

LOCAL AGENCY FORMATION COMMISSION COUNTY OF SAN BERNARDINO

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DATE: NOVEMBER 28, 2010

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

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #6: First Quarter Financial Report:

- Financial Report for Period July 1 through September 30, 2010
- Consideration of Budget Amendments for Fiscal Year 2010-11

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of this report and file.
2. Approve the following amendments to the FY 2010-11 Budget:
 - a) Increase Total Revenues by \$49,945 to \$1,302,754 by taking the following actions:
 - 1) Increase Revenue Account 9970 (Carryover from Prior Year) by \$67,645 to \$202,468 to acknowledge increased carryover into FY 2010-11;
 - 2) Decrease Current Services Revenue Accounts by a total of \$17,700 to reflect change in anticipated proposals during the year as follows: Account 9545 by \$2,000; Account 9555 by \$2,300; Account 9660 by \$1,500 and Account 9800 by \$11,900.
 - b) Increase Total Appropriation by \$49,945 to \$1,302,754 by:
 - 1) Increasing Expenditure Account 2085 (Legal Notices) by \$6,492 to \$22,892
 - 2) Increasing Expenditure Account 2445 (Other Professional Services) by \$5,400 to \$50,320
 - 3) Increasing Expenditure Account 2449 (Outside Legal) by \$23,556 to \$89,556
 - 4) Increasing Expenditure Account 2941 (Conference/Training) by \$4,300 to \$7,600
 - 5) Increasing Contingency Account 6000 by \$10,197 to \$35,197

3. Authorize Commissioner and staff attendance at the Coalition of California LAFCO Strategic Planning Meeting on January 20 and 21 at Pala Mesa Resort.

BACKGROUND:

Staff is presenting the Commission with a report on the first quarter financial activities. Included within this report is a narrative discussion of expenditures and revenues for the quarter, a discussion of actions needed along with the provision of a spreadsheet (Attachment #1) outlining expenditures and revenues through September 30, 2010, and the request for authorization to attend a Strategic Planning Meeting for the Coalition of California LAFCOs (CCL) that was not previously budgeted. As an outgrowth of the first quarter activities, this report also recommends Commission consideration of budget amendments for FY 2010-11 due to increased carryover from the prior fiscal year.

FY 2010-11 FIRST QUARTER REVIEW:

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 outlined in this report. Through the first quarter, total expenditures are at 32% of budget authority. No activity has been authorized by the Commission for the Contingency and Reserve accounts.

1. Salaries and Benefits (1000 series)

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$195,151 through the first quarter, representing 28% of budget authority. However, this higher than normal percentage is due to budgeted activities related to the retirement of the Executive Officer which included:

- o Termination payments totaling \$35,209 (one-time payment that was budgeted) to include leave cashouts, and
- o The Executive Officer served as a regular employee for eight pay periods into FY 2010-11 (six in the first quarter) and received salary and benefits payments. For the remainder of the year, the contracted Executive Officer by terms of the approved contract will be paid on an hourly basis with only auto and cell phone benefits for a maximum of 960 hours, not to exceed 30 hours per week.

Excluding these activities, the overall expenditures for Salaries and Benefits are within normal quarterly activity. Budgeted activities for the second quarter will include the final mandatory leave cashouts for the retiring Executive Officer.

2. Services and Supplies (2000 and 5000 series)

The Services and Supplies series of accounts (2000 and 5000 series) had expenditures of \$158,711 through the first quarter. Expenditure items sensitive to activity levels in addition to one-time payments have brought expenditures within the Services and

Supplies accounts to 40% of budget authority. This expenditure level is outlined as follows:

- Full year and one-time payments totaling \$49,720 in Accounts:
 - 2075 (Memberships) for membership in professional organizations. Payments for annual dues have been made to the California Association of Local Agency Formation Commissions (CALAFCO) for \$7,000. One payment remains to the California Special Districts Association (CSDA) for \$825 anticipated for processing in December.
 - 2415 (COWCAP – Countywide Cost Allocation Plan) for costs incurred from FY 2008-09 (\$39,230). This is the full year cost and no additional payments will be made. Of significance, LAFCO’s payment in FY 2010-11 is \$14,095 less than the previous fiscal year.
 - Various accounts for conferences and training courses for Commissioners and staff (\$3,400). Of this amount, \$1,950 is for registration for the CALAFCO Conference, the largest anticipated expenditure for these activities.
 - 2245 (Other Insurance) totaling \$8,365 for general, property, and liability insurance was included in the FY 2010-11 budget. However, the payment was processed in June and was reflected in FY 2009-10 payments. Therefore the expenditure for the year is anticipated to be less than \$100.
- Invoices for FY 2009-10 activities processed by the County in FY 2010-11 totaling \$28,956:
 - Legal Notices (Account 2085) totaling \$1,796 for legal notices of Commission hearings.
 - Outside Legal Services (Account 2449) totaling \$23,556 for special counsel legal services.
 - Other Professional Services (Account 2445) and Private Mileage (Account 2940) totaling \$3,604 for Commissioner Stipends and travel for the May and June hearings.
- Litigation payments (Account 2449 Outside Legal) totaling \$54,621 related to the settlement payment and attorney costs for the six island annexations to the City of San Bernardino.

As a part of the discussion related to the increased cash carryover into Fiscal Year 2010-11, staff is recommending increases in appropriation authority within the 2000 Series of Accounts. Adjusting for the staff’s recommended budget changes results in 36% of Services and Supplies budget authority being expended through the first quarter.

Given these one-time and full year costs, expenditures are generally on target for the fiscal year. However, budgeted activities for the second quarter include significant expenditures, identified as: 1) payments for the technology upgrades for the staff office; and 2) significant legal advertisement, publication, and printing costs as the Commission continues consideration of the service reviews and sphere of influence updates for the South Desert and Mountain communities. As noted in the conclusion to this report, staff will monitor ongoing expenditures closely to maintain alignment with revenues received.

3. Contingency and Reserves (6000 series)

No activity has been authorized by the Commission to take place in the Contingency and Reserves accounts through the first quarter. However, staff is recommending a budget amendment to increase Contingency to \$35,197 (an increase of \$10,197).

Revenues

The Commission has received 99% of its anticipated revenues through the first quarter. Revenue contributions and receipts include:

- 99.9% of the mandatory apportionment payments from the County, cities, and independent special districts billed by the County Auditor/Controller-Recorder. The single payment outstanding has been received in the second quarter through a reduction in the first proceeds of the district's property tax allocation.
- The chart below identifies the number of proposals, service contracts, and service review deposits received during the fiscal year. Attachment #2 to the staff report includes a chart showing the yearly comparison of proposal activity through the first quarter and the same chart from one year ago for comparison purposes.

The figure below identifies that three service contracts and zero proposals were received in the first quarter. However, two of the proposals budgeted for receipt in FY 2010-11 were received towards the end of FY 2009-10 and these funds totaling \$17,700 have been carried into FY 2010-11. As of the date of this report one proposal has been received in the second quarter.

Activity	Final Budget	Actual	
		No.	% of Budget
Proposals (not island)	6	0	0%
Island Proposals	1	0	0%
Service Contracts - over 4 units	0	0	
Service Contracts - 4 units & under	1	1	100%
Service Contracts - Admin approval	2	2	100%
Service Review Deposits	13	0	0%
Protest Hearing Deposits	4	3	75%

- Two service reviews were completed during the first quarter: Rim of the World Recreation and Park District and Crestline-Lake Arrowhead Water Agency. The

second quarter anticipates a continuing process for service reviews for the Mountains and South Desert.

- At the July hearing, staff informed the Commission that the year-end carryover into FY 2010-11 was \$67,645 more than budgeted for FY 2010-11. This has led to a higher than actual reflection of revenues received. Adjusting for the recommended budget changes outlined in the following section of this report results in 94% of Total Revenues received through the first quarter.

As Commissioners are well aware, the economic and housing challenges continue for the Inland Empire. This situation continues to affect proposal activity and revenue streams and forecasts are not projecting at this time an easing of this situation until 2012. As the number of proposal filings illustrates, the activity level of the Commission remains stagnant and staff is concerned that even the conservative revenue projections provided for Fiscal Year 2010-11 may be optimistic. Staff will closely monitor the Commission's revenue receipts, expenditures processed, and apprise the Chairman and Commission quickly of any worsening of the situation.

CONSIDERATION OF BUDGET AMENDMENTS:

At the September hearing, staff informed the Commission that the year-end carryover into FY 2010-11 included the entirety of the Commission's reserves as well as \$67,645 more than budgeted. This amount is comprised of the following:

- \$10,792 in deferred revenue for proposal and service review activity from May 2010
- \$17,700 in deferred revenue for two applications filed in 2009-10 but whose processing will occur in FY 2010-11
- \$28,956 in invoices for FY 2009-10 activities processed by the County in FY 2010-11
- \$10,197 remainder

Staff recommends that the Commission increase the Revenue budget by \$49,945 to acknowledge the additional carryover of \$67,645 but recognizing the decrease in anticipated proposal filing of \$17,700. This amount represents the submission of two proposals.

As for expenditures, staff recommends that the Commission increase certain accounts that are sensitive to activity levels, account for the prior fiscal year invoices that have been processed this fiscal year, and authorize an increase in Conference/Training to accommodate participation in Coalition of California LAFCO activities. The increase in Conference/Training will allow for participation at the Strategic Planning Meeting scheduled for January 20-21 in northern San Diego County. A copy of the Meeting announcement is included as Attachment #3. After accounting for the above items, staff recommends that the Commission balance the budget by increasing the Contingency account by the remainder of \$10,197. Staff's recommended changes are identified below and are identified on the spreadsheet in bold italic print (Attachment #1).

- Increase Total Revenues by \$49,945 to \$1,302,754 by taking the following actions:
 - Increase Revenue Account 9970 (Carryover from Prior Year) by \$67,645 to \$202,468 to acknowledge increased carryover into FY 2010-11 as described above.
 - Decrease Current Services Revenue Accounts by a total of \$17,700 to reflect change in anticipated proposals during the year as follows: Account 9545 by \$2,000; Account 9555 by \$2,300; Account 9660 by \$1,500 and Account 9800 by \$11,900.

- Increase Total Appropriation by \$49,945 to \$1,302,754 by:
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- Authorize participation in the Strategic Planning Meeting for the Coalition of California LAFCOs January 20 and 21 at Pala Mesa in Northern San Diego County. San Bernardino LAFCO has committed to send four participants for a cost of \$936, any additional participant will cost \$234.

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

KRM/MT

Attachments:

1. Spreadsheet of First-Quarter Expenditures, Reserves, and Revenues for FY 2010-11
2. Charts Illustrating Yearly Proposal, Service Contract, and Service Review Activity for Fiscal Year 2010-11 and Fiscal Year 2009-10
3. Coalition of California LAFCOs (CCL) Strategic Planning Meeting January 20-21 Announcement