

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

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DATE: APRIL 9, 2007
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: **AGENDA ITEM #8 – ITEM (B)** -- Preliminary Budget Review for Fiscal Year 2007-08 and **ITEM (C)** -- Budgetary Adjustments for Fiscal Year 2006-07

RECOMMENDATION:

The staff recommends that the Commission take the following actions to approve budget adjustments for Fiscal Year 2006-07 and adopt the Proposed Budget for Fiscal Year 2007-08. Those actions are outlined as follows:

FOR FISCAL YEAR 2006-07 (CURRENT):

Staff recommends the following adjustments for the current Fiscal Year:

1. Increase total Appropriations to \$1,179,167 (increase of \$95,286) by:
 - Increasing Account 2400 (Legal Counsel) expenditure authority to \$140,000 (increase of \$90,000); and,
 - Increasing Account 2445 (Other Professional Services) expenditure authority by \$5,286.
2. Increase appropriations authority within Account 2445 (Other Professional Services) to a total of \$110,000 (including change identified in Item #1 above) by:
 - transferring \$22,556 from Account 6025 (Reserves); and,
 - transferring \$33,100 from Account 5010 (GIS Tech).
3. Increase Revenue Account 9555 (Legal Services) to \$110,000 (increase of \$69,000) to reflect anticipated revenues for repayment of litigation-related services.

FOR FISCAL YEAR 2007-08:

Staff recommends that the Commission take the following actions related to its Proposed Budget:

- 1) Provide for a Cost-of-Living Adjustment (COLA) of 3% for all LAFCO positions, with the exception of the Executive Officer;
- 2) Adopt Resolution No. 2962 providing for modifications to salary ranges to provide for Cost-of-Living adjustments for affected LAFCO employees.
- 3) Review and Consider Policy Items for FY 2007-08:
 - a) Authorize a staffing increase, the addition of a Deputy Clerk to the Commission position, Range 42; with the amendment to the LAFCO Benefit Plan to designate the Deputy Clerk to the Commission within a new LAFCO Benefit Plan Group C which mirrors the County Exempt Compensation Plan Group D;
 - b) Amend Policy #31 to authorize an increase in Commissioner Stipends from \$150 per meeting to \$200. Adopt the following Policy Language to reflect that amendment:

Policy #31 – Commission Stipend/Per Diem Payment

- 1) Commission members shall receive a stipend payment of \$200 per posted Commission Hearing.
- c) Authorize the Executive Officer to sign the Production Support Agreement for 2007-08 with the County's Information Services Department to provide information technology services for the Commission for the upcoming fiscal year.
- d) Authorize the Executive Officer to sign the facilities use agreement with the City of San Bernardino for use of the City Council Chambers for Commission hearings for Fiscal Year 2007-08 and the provision of digital recording of these meetings.
- 4) Provide direction to staff on budgetary changes to be provided in the Proposed Budget; and direct staff to forward the Proposed Budget, as adopted at this hearing, to all the independent special districts, cities, and the County for their comment pursuant to Government Code Section 56381; and,
- 5) Schedule the public hearing for May 17, 2006 for the formal adoption of the Final Budget for Fiscal Year 2007-08 as required by Government Code Section 56381.

BACKGROUND:

At this hearing, the Commission will begin its annual budget review as required by law. Government Code Section 56381 requires the Commission to adopt a proposed budget by May 1st of each year and to present that document to all the entities obligated to fund the Commission's activities, the County, the Cities and the Independent Special Districts for their review and comment. In addition, it requires that the final budget be adopted by June 1st of each year; therefore, the final budget hearing will be scheduled for the May 17th hearing.

To provide the background for the presentation of the proposed budget, staff is providing a brief outline of the requirements of Government Code Section 56381(a) which indicates:

- 1) the Commission's budget, at a minimum, shall be equivalent to the prior year's budget unless specific findings are made related to reduced staffing, etc.
- 2) Once the Final Budget is approved, the County Auditor is required to apportion the net operation costs of the Commission to cities, the independent special districts and the County pursuant to methodology defined by law (for cities and county) or the alternative apportionment method adopted by the independent special districts.

In preparing the Budget for the upcoming Fiscal Year the following requirements were addressed by staff:

- 1) Provide the allocation of resources necessary to complete the mandated Municipal Service Reviews/Sphere of Influence Updates. The law specifies that this mandate is to be completed by January 1, 2008; however, staff anticipates that it will take the full fiscal year to address the remaining municipal service reviews. Of importance to the budget review is that no fee revenue will be received to accomplish this mandate;
- 2) Provide for a reduction, or at a minimum, the control of costs wherever possible; and
- 3) Enhance revenues related to cost recovery where possible.

In preparing the upcoming fiscal year's budget, staff has continued its approach of anticipating expenditures liberally and revenues conservatively. While Fiscal Year 2006-07 saw a number of policy items instituted, such as moving to a new office location, changing the Commission's hearing location, videotaping its proceedings and airing them on public access television, and conversion of its archived file system, it also saw a reduction of proposal filings and the presentation of large litigation costs. All of these affect the upcoming fiscal year through reduced carryover and the need for maintenance of these new costs.

As outlined above, staff is anticipating that the bulk of the Commission's activity for Fiscal Year 2007-08, approximately 80%, will be related to fulfilling its mandate for completion of Municipal Service Reviews. This is a function for which no fee is authorized by statute; therefore, no revenue can be projected to cover the cost. So, the cost for Commission operation is anticipated to be predominantly funded by the mandated apportionment to the County, Cities and Independent Special Districts in upcoming Fiscal Year.

Attachment #1 to the staff report is the Proposed Budget Spreadsheet and Attachment #2 is the budget narrative which outlines the staff's recommended appropriations for the upcoming fiscal year. The following provides a general discussion of expense and revenue categories presented for the current fiscal year and in those within the Proposed Budget for Fiscal Year 2007-08.

BUDGET DISCUSSION FOR FISCAL YEAR 2006-07 (AGENDA ITEM 8(C)):

At the February Hearing, a staff report was presented which outlined the need to make several budgetary adjustments for the current fiscal year. Those included requests to transfer revenues to accommodate a dual appointment for training purposes due to the Commission's Clerk, Debby Chamberlin, impending retirement at the end of the Fiscal Year. Those items were approved. However, the balance of the report was continued for consideration with the budget review since it addressed a series of circumstances affecting revenues and expenditures for this year.

As the Commission is well aware having received the monthly Agenda Packets, proposal activity during the year has been elevated, which has resulted in increased costs to process proposals and operate the LAFCO office. Among the proposals processed during this year are: the County Fire Reorganization and its community meetings, 44 separate islands, the formation of a community services district, the municipal service reviews and spheres of influence updates for the Victorville community and its associated consolidations and dissolutions, submission of the consolidation of two water agencies, and the dissolution of an inactive district.

This activity level has required increased costs and this, in turn, has led to the need to increase appropriation authority within the Services and Supplies accounts to avoid exceeding the budget's expenditure limits. Staff has identified increased and additional costs for proposal processing and activities for the current fiscal year totaling \$103,578 resulting from:

- The processing of proposals – increase of \$75,397
- Unanticipated expenditures and items over budget (not related to proposal processing) - \$12,518
- Litigation costs not recoverable - \$15,663

The tables below provide a breakdown of these additional costs:

PROPOSAL RELATED COSTS:		
Commissioner Costs:	Mileage costs increased travel due to community meetings	\$444
	Increased stipend payments due to community meetings	\$2,400
Other Prof. Services:	Translation Services for required Individual notices for island annexations	\$1,605
	Production Support Services for hearings (televising)	\$2,272
	Orange LAFCO consulting for Victorville MSRs	\$5,000
	Human Resources consultants - Clerk recruitment (\$3000) and other items	\$5,027
	Surveyor and ROV (estimate)	\$21,318
Postage	Increased Costs (includes billing of \$708 for FY 05-06 received in 06-07)	\$17,452
Printing	Increased Costs (includes billing of \$808 from FY 05-06 received in 06-07)	\$13,801
Legal - general activity	Anticipated to Exceed Budget Appropriation	\$3,550
Data Processing	Higher infrastructure charges due to increased use by LAFCO to process proposals	\$2,528
TOTAL		\$75,397

UNANTICIPATED ITEMS OR ITEMS OVER BUDGET NOT RELATED TO PROPOSAL PROCESSING:		
County Information Services		
Department (ISD) Charges:		
	Migration to the County's active directory for internet/intranet	\$347
	Computer Software -- 7 Microsoft licenses at \$200 each	\$1,400
	Hardware – An internet switch was required due to upgraded equipment	\$916
	Back-up Power Battery – required replacement due to failure	\$614
	Maintenance of County internet/intranet	\$247
Security System	As approved by the Commission - includes installation	\$921
Auditing	Exceeded budget	\$2,747
Office Expense	Projector and screens for use at Commission hearings and community meetings	\$1,437
Digital Archiving	Exceeded budget estimate for services	\$1,920
Move to new office	Unanticipated cost to purchase new furniture for new office configuration	\$1,969
TOTAL		\$12,518

While no one expenditure account explains the increased costs, two accounts comprise the largest share of those costs: Legal Counsel – Account 2400 and Other Professional Services – Account 2445. Therefore, in order to accommodate the necessary expenditures, and in regard to litigation increased revenues, changes are needed for the FY 06-07 budget to prevent LAFCO from exceeding its total appropriation authority. Below is a detailed explanation of these costs. In addition, the Proposed Budget Spreadsheet (Attachment #1 to this report) shows the changes for Fiscal Year 06-07 in bold italics.

- Account 2400 (Legal Counsel) has incurred costs in excess of its budgeted amount due to CEQA litigation related to the service review of the San Bernardino Valley Water Conservation District. To date, Account 2400 has incurred \$123,875, which is \$73,875 above its budgeted amount. However, to date, the Commission has received revenues of \$67,610 towards this litigation. Although revenues received for this litigation offset most of this year's expenditures for the litigation, both Total Appropriations and the sum of the Services and Supplies series cannot exceed their authorized amounts. Therefore, an increase in appropriations authority is needed to

account for these expenditures as well as the revenues received. Therefore the staff is recommending, as Item #1, that the Commission increase Account 2400 (Legal Counsel) by \$90,000 from its original budgeted amount of \$50,000 to \$140,000 to accommodate the identified expenditures incurred and for the anticipated legal activity for the remainder of the Fiscal Year.

- Account 2445 (Other Professional Services) has also incurred elevated costs due to increased activity levels. To process the numerous island proposals and the County Fire Reorganization, costs for the services provided by the Registrar of Voters and the County Surveyor, to date, total roughly \$31,000. Combining those activities with the additional expense of Commissioner attendance at the Fire Reorganization community meetings have pushed this account to exceed its budgeted amount by \$33,461 to date. In addition, the recruitment process for the Clerk to Commission position (estimated at \$1,500) will further increase the expenditures in this account. To accommodate these activities and the balance of the year's anticipated activity, staff recommends that the Commission increase Account 2445 (Other Professional Services) from its original budgeted amount of \$49,058 to \$110,000 by:
 1. transferring \$22,556 from Account 6025 (Reserves) to Account 2445. This action will reduce the Reserve account to \$6,726 for this Fiscal Year;
 2. transferring \$33,100 from Account 5010 (GIS Tech) to Account 2445; and,
 3. increasing Account 2445 by an additional \$5,286 in increased appropriation authority for adjusted revenue receipts.

Item #2 above proposes to redirect the funding for the shared GIS Tech II position with the County's Economic Development Agency (EDA). During the Mid-year Budget Review discussion at the January 2007 hearing, staff anticipated the GIS Tech position to be filled by March. However, the interview and selection process conducted by EDA was unsuccessful. There are no current or anticipated expenditures to be allocated to Account 5010 for this fiscal year, so its \$33,100 unused appropriation authority can be transferred. Therefore, staff Recommendation #2 for Fiscal Year 06-07 is that the full appropriation be transferred to Account 2445.

Revenue Categories:

Revenues for FY 06-07 are anticipated at this time to be \$28,457 less than budgeted, excluding the anticipated \$67,610 in litigation repayments received. The Revenue Categories include increased refunds for proposals completed FY 06-07 but whose payments were made in Fiscal Year 2005-06. The refunds total \$13,560 in Account 9910 Refunds from Prior Years.

In comparison with previous year's activity, FY 06-07 has experienced decreased proposal activity with 15 proposals received to date. Of the 15 proposals, four are city island annexations comprising 10 individual islands, which are deposits toward direct cost only.

Attachment #3 to the staff report provides a chart outlining the proposals received from Fiscal Year 1993-94 to Fiscal Year 2006-07.

FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07 to date	FY 06-07 estimated year end	FY 07-08 Projected
15	16	31	27	15	16	10

Staff is recommending that the Commission acknowledge the increased revenues for Legal Services, payment of litigation costs, to balance revenues to appropriations. Staff Recommendation # 3 for Fiscal Year 2006-07 will accomplish this through adjustment of the Revenue Account 9555 by \$69,000.

BUDGET DISCUSSION FOR FISCAL YEAR 2007-08

In preparation of the Fiscal Year 2007-08 Budget, two policy items have been determined necessary to continue the level of service or historic payment patterns. Those are:

a. Policy #1 – Addition of additional Deputy Clerk to the Commission position:

During Fiscal Year 2006-07, staff has utilized a contract clerical position to fulfill our needs for additional clerical support for processing of applications and routine office operations. As noted in last year’s budget, the use of this temporary contract was to allow for payment of costs associated with the office move and other items during that year. For Fiscal Year 2007-08, staff is proposing that this position be permanently created and funded. Since recruitment will be necessary, the proposed budget includes payment of salary and benefit costs at the highest level, while staff anticipates that filling this position may be at a lower salary rate. Staff is requesting that the Commission authorize the addition of this new permanent position at an estimated cost of \$84,065, salaries and benefits, for the year.

As a part of this decision, staff is recommending that the Benefit Plan be modified to identify the Deputy Clerk to the Commission positions receiving the equivalent of County Exempt Compensation Plan Benefit Level D. Currently LAFCO staff members, except for the Executive Officer, receive equivalent benefits to the County Exempt Compensation Plan Benefit Level C. Staff believes that the inclusion of a new Benefit Group C represents a better definition of benefits for this position. However, the existing Deputy Clerk to the Commission is anticipated to retain her current Benefit Level status. At the point in the future that the current position becomes vacant, it will be recruited with the Group C benefits. This represents a \$2,931 per year difference.

b. Policy #2 – Increase in Commission Stipends:

The County Board of Supervisors recently increased the stipend paid the County Planning Commissioners from \$150 to \$200 per meeting. For the last 25 years, the Commission’s stipend has been commensurate with that paid the County Planning Commission. Staff has reviewed the stipend paid other LAFCO Commissioners and

found that \$150 per meeting is the highest level. However, staff has included in the budget the increase in stipend costs to maintain the historic payment levels. However, in order to institute this change, the Commission will need to amend its Policy #31 to read as follows:

Policy #31 – Commission Stipend/Per Diem Payment

- 1) Commission members shall receive a stipend payment of \$200 per posted Commission Hearing.

This represents a \$6,600 per year increase in costs.

Other changes included in the Proposed Budget are:

- a. Removal of Account 5010 due to deletion of the proposed contract with the County's EDA to share a GIS Tech position. As noted above, EDA has conducted a recruitment effort over the last year for the GIS Tech but was unsuccessful in filling this position. Therefore, LAFCO staff is looking to contract with an outside firm or another public agency to receive the demographic data we need for proposal and municipal service review processing.
- b. An increase in funding has been included in the Geographic Information Management System (GIMS) Account 2460, to continue their preparation of mapping materials needed for staff reports, advertising, and presentations, as well as the provision of data on parcels for development of our required mailing lists.

The following is a synopsis of budget categories for Fiscal Year 2007-08:

Salaries and Benefits:

In addition to the COLA proposed for employees, it is proposed that the Salary appropriations include a Salary Reserve account for the provision of merit increases based upon the Commission's adopted Personnel Policies. Merit increases provided to four employees during Fiscal Year 2006-07 totaled \$9,334. \$10,000 has been established as a reserve for merit increases for the upcoming fiscal year.

As the Commission is aware, Fiscal Year 2007-08 will also need to accommodate the retirement of Debby Chamberlin. This requires payments of leave balances – some with retirement implications and some without. The total cost for Debby's leave cash-outs and one pay period overlap with the new Clerk to the Commission is \$30,168. These costs are accommodated in the Proposed Budget within Account 1010 Regular Salary and Account 1045 Termination Payments.

In addition, the expense categories provide for payment of costs for the Commission's participation in the San Bernardino County Employee Retirement Association (hereinafter SBCERA). The two line items that reflect the Retirement costs are Account Numbers 1110 and 1135. Respectively the Commission is required to pay 20.25% of earnable

compensation for Account 1110 and 13.1% of earnable compensation for Account 1135. While the 0.14 increase for Account 1110 and the 1.18% increase for Account 1135 are the smallest in the last seven years, the costs for retirement remain the largest benefit cost to the Commission at 33.3% of total salaries and benefits.

Services and Supplies

In reference to the expense categories within the overall Services and Supplies section, the staff is proposing the maintenance of current levels of support to activities begun in prior years, such as website activities, maintenance of city and district digitized maps, etc., and is not proposing any new programs or major purchases. However, the increase in Commissioner stipends (Policy Item #2) has been included in the cost allocations. The costs anticipated within the 2000 Series of Accounts is intended to provide for the Commission's focus on meeting its mandate to complete the Municipal Service Reviews and Sphere of Influence Updates required by Government Code Sections 56425 and 56430. These reviews are to be completed by January 1, 2008; however, staff believes that it will take the entire Fiscal Year to complete the reviews for the North Desert region, the Mountain Region and the South Desert region.

The proposed budget accommodates the increased costs associated with the use of technology for preparation of color and aerial maps for presentation to the Commission; use on the Website and for distribution of staff reports. The staff has also included the maintenance of the production support agreement with the County's Information Services Department and is recommending that the Commission authorize the signing of that agreement. The total proposed budget for Services and Supplies, excluding Contingencies and Reserves – Accounts 6000 and 6025 respectively, is \$404,770. This represents a decrease from the current year of approximately \$100,000.

The staff is proposing a contingency amount of \$25,000 (Account 6000) and is also proposing an allocation to the Commission's reserve account in the amount of \$55,000. The Commission's reserve, by past practice, has been annually established and staff is proposing to work toward achieving a 10% reserve fund by Fiscal Year 2009-10.

Revenue Categories

For the upcoming Fiscal Year, pursuant to the provisions of Government Code Section 56381, the net costs of LAFCO are to be divided equally between the County, Cities, and Independent Special Districts. The staff is projecting that the cost to be apportioned next fiscal year will be \$1,014,645, an increase of \$321,645 over the prior year, to accommodate the requirement of the Commission to complete its mandated responsibilities for Municipal Service Reviews. This net cost will be apportioned in amounts estimated to be \$338,215 for each category. The Auditor is required by Government Code Section 56381 to prepare this calculation by July 1 of each year based upon the most current State Controller Reports. Upon adoption of the proposed budget, staff will request that the Auditor provide an estimate of the apportionment to be included in the package of materials forwarded for review by the county, cities and independent special districts.

Staff's projection of LAFCO Fee revenues is dependent upon acceptance of changes to the fee schedule proposed as a part of these Budget Considerations (Item 8A on this agenda). The following information anticipates that these changes have been approved:

PROPOSAL TYPE	ESTIMATED NUMBER	LAFCO PROPOSED FEE REVENUE ANTICIPATED	DEPOSIT REVENUE ANTICIPATED	REVENUE
City/District Annexation, Detachment, Reorganization	5 proposals under 20 acres	\$5,000	\$3,040	\$40,200
City/District Annexation, Detachment, Reorganization	5 proposals – 20 to 150 acres	\$6,000	\$3,040	\$45,200
City Island Annexations	4 proposals – under 20 acres	\$2,500	\$2,756	\$21,024
Sphere Update Associated with Municipal Service Review	48	\$500	0	\$24,000
Service Contract Development (Tract)	3	\$3,000	\$2,106	\$15,318
Service Contract Development (per connection charge)	7	\$500 (per connection)	\$2,106	\$18,242
Service Contracts – Non-development, EO approval	13	\$250		\$3,250
ESTIMATED REVENUE				\$167,234

If the proposed fee changes are not adopted, the revenues presented in the Proposed Budget will need to be adjusted downward accordingly.

CONCLUSION:

Staff believes that the Policy Items outlined in the Recommendation portion of this report are appropriate; therefore, staff is requesting Commission support of these items to provide for the addition of the Deputy Clerk and the increase in Commissioner stipend payments. In addition, the Proposed Budget Spreadsheet, along with the narrative discussion of line items, has been presented for review and consideration. Staff is recommending that, pursuant to the provisions of Government Code Section 56381, the Commission adopt the Proposed Budget and direct staff to forward it to the County, the Cities and Towns, and the Independent Special Districts for their review and comment as required by law.

A part of staff's recommendation is to schedule the hearing for the adoption of the Commission's final budget for May 16, 2007 at which time the comments of the public and agencies the Commission serves will be considered.

/krm

Attachments:

1. **Proposed Budget -- Spreadsheet**
2. Proposed Budget -- Narrative
3. Chart of Proposals Received During Fiscal Year
4. Draft Resolution #2962 for Salary Adjustments
5. Draft Production Support Agreement with ISD for FY 2007-08