

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: APRIL 9, 2012

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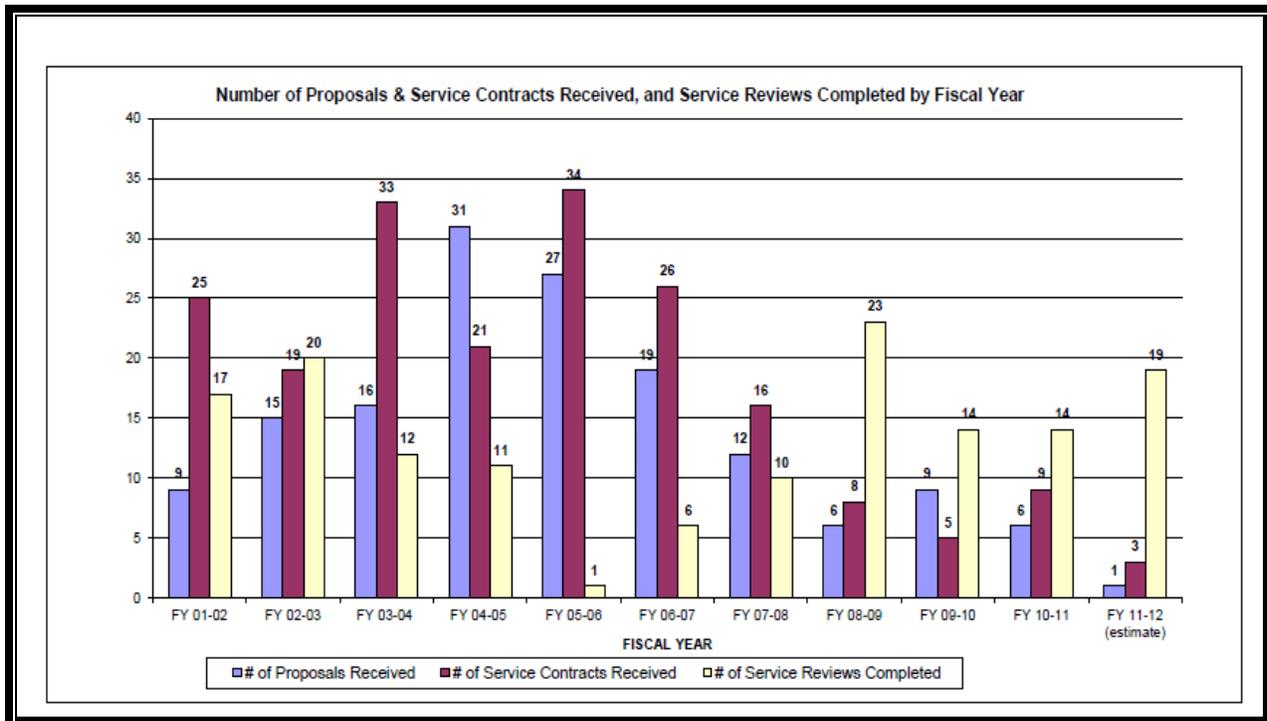
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: AGENDA ITEM #9 –Review of Proposed Budget for Fiscal
Year 2012-13

BACKGROUND:

The rites of spring have begun. Nationally income taxes are due, locally property tax payments are due for Californians, and at this hearing the Commission will begin its annual budget review identifying the costs to be charged to our constituent agencies for the coming Fiscal Year. For the past five years, staff has outlined the issues associated with the downturn in the economy, the effects of the reductions in property tax and other revenues streams which support our constituents adding this year the effects of the termination of redevelopment agencies. While there are some positive notes this year, a recovery still appears to be a couple of years away, at least from forecasters such as economist John Husing and the UCLA regional forecast. No change in the ability of our smaller agencies to fund a larger share of the Commission's costs is in the offing with property tax revenues anticipated to decline once again next year. So with those scenarios we begin the State mandated process outlined in Government Code Section 56381 to establish our budget for the upcoming fiscal year.

Staff began the review process with the members of the Administrative Committee, Commissioners Mitzelfelt and Curatalo, in February of this year. That review looked at addressing the ability to fund increasing retirement costs, the needs for upgrades to the Commission's mandated website, and the impacts of legislation imposing new unfunded mandates as well as the continuing lack of paying proposal activity. Each of the last four years has brought staff to this hearing providing information on the ever declining proposal activity, the current fiscal year hit a new low. The chart which follows shows the continued decline of proposal activity:



With this continuing low level of jurisdictional change activity, the impacts of unfunded mandates will increase the burdens on the Commission and its constituent agencies. These issues were reviewed with Administrative Committee members and the path forward defined. The largest expenditure category for the Commission is its personnel costs and those will continue to increase due to increases in retirement payments required by the San Bernardino County Employees Retirement Association (SBCERA). The retirement contribution rate will increase this year by 3.2%, but has increased 163% over the last ten years.

In addition, staff is proposing to restructure the support staff. In FY 2009-10 the Commission eliminated the funding for the Clerk to the Commission position due to the need to reduce costs and the position's mandated functions were transferred amongst the remaining staff positions. This cost saving measure was identified to extend until the 2011-12 fiscal year. However, as the Commission is well aware, the need for maintaining a reduced cost during FY 2011-12 was necessary and this position remained unfilled. The Clerk to the Commission position is one of two mandatory positions identified in LAFCO law, the other being the Executive Officer. For the upcoming year, staff is proposing to realign the remaining support staff to include filling the Clerk to the Commission, convert one Deputy Clerk position to LAFCO Secretary (a position maintained until 2004) in order to accommodate new changes in processes by staff, such as assuming the responsibility for updating the Commission's website. Based upon these anticipated changes, staff believes it is necessary to return to the full complement of support staffing (three positions), as modified above. Offsetting the increase in salary and benefit costs will be the elimination of the contracts for preparation of minutes and staff support from Riverside LAFCO (budgeted at a total of \$29,000) and the transfer of the website maintenance and update to that in-

house support positions rather than paying the County's Information Systems Department (current estimate is approximately \$7,000 through March of 2012).

As staff looked forward filling these positions, a re-evaluation of the job duties was undertaken. One item that has presented some question over the past year is the preparation of the minutes of Commission hearings. Since the Commission's hearings are now video recorded and available electronically through the internet, staff is proposing to eliminate the detailed minutes prepared for each hearing. The Clerk to the Commission would be charged with preparing the summary of actions taken at the hearing to be posted on the Commission's website. This will alter the skillset necessary for the position as well as eliminating the costs for Legal Counsel's monthly review. Correspondingly, staff is proposing that the Salary Range for the position be reduced accordingly – a reduction from an entry scale of \$52,915 (equivalent County Range of 55) to \$46,821 (equivalent County Range 50). \$3,500 is included in the Services and Supplies budget to contract with the commission's Human Resources consultant to handle the recruitment process.

In addition, it is again proposed to defer the recruitment for a permanent Executive Officer until 2014, requiring an extension of the existing contract to June 30, 2014. The materials presented defer the cost for recruitment (estimated at \$10,500) to Fiscal Year 2013-14. The salary and benefit savings are roughly \$100,890 during that forecast year. However, should the Commission choose to move forward with recruitment during 2012-13, the \$10,500 will need to be added to the Services and Supplies projections. It is anticipated that the current range of pension reforms proposed by the Governor and State Legislature will limit 1937 Act Retirement systems to a single 960 hour contract with its retirees. Therefore, the Commission will not be allowed to contract further with the existing Executive Officer and will need to fill that position beginning in the 2014-15 Fiscal Year.

The changes recommended are that the support staff structure be modified to include three positions – Clerk to the Commission/Office Manager, Deputy Clerk to the Commission, and LAFCO Secretary.

The Commission has adopted the same benefit plan as provided by the County's Exempt Compensation Plan. At the time of this report, no changes to the Exempt Compensation Plan have been identified by the County Administrative Office. Rumor has it that there may be some further reductions in benefits in the Exempt Compensation Plan, but that is all staff is aware of at this time. However, should changes be approved by the County, staff will return either at the May hearing on the final budget or following hearings to address these changes.

It is currently anticipated that the bulk of the Commission's activities will be addressing the second round of Service Reviews and Sphere Updates, as required by statute. The information shows an estimate of only three proposals for jurisdictional change, but new State mandates to address disadvantaged unincorporated communities, additional requirements to address infrastructure deficiencies and potential consolidations will burden the review process. State law does not allow for charging fees for this process so only direct costs will be recovered for the processing.

Two significant actions proposed within the Services and Supplies budget categories are outlined below:

- The Commission first established its website in the mid-1990s which was considered state-of-the-art at the time. Over the years, tweaks and some upgrades have been made to the website to accommodate changes. It is staff's opinion that it is time to overhaul the website and take advantage of technological advances which will allow the Commission's staff to place documents on the website and provide for all maintenance except the most complex. Staff has requested, and received, an estimate of the changes needed and the costs from the County's Information Services Department, our current website manager. The costs for the new website are estimated at \$10,629.

The current year's costs for website management – posting of notices, agendas for the Commission, updates to manuals, etc. – through March are \$6,341. Following the update, these costs charged to the Commission through the County's COWCAP system will be reduced correspondingly.

- Staff is proposing the approval of an extension of the existing office lease for a five-year term, 2013 through 2017, in exchange for a reduction in the monthly rental charge. The cost for 2012-13 under the final year of the lease would be \$4,722.64, approximately \$1.75 per square foot. The negotiated lease for 2012-13 would be for \$3,984, approximately \$1.50 per square foot. The cost savings will be \$8,864 for the year.

Attachment #1 provides the Budget Spreadsheet for Fiscal Year 2012-13 with a forecast for FY 2013-14 and the narrative description of the budget.

Staff has requested that the County Auditor-Controller apportion the net costs for LAFCO operations to the County, Cities/Towns and Independent Special Districts based upon the proposed budget target of \$903,000, or \$301,000 per category. This information will be provided as a part of the materials forwarded to the County, Cities/Towns and Independent Special Districts for their review and comment as required by Government Code Section 56381 and is included as Attachment #2 for Commission information.

The proposed budget is more fully outlined below and on the Budget Spreadsheet and Budget Narrative included as attachments to this report. Staff believes that the actions outlined for the upcoming Fiscal Year will provide for the efficient operations of the Commission's office, will maintain reserve accounts established to cover potential and/or future costs, and will maintain the reduced apportionments to entities required to fund Commission operations.

SALARIES AND BENEFITS **WORKLOAD CONSIDERATIONS**

FISCAL YEAR 2011-12

Staffing levels for Fiscal Year 2011-12 include four full-time positions and a contract for the Executive Officer position. The Commission contracted for the preparation of the minutes of its hearings and contracted with Riverside LAFCO for a shared support position. The Commission continued to outsource much of its geographic technology needs with the County's Geographic Information Management System (GIMS), its environmental processing through its contract with Tom Dodson and Associates, and the maintenance of computer systems to the County's ISD.

Accomplishments by the Commission for the year include:

- At the CALAFCO Annual Conference in Napa, the Commission received the CALAFCO Award for Most Effective Commission for its processing of the City of Victorville Sphere of Influence Expansion, Helendale Community Services District Sphere of Influence Establishment, and Community definition for the Oro Grande Community. Of primary interest to the review committee were the decisions surrounding the mineral resources preservation issues and LAFCO laws related to open space and natural resource issues.
- Over the past twelve months the Commission and staff have undertaken a complete review and update of the LAFCO policies and procedures. This consideration is anticipated to return to the Commission this summer following completion of staff review of policies related to new mandates to address "disadvantaged unincorporated communities", the potential attorney general opinion related to island annexations, review of the Commission's environmental policies and discussion of updates to service review policies and procedures.
- During the year three agreements were signed transferring principal county authority regarding multi-county special districts for the determination of spheres of influence. Agreements were signed with Riverside, Orange and Los Angeles County LAFCOs. To date, agreements with Kern and Inyo LAFCOs are still in discussion.
- The final service reviews/sphere of influence updates completing the first round required by Government Code Sections 56430 and 56425 are nearing completion. It is anticipated that they will be finalized at the close of the fiscal year or shortly thereafter. Interesting outgrowths from these reviews include discussions for consolidation of services in the Hilltop community (Running Springs, Arrowbear and Green Valley Lake), incremental steps toward consolidation of fire services for the City of Big Bear Lake and the Big Bear

City communities, including sharing a fire chief position, looking toward a joint power authority or agreement for functional consolidation and the future potential for reorganization of the fire services through LAFCO.

The estimated year-end expenditures for salaries and benefits are \$534,484, \$10,016 below budgeted amount. Included in this amount are overtime costs of approximately \$5,700 to complete the preparation of files for completion of the scanning project.

The Services and Supplies categories expenditures of \$333,170 are estimated at year-end. This is \$72,240 below the budgeted amount; however, final payments for the scanning project are anticipated to be carried forward to Fiscal Year 2012-13. No budget amendments are proposed at this time.

FISCAL YEAR 2012-13

In the Salaries and Benefits categories for Fiscal Year 2012-13 include a change in support staff structure. They are identified as follows:

- In 2009-10 the Commission eliminated the funding for the Clerk to the Commission/Office Manager position as a cost saving measure. It was identified at the time that this was a temporary change, estimated to be refilled in FY 2011-12. The costs for termination payments for this position prompted the Commission to establish new policies related to the acceptance of existing leave balances when hiring new staff.

The position, which is statutorily mandated, was not filled in FY 2011-12 due to the continuing revenue issues for the Commission. For the upcoming Fiscal Year staff is proposing to return to the three person support staff structure by filling this mandatory position, retaining a single Deputy Clerk to the Commission and reinstating the LAFCO Secretary, entry level, position. This will allow for the division of duties and responsibilities to be reinstated.

One important element for discussion is that staff is proposing to eliminate the preparation of the detailed minutes of the Commission's hearings. For the past six years the hearings of the Commission have been video recorded, a DVD of the proceedings provided and maintained as a part of the official records. As a part of the Services and Supplies discussion, staff is proposing to upgrade the Commission's existing website which will allow for LAFCO staff maintenance of the website, eliminating an outside cost, and will allow for access to the video recordings of the hearing on the agenda page. This will allow everyone to review the actual hearing rather than relying upon a synopsis of actions to be approved at the next hearing. This eliminates a skill which is very specific and difficult to find. With that in mind, staff reviewed the CALAFCO Salary Survey for this type of position and is proposing a reduction in salary range. It is proposed that this position's salary be reduced 11.5% to the following range, which is equivalent to the County's salary range of 50, and retention of the LAFCO Benefit Level of B:

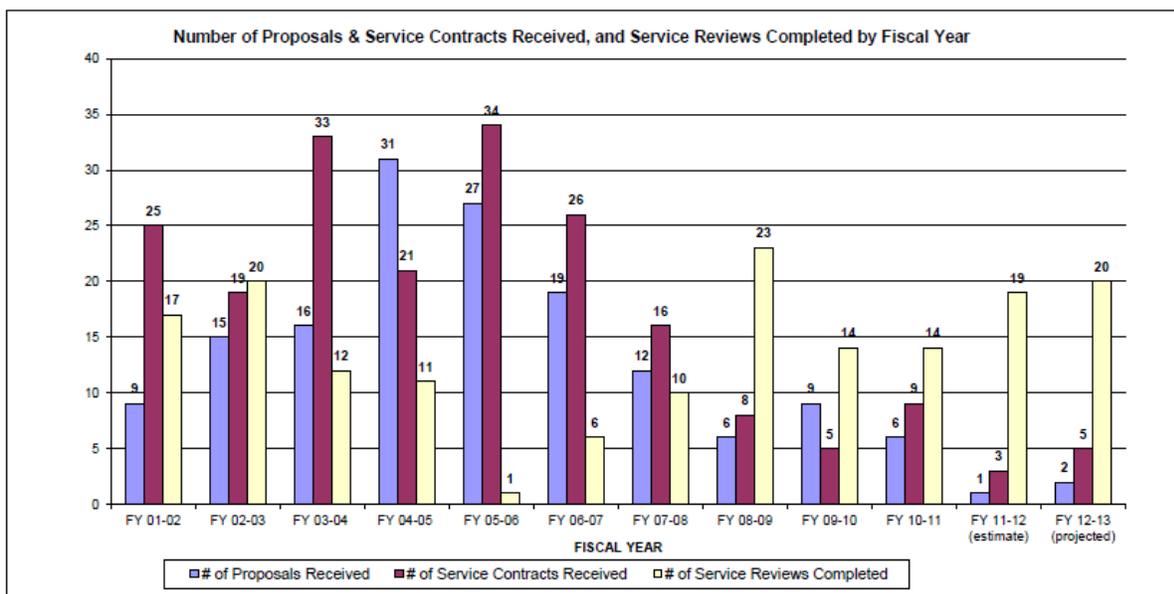
- Annually: \$46,821 to \$59,758
- Hourly: \$22.51 to \$28.73

There are currently two Deputy Clerk to the Commission positions and staff is proposing to retain one and convert the other to the entry level LAFCO Secretary position. In doing so the salary is proposed to be reduced by 6.9% to the following range, which is equivalent to the County's salary range of 39, and the placement in LAFCO Benefit Level C:

- Annually: \$35,818 to \$45,739
- Hourly: \$17.22 to \$21.99

Economic and workload indicators show a continuing reduction in actual jurisdictional change for the upcoming fiscal year. However, the second round of service reviews and sphere of influence updates will be initiated for the Valley region during the summer and staff will be proposing that these be undertaken in the more traditional way of a regional provision of service. Staff will be proposing that a stakeholders group for the municipal service types – water (retail, wholesale, and reclamation), wastewater treatment, fire protection, law enforcement and quality of life (parks, resource conservation and habitat preservation, streetlighting, and roads [maintenance, street sweeping, detention basin]), healthcare, and others which may be determined by the Commission, be formed to address the service review factors and assist staff in the gathering and review of information. It is anticipated that this type of approach will allow for discussions about the potential for shared services by agencies and will be staff time intensive at the outset with limited service and supply needs.

The chart below outlines past, current and projected activity levels:



Additional workload responsibilities include the Executive Officer's participation as a member of the CALAFCO Legislative Committee, as the designated SCAG representative for the CCL on the Programs and Planning Technical Advisory Committee and on conference and workshop planning committees

Fiscal Year 2013-14

As is the Commission's practice, a forecast for Fiscal Year 2013-14 has been provided. As a part of the discussion, it will need to be determined by the Commission whether it wishes to continue with the contract Executive Officer or pursue recruitment for that position as originally anticipated in the budget process for Fiscal Year 2011-12. It is anticipated that pension reform measures currently working their way through the Legislature and the ballot will eliminate the use of retirees beyond a single year, the 960 hour per fiscal year commitment. This would mean that Fiscal Year 2013-14 would be the last opportunity for this type of contract with the current Executive Officer. The difference in salary and benefits between the two options is outlined below:

TOTAL SALARY AND BENEFIT COSTS FISCAL YEAR 2013-14		
	CONTRACT EO	NEW EO
SALARY	\$429,298	\$456,701
BENEFITS	\$233,973	\$307,460
TOTAL	\$663,271	\$764,161

The difference is \$100,890 for the year primarily in the benefits category. The question and information outlined above has been reviewed with the members of the Administrative Committee who have supported the extension of the contract for an additional Fiscal Year. Beyond this determination, the forecast for this Fiscal Year carries forward proposed staffing levels, existing practices, and anticipated workloads.

SERVICES AND SUPPLIES

FISCAL YEAR 2011-12

For the current year, the Commission is completing the first round of the mandated Municipal Service Reviews and Sphere of Influence updates. In addition, the staff has undertaken a contract to complete the backlog of scanning to digitally archive the Commission's application and service review/sphere update files. It is anticipated that this mid-year addition to the work program will be close to or immediately after the close of the Fiscal Year. Changes implemented during the year to have provided electronic

distribution of hearing agendas, the provision of materials to those Commissioners with electronic tablets digitally, and the maintenance of providing only the statutorily required advertising of applications. At present, current expenditures within the Services and Supplies categories are estimated to be below budget authorization by approximately \$80,000, at \$324,167.

FISCAL YEAR 2012-13

Staff is recommending a total Services and Supplies budget of \$299,199, a reduction of \$106,211 from Fiscal Year 2011-12. In reference to the expense categories within the overall Services and Supplies section, staff is proposing the update of the Commission's website (\$10,629), the recruitment for the Clerk and Secretary positions through the Commission's Human Resource consultant (\$3,500), a return to the use of the County's Google Earth program since it has been updated (\$2,700), and the purchase of a single new computer workstation (\$3,500) for the Clerk position. On balance the budget appropriations provide for maintenance of current levels of support for on-going activities. As noted above, the Commission will be initiating the second round of service reviews and sphere of influence updates for the Valley Region and staff is proposing to utilize a service type approach for this consideration. Staff is also proposing to establish a stakeholders group for development of the information, this will necessitate staff time, but it is not anticipated to incur service and supply costs until preparation of the final reports for presentation to the Commission.

As a part of the budget preparation, Staff reviewed the implications of the office lease, which has a termination date of June 30, 2012. In the discussions with the Building Manager, Staff reviewed the potential for extension of the lease with a request that the per square foot charge be reduced. The Building Manager responded with the following proposal:

- Amend the lease to an end date of June 30, 2017 (an additional four years) for 2,656 sq. ft. of rentable space; and,
- Reduce the current rate for Fiscal Year 2012-13 to \$1.50 from \$1.79 with a 3% annual inflation factor beginning in FY 2013-14 and the potential for a surcharge on the per square foot rate if utilities exceed \$0.22 per square foot. If the lease extension proposed is not accepted, staff will need to begin to review options for office space for FY 2013-14 and beyond during the upcoming year and costs for relocation will need to be added to the 2012-13 fiscal year.

The proposed per square footage charge is well below rates of other Southern California LAFCOs in leased office space for the upcoming fiscal year (Riverside \$2.31 per sq. ft., Los Angeles \$2.37 per sq. ft., and San Diego \$2.05 per sq. ft.)

In addition, staff is requesting review and approval of the new engagement for auditing services for the next four years. The joint Request for Proposal (RFP) circulated by the Coalition of California LAFCOs resulted in the selection of White Nelson Diehl Evans

LLP of Irvine. As a part of the final budget, staff will be requesting that the Commission enter into the official engagement with the selected firm. In addition, Commission authorization to continue the Video Production Contract with the City of San Bernardino will be requested.

The budget excludes continuation of the contract with Ms. Anna Raef for preparation of the Commission's minutes (budget amount of \$6,600) and with Riverside LAFCO for support staffing (budget amount \$22,400). In addition, future reductions in COWCAP charges through the transition to LAFCO staff maintenance of the website are estimated to be \$9,000 annually.

FISCAL YEAR 2013-14

Based upon the approval of the staff recommendations for FY 2012-13, it is anticipated that a modest consumer price index increase will be applied to those categories for purchases and the maintenance of the other existing levels of service. It is anticipated that during the spring of 2014, the recruitment for the Executive Officer will commence, cost estimate of \$10,500, with the position filled prior to the beginning of the new Fiscal Year.

REVENUES

FISCAL YEAR 2011-12

As identified earlier in this report, while staff has historically lamented the trend of lower submission of proposals for change of jurisdiction, FY 2011-12 is the lowest on record with one proposal submitted during the year. For the Inland Empire the current economic forecasts show upturns in manufacturing but the maintenance of a larger inventory of resale properties, keeping construction depressed. The chart below identifies the proposal activity for the current fiscal year:

Activity	Budget	MARCH ACTUAL		Year-End Projected	
		No.	% of Budget	No.	% of Budget
Proposals	6	1	17%	1	17%
Service Contracts - over 4 units	1	0	0%	0	0%
Service Contracts - 4 units & under	0	0		0	
Service Contracts - Admin approval	2	3	150%	3	150%
Service Review Deposits	13	0	0%	0	0%
Protest Hearing Deposits	4	3	75%	4	100%

Staff estimates that year-end totals for revenues will be at 98% of budgeted appropriation, a significant portion of which is for reimbursements for service review

processing. The total revenue received from the one application submitted during the year is \$11,200.

FISCAL YEAR 2012-13

Information gleaned from economic forecast reports and local economists as reported in newspapers indicates that the Inland Empire has seen some jobs recovery in the manufacturing sector but not construction. In addition, these information sources also identify a large number of resale properties which will need to be cycled through in order to look toward future development. In all this, staff anticipates that proposal filings for the upcoming Fiscal Year will remain depressed. In order to remain conservative in revenue projections, staff anticipates the submission of three proposals next year at the basic fee level, for fee revenue of \$25,800. The chart below identifies staff's projections for the upcoming year:

Activity	Proposed Budget	FY 2011-12 BUDGET
Proposals (not island)	3	6
Island Proposals	0	1
Service Contracts - over 4 units	0	0
Service Contracts - 4 units & under	1	1
Service Contracts - Admin approval	2	2
Service Review Deposits	20	13
Protest Hearing Deposits	2	4

Interest income remains low as earnings rate remain depressed. All reserve accounts have carried forward from the prior year and an estimated \$50,795 in the other category is carried forward. This provides for an apportionment of \$903,000, \$301,000 for each category required to pay a portion of the Commission's net costs.

The apportionment process will take place pursuant to the provisions of Government Code Section 56381 and is administered by the County Auditor/Controller-Recorder. Staff has requested that the Auditor-Controller provide for the distribution, pursuant to statute and the alternative funding formula for Special Districts. Per adopted Commission policy, the amount identified at this hearing will be the apportionment required as of July 1, 2012. At the time the Year-End report is presented to the Commission, staff will determine the actual carryover and make recommendation for any further actions necessary.

Revenues consisting of interest, mandatory contributions, and fee revenues are estimated to be \$924,200. Refunds from Prior Years, Miscellaneous Charge, and Carryover including all reserve accounts increases total anticipated revenues to \$1,296,443.

FISCAL YEAR 2013-14

Revenues forecasts for FY 2013-14 are a continuation of Fiscal Year 2012-13 with increases only anticipated for apportionment to \$933,000 (\$30,000 increase over prior year) and additional application submissions.

RESERVES AND CONTINGENCIES

The staff is proposing the maintenance of reserves and a contingency amount as outlined by Commission policy. The policy required amounts are:

Account 6025 – General Reserve -- Litigation	\$200,000
Account 6030 – Compensated Absences Reserve	\$ 66,620
Account 6010 – COWCAP Reserve	\$ 46,780

In addition, staff is recommending a contingency of \$40,000 (Account 6000). Should the use of these dollars be required, it will take an action by the Commission to transfer monies.

CONCLUSION:

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

ACCOUNT TYPE	FY 2011-12 ADOPTED BUDGET	FY 2012-13 PROPOSED BUDGET
SALARIES AND BENEFITS	\$ 544,500	\$ 643,845
SERVICES AND SUPPLIES	\$ 405,410	\$ 298,371
RESERVES AND CONTINGENCIES	\$ 339,510	\$ 354,227
SUBTOTAL	\$1,289,420	\$1,296,443
FEE AND GENERAL REVENUE	\$ 355,781	\$ 393,443
NET COST	\$ 933,639	\$ 903,000

Staff believes that the Policy Items outlined in this report related to the recruitment for the Clerk to the Commission, conversion of an existing position to that of LAFCO Secretary, the update of the Commission's website, and extension of lease terms for the LAFCO office are appropriate; 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. 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 this document 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 16, 2012 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 related to the Proposed Budget for Fiscal Year 2012-13:

- 1) Adopt the Proposed Budget presented by staff, as may be modified at this hearing, by taking the following actions:
 - a) Approve the recruitment for the Clerk to the Commission/Office Manager with a reduction in salary to the equivalent of County Range 50;
 - b) Approve the conversion of one Deputy Clerk to the Commission position to LAFCO Secretary with a reduction in salary to the equivalent of County Salary Range 39 and approve the recruitment;
 - c) Approve the recruitment for both positions through the Commission's Human Resources Consultant, Alcock and McFadden, estimated to be \$3,500;
 - d) Approve the extension of the office lease until June 30 2017 with a reduction in rate to \$1.50 per square foot for 2,656 square feet, monthly cost of \$3,984, with a 3% annual increase;
 - e) Approve the upgrade to the Commission's website through the County's Information Services Department for a cost of \$10,629; and,
 - f) Approve the engagement of White Nelson Diehl Evans LLP as the Commission's audit firm for the 2012, 2013, 2014 and 2015.
- 2) Schedule a public hearing for May 16, 2012 for the formal adoption of the Final Budget for Fiscal Year 2012-13 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 comment pursuant to Government Code Section 56381.

/krm

Attachments:

1. [Proposed Budget -- Spreadsheet and Narrative Related to Individual Accounts](#)
2. [Estimated Apportionment Distribution for City/Town and Special District Costs](#)