGROUND:**

At this hearing, the Commission will begin its annual budget review. This year's budget discussion will outline the steps to address the continuing weak economy for the County, the State and the Nation, the continuing lack of development activity, the unprecedented reduction in property values affecting the revenue stream of the Commission's constituents and the list goes on. LAFCO staff has attempted to glean anything positive related to the local or State economy and has come away with the position that nothing substantial is anticipated to change until 2012. Therefore, LAFCO staff must anticipate a continuation of the lack of development activity for at least another 18 months. As we look toward 2010-11, the staff's first concern is the lack of proposal activity from the stagnant economy, which pays fees towards the net operating cost of LAFCO operations. The chart below identifies proposal submission activity for the last 10 years and illustrates that the current fiscal year accounts for the least proposal activity since the Commission's inception in 1963.



With the continuing reduced activity level, staff's objective in preparing the Budget for the upcoming Fiscal Year, as always, was to provide:

- 1) The funding necessary to begin the five-year updates mandated by State law for spheres of influence. This processing allows for only a recovery of direct costs (environmental processing, notifications, legal advertising) but no fees to assist in the payment of overall staff costs; and,
- 2) Identify the staffing necessary for processing of the anticipated proposals for jurisdictional change in a thorough, accurate and expeditious manner while containing costs wherever possible.

The staff's position has been that these objectives be achieved without increasing cost to the agencies required to fund LAFCO. The apportionment has been held to the 2009-10 level, prior to the refunds approved by the Commission at the September 2009 hearing.

The Executive Officer and Transition Subcommittee, made up of Chairman Nuaimi and Commissioners Biane and Curatalo, have been working to address this situation due to the impending retirement of the Executive Officer. The discussions revolved around methods to reduce costs for the upcoming year based upon the reduced activity as well as timing for the recruitment effort. The consensus was to contract with the Executive Officer following retirement to return in that position for the balance of the fiscal year. Government Code Section 56380 allows the Commission to contract with a private party to provide for its needs and Section 56384 requires it to provide for an Executive Officer to handle the day-to-day operations of the Commission. Pursuant to the provisions of the San Bernardino County Employees Retirement Association (SBCERA) a retiree can only work 960 hours for a participating agency. The proposed budget anticipates the retirement of the Executive Officer at the end of September 2010, with a contract for 960 hours for the balance of the year and the maintenance of the other four (4) staff members at full-time status and maintaining their existing benefits.

Last year the Commission took action to eliminate one position (Clerk to the Commission) as well as to defer the cost-of-living adjustments contained within the Salary Schedule for Fiscal Year 2009-10 (3.25%) and 2010-11 (2.75%), pushing them back one year. Rather than continuing to defer these cost-of-living adjustments, staff is proposing that they be eliminated until such time as the region returns to a more robust economy. This will mirror actions taken by the County for its Exempt employees and will allow the Commission latitude in the future.

Last year the Commission took actions to reduce service and supply cost through a reduction in hearing dates, elimination of advertising in local newspapers, and reduction in participation in conferences and workshops. However, during the current fiscal year a lawsuit was filed related to the City of San Bernardino Islands (Susan Hulse v All persons Interested in LAFCO 3067 et al). Pursuant to the Condition of Approval imposed on each of the City Island approvals, the City of San Bernardino was required to indemnify and defend the Commission. However, upon tendering the defense to the City, the City of San Bernardino declined that request. Therefore, LAFCO will be defending these actions. This

has increased the Services and Supplies budget for FY 2009-10 by an estimated \$51,000 and staff is proposing an estimated cost of \$66,000 for FY 2010-11 and forecasting \$70,000 for FY 2011-12.

The proposed budget is more fully outlined below. Staff believes that the actions outlined for the upcoming Fiscal Year will reduce the costs of the Commission's operations sufficiently to meet the anticipated financial challenges as we know them today without increasing the burden to the entities that fund LAFCO. However, staff can not predict the future and the mid-year review may require additional steps to deal with the ongoing economic situation and litigation.

## **WORKLOAD AND STAFFING CONSIDERATIONS:**

### **FISCAL YEAR 2009-10**

Staffing levels for Fiscal Year 2009-10 provided for five full-time positions: one Executive Officer, one LAFCO Senior Analyst, one LAFCO Analyst, and two Deputy Clerks to the Commission. Salaries and Benefits (1000 series) for FY 2009-10 was budgeted at \$825,890 which included payments totaling \$73,546 for the mandatory leave cashouts and mandatory sick-leave conversion to the Retirement Medical Trust Fund for the elimination of the Clerk to the Commission position as well as payment of 27 pay periods, a once every ten year occurrence. Year-end expenditures for the 1000 series are estimated to be \$809,896, \$15,994 under budget.

Staff is recommending the transfer of \$10,000 of this excess appropriation authority to the Services and Supplies accounts to cover increased costs.

### **FISCAL YEAR 2010-11**

Due to the reduced workload anticipated for the Commission, the total proposed budget for salaries and benefits of \$707,672 funds a staff of five positions for the standard 26 pay periods: one Executive Officer, one LAFCO Senior Analyst, one LAFCO Analyst, and two Deputy Clerks to the Commission. Overall, the FY 2010-11 Preliminary Budget is \$102,225 less than the FY 2009-10 Year-end Estimate.

The Salary and Benefits projections include the funding necessary for the impending retirement of the Executive Officer. As outlined in the opening of this report, the LAFCO Executive Officer will retire as a regular LAFCO employee effective October 1, 2010 (through 8.5 pay periods). This action will require payment of mandatory leave cashouts and sick-leave conversion to the Retirement Medical Trust Fund. For the remainder of the fiscal year, the position is proposed to be filled through contract with the existing Executive Officer for the time allowed by SBCERA, not to exceed 960 hours. The budget anticipates the hiring of a new Executive Officer at the end of FY 2010-11 or beginning of FY 2011-12. Even with the required retirement payments, this option results in a cost savings of \$78,122.

As detailed in the narrative attached to the staff report, the Commission has adopted the same benefit package and cost-of-living increases as provided by the County's Exempt Compensation Plan. It is the staff recommendation that the cost-of-living increases that the

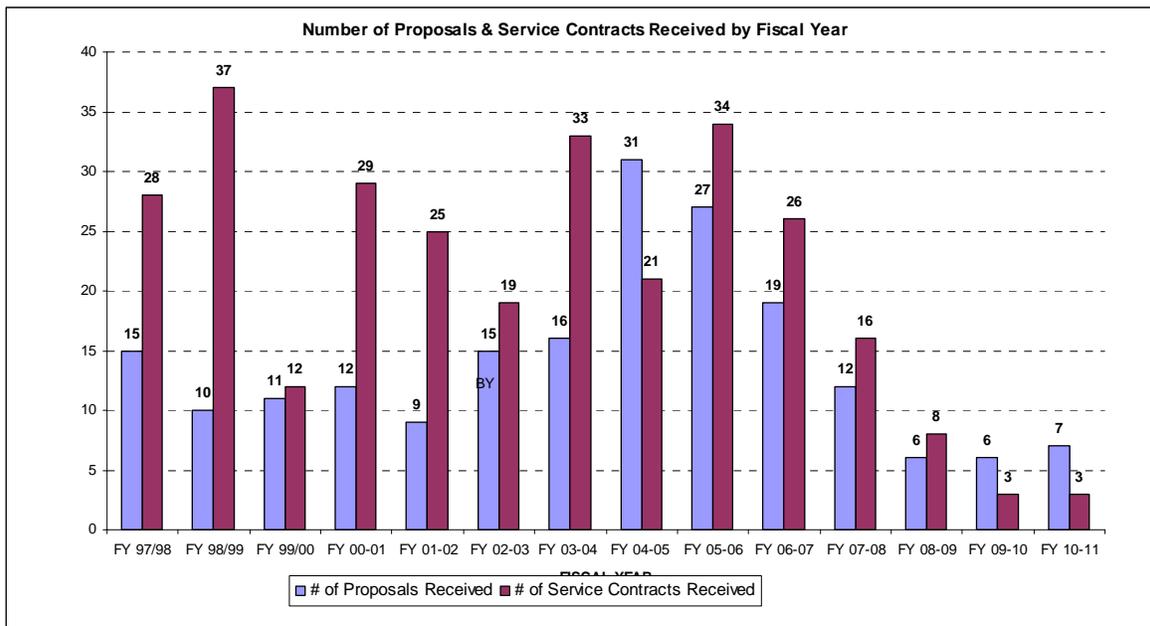
Commission approved in May 2009 to take effect June 20, 2010 (3.25%) and June 5, 2011 (2.75%) be eliminated. Elimination of this increase provides an overall cost savings of \$17,439 during FY 2010-11 since salaries paid impact benefits for earnable compensation. Staff will provide the Commission with a resolution for adoption at the Final Budget Review in May effectuating this change.

**FY 2011-12**

The forecast for FY 2011-12 includes the payment of the standard 26 pay periods and no cost-of-living adjustment for a projected budget of \$692,035. Of this amount, \$15,000 has been set aside as a salary reserve. The FY 2011-12 Projected Budget for salaries and benefits (including salary reserve) is roughly \$118,000 less than the FY 2009-10 Year-end Estimate and \$16,500 less than the FY 2010-11 Preliminary Budget.

**SERVICES AND SUPPLIES:**

The information provided outlines the expenditures associated with providing for Commission operations. The chart below identifies the number of applications and service contracts received during the past thirteen years, showing a minor increase anticipated for the upcoming fiscal year.



**FISCAL YEAR 2009-10**

For FY 2009-10, Services and Supplies were budgeted at \$376,952 and are estimated to exceed appropriation authority by roughly \$51,439 by year's end. The activities which have resulted in the increased expenditures within this overall category include:

- Excess processing costs (legal advertisement, postage, environmental review, and other professional services) totaling \$34,990. Of this cost, payment has been

received or costs recovered totaling \$23,804 through March 2010. Three specific activities have contributed to the processing increases:

- The reconsideration proceedings of LAFCO 3067 A-F (San Bernardino Islands) were an unbudgeted activity which affected the above-mentioned processing categories. The required reconsideration fee of \$6,600 (\$1,100 per resolution) was received by the reconsideration requestor as required by the Commission's fee schedule; however costs exceeded the fees by \$5,024. These costs are not recoverable.
- The Commission originally approved a nine hearing schedule for the fiscal year as a cost savings measure. However, eleven hearings have been scheduled which include processing costs. The two additional hearings were for the following reasons:
  - December 2009 – This hearing was held for the Commission to discuss personnel transition related to the Executive Officer and recruitment issues and the future of San Bernardino LAFCO involvement with CALAFCO.
  - March 2010 – This hearing was held to confer with legal counsel regarding litigation filed related to the San Bernardino Islands.
- \$4,000 anticipated for special counsel related to LAFCO 3084 (Clarification of Sewer Powers for Hi-Desert Water District). This cost is anticipated to be recovered by the applicant as required by the Commission's fee schedule.
- Activities not anticipated at the time of budget formulation include:
  - \$3,000 for the Commission approved contract for the minutes of Commission hearings with an outside source.
  - The remaining costs include the litigation related to LAFCO 3067A-F. At this time cost recovery is not anticipated due to actions taken by the City of San Bernardino.

To accommodate these costs, staff is recommending that the Commission increase the overall budget within the Services and Supplies categories by \$70,000 through a combination of \$35,000 in transfers of appropriation authority from other account categories and recognition of \$35,000 in unanticipated revenues received to date. Overall, the Service and Supplies budget would increase by \$70,000 to \$446,952 and Total Appropriations would increase by \$35,000 to \$1,385,500. Staff's recommendations for Fiscal Year 2009-10 are:

- Transfer \$35,000 into the Services and Supplies series of accounts as follows:
  - Transfer \$10,000 from Account 1010 (Regular Salary) to Account 2310 (Postage)

- Transfer \$25,000 from Account 6000 (Contingency) to Account 2449 (Outside Legal)
- Increases to the Services and Supplies series of accounts for a total of \$35,000 as follows:
  - Account 2085 (Legal Notices) – increase by \$8,000
  - Account 2424 (Environmental Consultant) – increase by \$8,000
  - Account 2445 (Other Professional Services) – increase by \$12,000
  - Account 2449 (Outside Legal) – increase an additional \$7,000

As a part of this recommendation under Revenue, staff is proposing the recognition of unanticipated revenues in an amount of \$35,000 bringing Total Revenues to \$1,385,500. Specifically, the following accounts are recommended to be increased as follows:

- Account 9655 (GIMS Fees) – recognize increase in receipts of \$6,000
- Account 9970 (Carryover) – recognize additional \$29,000 due to increased carryover from FY 2008-09 into FY 2009-10

**FY 2010-11**

In order to address the reduced workload and funding stream, LAFCO staff is proposing the following reductions in the service and supplies category of accounts:

- Reduction in hearing schedule for the Commission. In the past, staff has budgeted for 11 hearings during the year, anticipating the month of December being dark since the hearing schedule is so close to the Christmas holidays. For FY 2009-10, the Commission approved a nine month hearing schedule, but 11 hearings were held to address issues which would not allow for deferral. Due to the reduced applications anticipated for FY 2010-11, staff is proposing to establish a seven hearing date schedule with a Commission retreat in August, as shown below. This reduction is estimated to save \$25,200 during the year.

Hearing	No Hearing
July 21	
	August (Commission retreat)
September 15	
	October
November 17	
	December
January 19	
	February
March 16	
	April
May 18	
	June

As shown in the chart above, there would be no April hearing. Therefore, in order to meet statutory requirements, the Proposed Budget will be presented for consideration in March with adoption of the Final Budget in May.

- Staff has reviewed with the Commission the ongoing issues related to CALAFCO and the question of regional representation upon its Board of Directors and the development of the California Coalition of LAFCOs (southern California LAFCOs). Should the issue of regional representation be adopted by CALAFCO, staff is proposing a return to involvement with CALAFCO through attendance at the Annual CALAFCO Conference, scheduled for Palm Springs, for four Commissioners and the Executive Officer. In addition, participation at the CALAFCO Staff Workshop would be limited to two staff members. The budget includes the annual dues to CALAFCO for \$7,000. The costs for participation in CCL would be a stipend payment for a member of the Commission to serve on the Board of Directors, time for the Executive Officer, travel expense, and the cost for an Annual Commissioner Summit.

Should the issue of regional representation not be adopted by CALAFCO, then the budgeted \$7,000 dues for CALAFCO and the CALAFCO conference costs would be applied to what is anticipated to be increased CCL activity costs. While the potential CCL costs are unknown at this time, they are anticipated to be lower than the CALAFCO costs. Additionally, only the Executive Officer would attend the CALAFCO Annual Conference in this case.

Increased costs for FY 2010-11 are identified as follows:

- Defense of the lawsuit filed against LAFCO regarding six island annexation proposals to the City of San Bernardino. The City of San Bernardino has notified LAFCO that it will not accept its obligation as the applicant to pay the costs of the litigation. Staff is estimating the litigation to cost to be \$186,000. This estimate is modeled from the costs incurred from the CEQA litigation for LAFCO 3076 (Consolidation of the San Bernardino Valley Municipal Water District and San Bernardino Valley Water Conservation District). Of the \$186,000 estimated cost, \$50,000 is included as an unbudgeted amount for FY 2009-10, \$66,000 is included in the budget for FY 2010-11 and \$70,000 is anticipated for FY 2011-12.
- A policy item for Commission consideration is being presented related to dealing with the maintenance of the computer systems for the LAFCO office. For the past two years the computer system needs have been deferred due to funding constraints; however, they now must be addressed due to system issues. Staff is requesting authorization for a technology upgrade project which includes the purchase of a new server, computers, related software, and project management software for the LAFCO staff office. The technology project totals \$26,690, broken-down as follows:
  - The LAFCO server is over 10 years old and has exceeded its life expectancy. Staff recommends its replacement as a priority need. The cost of the server, related software, and installation support from the County Information Services Department totals \$12,800.

- The computers of the two deputy clerks and laptops of the two analysts have exceeded their life expectancy and are recommended for replacement. The cost of the hardware, related software upgrades, and installation support for the office totals \$12,000.
- The purchase of proposal tracking software in order to manage proposals more efficiently and effectively is recommended by staff. The software would assist staff by developing and managing tasks, developing schedule forecasts, tracking of projects and development of reports, and tracking of costs related to specific proposals or projects. The cost of the software is estimated to be \$1,490.
- The purchase of a multi-tray CD burner is recommended for reproduction of the attachments to the staff reports and other distributed items. Utilization of a stand alone CD burner will eliminate CD burning on individual computers and laptops and increase staff efficiency. This cost of the CD burner is \$400.

The balance of the expense categories, where appropriate, is not subject to an inflationary increase because the Consumer Price Index for the previous calendar year for urban consumers in the Los Angeles-Riverside-Orange County metropolitan statistical area is a negative 8/10 of a percent (-0.8%). The total budgeted amount for Services and Supplies for FY 2010-11 is \$396,029.

Based upon the reduced workload outlined, the costs anticipated within the Service and Supplies series of accounts is intended to provide for the Commission's processing and consideration of seven applications. Fiscal Year 2010-11 will also see the Commission commence its mandatory five year update of the Service Reviews and Sphere of Influence Updates for the West Valley Region (or possibly the East and West Valley Regions).

### **FY 2011-12**

Services and Supplies for FY 2011-12 are projected at \$381,324, which generally represents a 2.5% CPI increase. Staff anticipates the possibility that the San Bernardino Island litigation will continue into FY 2011-12. Therefore, the FY 2011-12 Projected Budget includes \$70,000 for this activity. The budgeted amount of \$381,324 is roughly \$65,628 less than the FY 2009-10 Year-end Estimate and \$14,705 less than the FY 2010-11 Proposed Budget.

### **REVENUES:**

#### **FY 2009-10**

The chart below shows the budgeted and the anticipated year-end balances for the accounts that comprise the Fee Category of accounts, accounts that are sensitive to activity levels. By year's end, staff estimates Revenue receipts at 92% of budget. The chart below outlines the Revenue Categories:

<b>Fee/Deposit Category</b>	<b>Budget</b>	<b>Estimated Year-End</b>
Individual Notice	\$ 5,600	\$ 6,292
Legal Services	\$ 78,048	\$ 35,176
Planning Services (GIMS Fees)	\$ 3,400	\$ 10,860
Environmental Deposits	\$ 5,700	\$ 12,578
LAFCO Fees	\$ 41,550	\$ 59,747
<b>Total Fee Revenue</b>	<b>\$134,298</b>	<b>\$124,653</b>

However, the amounts above are not indicative of the proposal activity during the year since approximately \$41,035 is attributable to the recovery of processing costs related to proposals and service reviews, reimbursement by the applicant for LAFCO 3076 for litigation at the beginning of the fiscal year, and higher than anticipated receipts for completion charges related to mapping. Specifically, Environmental Deposits are roughly double its anticipated amount; however, \$5,160 of that amount is related to cost recovery for proposals completed during the year and the costs related to the processing of the service reviews and sphere of influence updates. FY 2009-10 was budgeted to experience additional litigation activity related to LAFCO 3076 (Consolidation of the San Bernardino Valley Municipal Water District and San Bernardino Valley Water Conservation District) – where all costs would have been recoverable. The litigation case closed early in the fiscal year, its costs recovered but the high budget amount of \$78,048 remained.

Proposals for which LAFCO receives fees and deposits is not projected to meet budget expectations for FY 2009-10. The chart identifies a projection of four standard proposals and one city island annexation received for the year. The anticipated activity for the year includes the following:

<b>Activity</b>	<b>No. Anticipated</b>	<b>Year-end Projection</b>
Proposals	6	5
City Island Annexation	2	1
Service Contracts - 5 or more units	0	0
Service Contracts - up to 4 units	1	0
Service Contracts - Non Develop.	1	3
Service Review Deposits	13	7

Through the date of this report, LAFCO staff has recovered \$42,281 of expenditures that have been classified as eligible for cost recovery. Receivables outstanding total \$4,770 for four (4) service reviews conducted by the Commission and two proposals.

As detailed earlier in this report, staff is recommending an increase in appropriation authority in Total Expenditures in order to accommodate excess processing costs and activity not anticipated at the time of budget formulation. In order to balance the budget, staff is recommending an increase in Total Revenues by \$35,000. Specifically, the following accounts are recommended to be increased in sum by \$35,000:

- Account 9655 (GIMS Fees) – increase by \$6,000

- Account 9970 (Carryover) – increase by \$29,000 to recognize increased carryover from FY 2008-09 into FY 2009-10

The LAFCO apportionment was reduced at the September 2009 hearing to address the increased carryover from the prior Fiscal Year. Refunds to the County, 24 Cities and 52 Independent Special Districts of \$10,832 per category were provided.

### **FY 2010-11**

As noted above, FY 2009-10 has experienced substantially lower than normal activity. Locally, the current economic conditions have led to a downturn in development activity. Further, there is a strong correlation between the planning process for development activity and proposal submissions to LAFCO. Nonetheless, after careful consideration, staff is anticipating the following activity for the upcoming fiscal year:

- 4 annexations with protest hearings
- 1 city island annexation
- 1 proposal for district subsidiary status
- 1 district sphere expansion
- 1 service contract - development related (up to 4 units)
- 2 service contracts – administrative review of non-development related contract
- 13 service review deposits

The apportionment of LAFCO net operating costs is proposed at the level originally proposed for Fiscal Year 2009-10, \$1,033,911. The County Auditor-Controller was requested to perform the apportionment calculations required by Government Code Section 56381, based upon the statute and modified alternative funding formula for Special Districts. After the close of Fiscal Year 2009-10, LAFCO staff will determine the actual carryover and forward that information to the Commission for further action.

Revenues consisting of interest, mandatory contributions, and fee revenue are estimated to be \$1,124,486. Refunds from Prior Years, Miscellaneous Charges, and Carryover (including reserves) increase revenues to \$1,252,809.

### **FISCAL YEAR 2011-12**

Information gleaned from newspaper articles quoting State of California sources and other economists indicates that during 2012 the Inland Empire is anticipated to see signs of economic recovery, most particularly in a reduction in unemployment. However, as a conservative response LAFCO staff has provided a forecast of no change in either the apportionment or activity level for that year from FY 2010-11.

### **RESERVES AND CONTINGENCIES:**

The staff is proposing a contingency amount of \$25,000 (Account 6000) and is proposing a General Reserve (Account 6025) of \$124,108 which is approximately 12 percent of total expenditures. The Commission's direction to LAFCO staff is that a reserve of minimum 10% of expenditures would be provided. Should the use of these dollars be required, it will take an action by the Commission to transfer the appropriation authority.

**CONCLUSION:**

The information contained in this report outlines and discusses the budget considerations for the Commission which provides for the following:

<b>ACCOUNT TYPE</b>	<b>FY 2009-10 FINAL BUDGET</b>	<b>FY 2010-11 PROPOSED BUDGET</b>
Salaries and Benefits	\$815,890	\$707,672
Services and Supplies	\$446,952	\$396,029
Reserves and Contingencies	\$122,658	\$149,108
<b>SUBTOTAL</b>	<b>\$1,385,500</b>	<b>\$1,252,809</b>
Fee and General Revenue	\$384,085	\$218,898
<b>NET COST</b>	<b>\$1,001,415</b>	<b>\$1,033,911</b>

Staff believes that the Policy Items outlined in this report related to the filling of the Executive Officer by contract and elimination of cost-of-living adjustments, reduction of hearings to six hearings and one retreat during the year and other items to reduce overhead are needed to realign Commission operations to the new economic reality we live in. Therefore, staff is requesting Commission support of these items.

In addition, it is the staff position that the balance of expenditures and revenue items will provide for fulfillment of the Commission's ongoing core obligations for processing of proposals and fulfilling State mandates and to take care of deferred computer hardware and software needs. If the Commission supports the staff's position, it is recommended that, pursuant to the provisions of Government Code Section 56381, the Commission adopt the Proposed Budget as outlined and direct staff to forward it to the County, the Cities and Towns, and the Independent Special Districts for their review and comment. Staff is also recommending that the final hearing for adoption of the budget be scheduled for May 19, 2010 at which time the comments of the public and agencies the Commission serves will be considered.

**RECOMMENDATION:**

The staff recommends that the Commission take the following actions:

**FOR FISCAL YEAR 2009-10 (CURRENT):**

Approve the adjustments to the following accounts to acknowledge increased revenues and corresponding increases in appropriation authority:

1. Increase the appropriation authority in the following accounts:

- Legal Notices (Account 2085) by \$8,000
- Environmental Consultant (Account 2424) by \$8,000
- Other Professional Services (Account 2445) by \$12,000
- Outside Legal Counsel (Litigation services) (Account 2449) by \$32,000
- Postage (Account 2310) by \$10,000

2. Decrease appropriation authority in Account 1010 (Regular Salary) by \$10,000 and the full appropriation authority of Account 6000 (Contingency) \$25,000
3. Recognize increased revenues to be received in the following accounts offsetting the increased expenditures in Services and Supplies:

GIMS Fees (Revenue Account 9655) by \$6,000

Carryover from Prior Fiscal Year (Revenue Account 9970) by \$29,000

**FOR FISCAL YEAR 2010-11:**

- 1) Approve the elimination of cost-of-living adjustments anticipated in the adopted Salary Schedule and direct staff to return at the May 19, 2010 hearing with a resolution implementing this change;
- 2) Take the following Actions for Policy Items for FY 2010-11 including directions to staff:
  - a) Approve the contract, as presented, with the Executive Officer to fill that position following her retirement for the balance of the Fiscal Year as a contract employee and authorize the Chairman to sign the contract;
  - b) Establish a six (6) meeting and one retreat hearing schedule for Fiscal Year 2010-11 as outlined in this report; and,
  - c) Approve the technology replacement project and authorize the Executive Officer to procure the computer hardware and software outlined in this report.
- 3) Schedule a public hearing for May 19, 2010 for the formal adoption of the Final Budget for Fiscal Year 2010-11 and direct staff to forward the Proposed Budget, as modified at this hearing, to all the independent special districts, cities, and the County for their review and comment pursuant to Government Code Section 56381.

KRM/MT

Attachments:

1. [Proposed Budget -- Spreadsheet and Narrative Related to Individual Accounts](#)
2. [Draft Contract for Executive Officer for Fiscal Year 2010-11](#)
3. [Estimated Apportionment Distribution for City/Town and Special District Costs](#)