

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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**DATE:** NOVEMBER 13, 2012



**FROM:** KATHLEEN ROLLINGS-McDONALD, Executive Officer  
MICHAEL TUERPE, Project Manager

**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item #10: First Quarter Financial Review for Period July 1 through September 30, 2012

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## **RECOMMENDATION:**

Staff recommends that the Commission:

1. Note receipt of this report and file.
2. Approve the following amendments to the FY 2012-13 Budget and direct the Executive Officer to take the actions necessary to effectuate the changes identified as:
  - a) Increase Revenue Account 9970 (Carryover from Prior Year) by \$91,427 to \$481,732 for a total revenue of \$1,387,869.
  - b) Increase Total Appropriation by \$91,427 to \$1,387,869 by taking the following actions:
    - i. Decrease Expenditure Account 1010 (Regular Salary) by \$22,000 to \$399,821
    - ii. Fund Expenditure Account 2335 (Temporary Services) for \$22,000 to allow for payment of temporary hiring
    - iii. Increase Expenditure Account 2445 (Other Professional Services) by \$27,161 to \$78,115

- iv. Fund Expenditure Account 2450 (System Development) for \$23,863
- v. Increase Contingency Account 6000 by \$40,403 to \$84,730

**BACKGROUND:**

Staff is presenting the Commission with the FY 2012-13 first quarter financial report which includes:

1. A review of the first quarter financial activities and the presentation of a spreadsheet (Attachment #1) outlining expenditures and revenues through September 30, 2012; and,
2. Discussion of budget amendments with recommendations to accommodate:
  - a. Identification of additional carryover
  - b. Probable reduction in apportionment revenue due to the City of San Bernardino bankruptcy
  - c. Increases related to the County ISD contract
  - d. Change to the recruitment of a LAFCO Secretary
  - e. Digital Archive Project and Allocated Funds from Prior Year
  - f. Transfers to accurately reflect charged activity

Proposed amendments are shown on the Attachment #1 spreadsheet in bold italic font for easier review.

**FY 2012-13 FIRST QUARTER REVIEW**

The following provides a review of the first quarter financial activity that includes expenditures and reserves, revenues, and cash in the County Treasury.

**Expenditures and Reserves**

Expenditures are comprised of two categories of accounts: 1) Salaries and Benefits, and 2) Services and Supplies. Through the first quarter, total expenditures are at 24% of the Adopted Budget authority. No activity has been authorized by the Commission for the Contingency and Reserve accounts. A more detailed analysis of the categories is as follows:

1. Salaries and Benefits (1000 series)

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$126,093 through the first quarter, representing 20% of Adopted Budget authority. This amount is five percent lower than the benchmark of 25% due to lower staffing levels. The following provides an explanation of these lower costs.

As a part of the current year budget, the Commission approved the recruitment for the Clerk to the Commission and a LAFCO Secretary. The Clerk to the Commission position has been filled by promotion of Ms. Becky Lowery from Deputy Clerk. The filling of the second position, LAFCO Secretary, has been affected by two post-budget circumstances providing challenges to the current year finances. These circumstances, increased costs for San Bernardino County Information Service Department contract and reduction in revenues due to City of San Bernardino bankruptcy, have prompted the determination to forgo the recruitment of a LAFCO Secretary for FY 2012-13. Instead, clerical support is being acquired through a contract with a temporary employment agency. Since September 17 LAFCO has filled this position by contract with an overall reduction in salaries and benefits estimated at \$64,499. Costs for this service, estimated to be \$22,000, will be accounted for in the Services and Supplies series of accounts (Account 2335) representing an overall savings of \$42,499, roughly the estimated impact on current year finances. A transfer to Account 2335 to fund this expenditure is being recommended.

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

### A. *First Quarter Activity*

For the first quarter the Services and Supplies series of accounts (2000 and 5000 series) normally experiences expenditures between 28% and 35% of budget authority due to carry-over items from the prior year and one-time payments for the entire fiscal year. For the first quarter, Services and Supplies had expenditures of \$97,827, or 33% of Adopted Budget authority - within the normal activity for the first quarter due to a number of full year payments being processed. Payments that are typical to the first quarter that have taken place include payment for the California Association of LAFCOs (CALAFCO) membership, the CALAFCO conference (registration, hotel, and travel for staff and Commissioners), and the Commission's property and liability insurance.

The sole atypical activity in the first quarter was payment to the vendor doing the scanning of closed proposal files for \$12,879. Removing this atypical activity would result in first quarter Services and Supplies expenditures of 29% of budget authority, at the low end of the normal range. The primary reason for activity being somewhat lower this first quarter is because only one hearing was held during the quarter, which translates into fewer payments for legal counsel, advertising, environmental consultant, mailing, and commissioner payments.

Given these one-time and full-year costs, expenditures are generally on target for the fiscal year.

*B. Status of Commission-approved Projects*

**SCANNING PROJECT:** In February 2012, the Commission committed up to \$35,462 to scan the closed proposal files and other records that are back-logged and need to be scanned for archival purposes. The figure below details the project's activities for the first quarter as well as the current total project expenditure. As of the date of this report, \$19,777 has been paid for this project (\$16,308 to the vendor and \$3,469 for overtime for the clerk and deputy clerk to prepare the files for scanning by the vendor). The project has a remaining allocation of \$15,685 and roughly three-quarters of the contracted files have been scanned.

Activity	2012-13 1st Q	Total as of Oct 17, 2012
Payments to Vendor	\$12,879	\$16,308
Overtime paid	\$1,063	\$3,469
Total	\$13,942	\$19,777

**WEBSITE UPDATE:** As a part of the FY 2012-13 budget, the Commission approved the expenditure of up to \$10,629 for updating of the LAFCO website. To date, \$1,196 has been spent as the project is still in the design stage. Staff anticipates that this project will be completed by the mid-year Budget Review in January.

**DATABASE CONTRACT WITH ORANGE LAFCO:** The Fiscal Indicators and Shared Services contract negotiations approved by the Commission at the August 2012 hearing have not been finalized. Staff continues to work with Orange County LAFCO to utilize their programs for development of these databases for San Bernardino County to be used as a part of the Second Cycle of Service Reviews but questions have arisen regarding purchase of the program versus licensing it for use. Staff continues to work with Orange LAFCO on this project.

*C. Anticipated Expenditures*

Budgeted and anticipated activities for the second quarter include significant expenditures, identified as:

- Full-year payments for the annual financial audit (\$8,140) and subscription to the County Street Network (\$10,500) for development of digital mapping.
- Remaining payments for the Commission-approved projects for digital archiving of files and update of the website.

- 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 communities.
- Payment of legal counsel costs associated with the City of San Bernardino bankruptcy and its effect on the payment of its state-mandated apportionment costs.

### 3. Contingency and Reserves (6000 series)

No activity has been authorized by the Commission to take place in the Contingency or Reserve accounts through the first quarter. LAFCO staff will be recommending an increase in Contingency to accommodate the increased carry over into this Fiscal Year more fully described in the narrative which follows.

## **Revenues**

### 1. Revenues through First-Quarter

The Commission has received 105% of Adopted Budget revenues through the first quarter. The items below outline the revenue activity:

- Interest (Account 8500) - A minimal amount of \$721 in interest revenue from the Commission's cash in the County Treasury, due to low interest and return rates and the reflection of interest on funds on deposit at the end of the fiscal year. The bulk of LAFCO's revenues are received during the first quarter of the fiscal year. However, it is anticipated that the annual rate will remain below 1% for the balance of the year.
- Apportionment (Account 8842) - 96% of the mandatory apportionment payments from the County, cities, and independent special districts billed by the County Auditor-Controller/Tax Collector. One independent special district and one city have outstanding payments. The outstanding independent special district payment will be received in the second quarter through a reduction in the first proceeds of that district's property tax allocation. As for the city payment outstanding, this matter is discussed in detail below related to the bankruptcy proceeding for the City of San Bernardino.
- Fees and Deposits (Accounts 9545 – 9800) – Through the first quarter, the Fees and Deposits series of accounts has received 98% of its budgeted revenue (\$16,839). One proposal (City of Redlands detachment) and one development-related service contract account for \$14,700. The remaining \$2,139 is cost recovery for completed service reviews.

- Carryover from Prior Year (Account 9970)

The fund balance at prior year's closure was carried forward into FY 2012-13 (\$481,732), and is comprised of the following:

- All of the Contingency and Reserve funds identified in the FY 2011-12 budget have been carried forward, \$339,510.
- Allocated but unspent funds from the Commission-approved digital archiving project, \$33,056.
- Carryover of \$109,166 identified as including the estimate included in the FY 2012-13 Budget approval of \$50,795 and additional carryover of \$58,371.

2. Proposal Activity

The figure below identifies the number of proposals, service contracts, and service review deposits received through the first quarter. The figure identifies that one proposal and one development service contract were received in the first quarter. Attachment #2 to this staff report includes a chart showing the yearly comparison of proposal, service review, and completed service review activity.

Activity	Budget	ACTUAL	
		No.	% of Budget
Proposals	3	1	33%
Service Contracts - Development	1	1	100%
Service Contracts - Admin approval	2	1	50%
Service Review Deposits	20	0	0%
Protest Hearing Deposits	2	0	0%

One service review was completed during the first quarter. The remainder of the year anticipates the completion of the remaining six service reviews for the South Desert, three for mountain road service, and commencement of the second cycle Service Reviews for the Valley region.

**DISCUSSION OF BUDGET AMENDMENTS**

At the July hearing staff informed the Commission that the year-end carryover into FY 2012-13 was more than the budget adopted in May 2012. The next section of this report requests adjustments to the budget to account for the increase as well as to acknowledge unanticipated post-budget circumstances.

1. Acknowledge the additional cash carryover from Fiscal Year 2011-12 into Fiscal Year 2012-13 and increase Revenue Account 9970 (Carryover from Prior Year) by \$58,371 for a total of \$109,166.

## 2. City of San Bernardino and LAFCO Apportionment

As of the date of this report, the City of San Bernardino has not paid its \$38,266 share of the LAFCO apportionment. For these instances, the Commission requests the County Auditor to collect the amounts due from the agency's property tax revenues. However, the City has declared bankruptcy, and federal bankruptcy trumps state law. At the October hearing the Commission was apprised that no actions related to receiving these funds could be taken until a stay of the bankruptcy proceedings related to LAFCO could be heard by the court. At that hearing the Commission directed staff and legal counsel to pursue this avenue. At this time, staff is not certain that the City's apportionment will not be collected. However, the probability of not receiving those revenues needs to be addressed during this financial review in order to maintain adequate funding for budgeted activities.

As identified above, the current fiscal year has additional carryover and a significant portion of this additional carryover (\$38,266) can be set aside in the contingency reserve account (6000) for the probable loss of apportionment revenue and/or legal counsel costs (\$2,137) related to filings with the Bankruptcy Court.

- Increase Contingency Account 6000 (System Development) by \$40,403

## 3. County ISD Contract and Additional Carryover

At the August hearing staff informed the Commission that after adoption of the current year budget, the County Information Services Department ("ISD") exercised the termination clause of the memorandum of understanding between LAFCO and ISD. ISD identified that LAFCO would be charged for services provided by ISD pursuant to the Fee Ordinance. The agreement has been authorized by LAFCO Legal Counsel, has been signed by the Executive Officer and was approved by the County Board of Supervisors and became effective on October 23, 2012. The change in contract requires that LAFCO pay ISD charges on a monthly basis so that the County can receive more of its revenue upfront, currently estimated to be an additional \$12,500 for the current year, raising the total cost to \$33,735. It is important to note that overall costs will increase for this year, but in the future COWCAP cost should be reduced.

A portion of the additional carryover, \$13,234, is recommended to fund Account 2450 to account for the increased ISD costs:

- Fund Expenditure Account 2450 (System Development) for \$13,234

## 4. Change in Staffing

The post-budget circumstances identified above have caused the Executive Officer to forgo the recruitment of a LAFCO Secretary and instead to contract with a temp

agency for clerical support for this fiscal year. This pragmatic measure essentially counters the probable loss of the City of San Bernardino's apportionment yet still provides for additional support for the staff office. Further, this measure allows for staffing and financial flexibility in that temporary labor can be decreased or increased as needed. Should the City's apportionment share be received then the opportunity to consider recruitment of a LAFCO Secretary can be implemented.

A budget adjustment is recommended to transfer allocation of \$22,000 from the Salaries and Benefits series of accounts to the Services and Supplies series of accounts:

- Decrease Expenditure Account 1010 (Regular Salary) by \$22,000
- Fund Expenditure Account 2335 (Temporary Services) for \$22,000

5. Digital Archive Project and Allocated Funds from Prior Year

The FY 2011-12 budget planned for all activities of the Digital Archive Project to take place during that year. However, additional time was needed to prepare the files for scanning by the vendor and the project was deferred into this fiscal year. However, the FY 2012-13 budget does not account for this activity. The funds allocated for the project were carried forward into this fiscal year.

A budget adjustment of \$33,056 is recommended to account for the carryover of project funds from the prior fiscal year and to authorize the appropriations necessary to pay the costs to occur this year:

- Increase Expenditure Account 2445 (Other Professional Services) by \$33,056
- Increase Revenue Account 9970 (Digital Archiving Project) by \$33,056

6. Website Project

Costs for the Website Project are being charged by the County in a different account than what LAFCO staff budgeted. One option would be to do nothing. However, given the change in billing methodology due to the ISD contract discussed above, a budget transfer is necessary to track these costs accurately.

A budget adjustment is recommended to transfer allocation of \$10,629 between the accounts, both in the Services and Supplies series of accounts:

- Decrease Expenditure Account 2445 (Other Professional Services) by \$10,629
- Increase Expenditure Account 2450 (System Development) by \$10,629

## **CONCLUSION AND REQUESTED COMMISSION ACTION**

Staff has presented the Commission with a review of the first quarter financial activities which identifies the unique situation of addressing the City of San Bernardino bankruptcy proceeding and its effect on the Commission as well as the impact of the sudden termination of the County ISD contract. In addition, staff has identified an increased carryover from the prior fiscal year which should offset these changes. While staff believes that these are isolated instances this fiscal year, if further action is necessary it will be presented to the Commission at the mid-year review scheduled for the January 2013 hearing.

Beyond these occurrences staff has identified that the expenditures for the Commission are within budget targets, proposal activity revenues are at full-year anticipated amounts, and cost savings have been identified by forgoing the hiring of the LAFCO secretary position authorized in the budget this fiscal year. All are positive financial occurrences.

Staff recommends that the Commission take the actions necessary to approve the changes as outlined in this report provided in the recommendation section on page 1. Staff will be happy to answer any questions from the Commission prior to or at the hearing regarding the items presented in this report.

KRM/MT

Attachments:

1. [Spreadsheet of First-Quarter Expenditures, Reserves, and Revenues](#)
2. [Chart Illustrating Yearly Proposal, Service Contract, and Service Review Activity](#)