


LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: MARCH 9, 2022 
FROM: SAMUEL MARTINEZ, Executive Officer
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TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #11(b) – Proposed Budget and Work Plan for Fiscal Year 2022/23

RECOMMENDATION:

Staff recommends that the Commission take the following actions:

1. Adopt the Proposed Budget and Work Plan for FY 2022/23 as presented by staff.
2. Direct staff to forward the adopted Proposed Budget, as may be modified at this hearing, to all the independent special districts, cities/towns, and the County for their comment pursuant to Government Code Section 56381.
3. Schedule a public hearing for May 18, 2022 for formal:
 - a. Approval of the amendment to the Policy and Procedure Manual for Salaries and Benefits; and,
 - b. Adoption of the Final Budget for FY 2022/23.
4. Authorize the Executive Officer to commence recruitment to fill a staff position due to the retirement of the LAFCO Clerk, not to exceed \$7,000 in total costs.

SUMMARY:

Staff's goals for this budget are to: (1) fund statutory regulations, (2) maintain Commission operations, and (3) maintain the apportionment across-the-board. As with prior years, the Executive Officer and the Administrative Committee discussed the budget process, staff's goals and position, and the Committee's goals and position. The Proposed Budget includes a COLA to Salaries and Benefits, a dual appointment of the Clerk position for five months for training purposes due to Angie Schell's planned retirement, scheduling of eight meetings with one workshop, and maintains the apportionment.

The past two years have been challenging for agencies, recovery is strong in some sectors, solid in others, and fair in the rest - albeit with inflation. Nonetheless, the statutory mandates for service delivery continued.

There are three circumstances continuing for the coming year.

- First, with a reduction in sales taxes, some cities are seeking ways to provide more efficient and more effective delivery means.
- Second, the housing crises remains which most likely will result in annexations to cities as well as out-of-agency service contracts.
- Third, the pension systems incurred significant losses since 2018/19 and 2019/20¹, resulting in additional employer contributions to the retirement systems. LAFCO has a role to play in all of these scenarios. All the while, we need to remain cognizant of the local agencies that contribute to LAFCO's net operating costs—specifically the smaller agencies.

Report Organization

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WORK PLAN

This is the second year where the budget includes a proposed work plan, which would prioritize the work of the Commission and staff and guide the budget. The work plan is shown on the next page. The priorities are categorized as Continual, High, Medium, and Low. Each function is categorized as Statutory, Budgetary, or Administrative. The two columns on the right are the summary and details of each program or project. For example, following the Statutory functions (Continual and High), the first Medium Priority is to maintain the apportionment.

¹ Although significant gains in the markets occurred in 2020/21 which have lowered LAFCO's retirement contribution rates significantly for 2022/23.

Priority	Function	Program/Project	Description and Key Issues
1 LAFCO Mission	Statutory	Proposals	LAFCO's core function is to process changes of organization & sphere amendments
2	Statutory	Service Contracts	LAFCO is the authority to process and approve extra-territorial services
3 High	Statutory	Service Review: Healthcare Districts	Review of all healthcare districts
4	Statutory	Service Review: Countywide Streetlights	Review of streetlight service
5	Statutory	Service Review: Countywide Park and Recreation	Review of all local park and recreation agencies
6	Administrative	Training	Train new Clerk with 5 month overlap with current Clerk
7	Statutory	Annual Audit	Coordinate independent auditor's review of financial statements
8 Medium	Budgetary	Maintain Apportionment	Maintain apportionment
9	Liability	Net Pension Liability Reserve	Fund per Commission direction
10	Liability	Compensated Absences	Fully fund per Commission policy
11	Liability	Salary Reserve	Fund one-tenth of a pay period per Commission policy
12	Budgetary	General Reserve	Increase General Reserves by \$25,000 to \$200,000
13	Administrative	SALC Grant: Map Prime Ag Lands & Formulate Policies	At its December 2020 meeting, the Department of Conservation awarded the Sustainable Agricultural Lands Conservation (SALC) grant to LAFCO. Tasks include mapping, stakeholder meetings, policy writing, and grant administration
14	Administrative	Review and Comment on Agency Plans	Review and comment on draft changes/updates to city and county general plans
15	Administrative	Review and Comment on Environ. Documents	Review and comment on draft environmental documents prepared pursuant to CEQA
16	Administrative	Commission Workshop	Conduct a workshop for Commissioners to discuss LAFCO's role, vision, policies, and priorities
17	Administrative	Governance Training Program	Governance Training Program is back from pandemic hiatus. Two sessions scheduled for FY 2022/23.
18	Administrative	CALAFCO	Participate in CALAFCO through Board, Leg Committee, and Annual Workshop & Conference
19	Administrative	Association of So Cal LAFCOs	Participate in So Cal LAFCO Group through Board and staff committees & positions
20 Low	Administrative	Policy Manual Update	Periodic review and update of the Policy and Procedure Manual
21	Budgetary	Contingency Reserve	Contribute an additional \$5,000 for a balance of \$30,000
22	Administrative	Local Agency Directory	Revise the publication identifying and summarizing local government agencies subject to LAFCO oversight
23	Administrative	Internal Databases	Revise two databases: mailing list and proposal log
24	Administrative	Fiscal Indicators Program	The program is currently in hiatus. Portions of the program are incompatible with the current website, and portions of the program will be incompatible with the new website. Staff and the Admin Committee propose to revamp the program. In addition to a current and viable platform, improvements would include new design, mobile access, and replacement of certain indicators with more representative indicators.
25	Budgetary	Provide a COLA to Salaries	Propose COLA of 3.0% for FY 22/23. Although inflation is greater than 3.0%, this is the ceiling per historical budget practice.

SALARIES AND BENEFITS

The current fiscal year includes the following staffing structure: Executive Officer, Senior Analyst, LAFCO Analyst-GIS/Database, and Clerk to the Commission/Office Manager. The current Clerk, Angie Schell, is planning to retire in January and this budget includes an overlap of the position for five months for training purposes.

Additionally, the Commission contracts with Robert Aldrich for supplemental staffing services and uses temporary services when needed (both paid from Services and Supplies). This budget includes retention of the current staffing model, with supplemental staffing used for the service reviews and clerical support when needed.

Compensation and Benefit Changes

LAFCO generally mirrors the salary schedule and benefits provided in the County's Exempt Compensation Plan as identified in the LAFCO Policy and Procedure Manual and contracts with the County to administer the benefits for its employees, with exceptions as identified in the Policy and Procedure Manual.

This budget proposes the following policy amendment:

Provide a 3.0% COLA for all employees. Inflation for Calendar Year 2021 was 7.9% for our region. The Commission's practice is for COLA not to exceed 3.0%.

Should the Commission support this proposed change, then staff would present the related amendment to the Policy and Procedure Manual to the Commission at the May 18 hearing, when it reviews and adopts the final budget.

At this time the County has not yet provided any proposed changes to its Exempt Compensation Plan to LAFCO. Staff will review such changes when presented and discuss them with the Administrative Committee if warranted.

FY 2022/23 Highlights

Attachment #2 to this report includes a detail of each account to include: account description, charge measurement, identification of increase or decrease, and total cost. The content below contains highlights for FY 2022/23 and forecasts for two years.

Earnable Compensation (Account 1010) totals \$480,213 and includes:

- 3.0% COLA for all employees;
- One-step increase for three eligible employees;
- 2.0% longevity pay for those employees with 15 years of service - three employees;
- Leave cashouts as permitted by policy (Note: leave cashouts reduce the compensated absences liability);

The retirement rates, with increases, approved by the retirement board for FY 22/23 are:

- Tier 1. Decreases 11.07% from 39.92% to 35.50%
- Tier 2. Decreases 13.40% from 34.99% to 30.30%.

The rates from the past five years are shown below.

Tier 1	2019	2020	2021	2022	2023
Employer Rate	37.03	38.02	35.76	39.92	35.50
Increase over prior year (% points)	2.50	0.99	-2.26	4.16	-4.42
Increase over prior year (%)	7.24%	2.67%	-5.94%	11.63%	-11.07%
Tier 2	2019	2020	2021	2022	2023
Employer Rate	34.30	35.61	33.24	34.99	30.30
Increase over prior year (% points)	4.21	1.31	-2.37	1.75	-4.69
Increase over prior year (%)	13.99%	3.82%	-6.66%	5.26%	-13.40%

FY 2023/24 and 2024/25 Forecasts

The forecast for FY 2023/24 (Year 2 of this budget) includes retention of the staffing model recommended in this budget, with a COLA to salaries.

The forecast for FY 2024/25 (Year 3) calculates a COLA for salaries for four employees.

SERVICES AND SUPPLIES

Generally, services and supplies include payments for: proposal processing, Commission-approved programs and projects, and costs associated with running a government agency. Attachment #3 to this report includes a detail of each account to include: account description, charge measurement, identification of increase or decrease, and total cost. The remainder of this section contains highlights for FY 2022/23.

Proposal Processing

The current year has seen a return in application submissions. Further, staff has been coordinating with agencies regarding many likely and potential applications for the next fiscal year. The Commission continues to outsource its environmental processing through its contract with Tom Dodson and Associates.

Programs and Projects

Governance Training

Governance Training Program is back from pandemic hiatus. Below is the schedule beginning May 2022. The total cost for the budget is \$5,000.

- | | |
|---------------|--|
| • Spring 2022 | Board Member Part 1: New Board Member Governance |
| • Fall 2022 | LAFCO 101 |
| • Spring 2023 | Board Member Part 2: Board and District Liability Issues |

Commission Workshop

The Commission workshop IS for Commissioners to discuss LAFCO's role, vision, policies, and priorities. The workshop facilitator is typically an outsider who has familiarity with LAFCO. The last workshop was held in January 2019. At that workshop, the Commission reviewed its role and responsibilities, including a reflection on some of its previous accomplishments. It then examined its purpose and contributions to the community as well as a discussion on some of its desired outcomes in the future, including strategies for the next few years.

Due to the turnover in commissioners since January 2019, this budget includes a workshop conducted in a dark month in the winter, following the CALAFCO Conference in October.

Service Reviews

LAFCOs are required by Govt. Code 56430 to conduct reviews of municipal services. This LAFCO chose to conduct its first round by community and its second round by service, countywide, except where a community review or special study is warranted. The second round service reviews have been:

- Water Conservation in the Valley Region (2015)
- Daggett, Newberry, and Yermo CSDs (2016)
- Morongo Valley CSD (2016)
- Countywide Water (2017)
- Countywide Wastewater (2018)
- Countywide Fire/Emergency Medical Services/Dispatch (2020)
- Countywide Public Cemetery Districts (2021)
- Morongo Valley CSD Special Study (2022)
- Twentynine Palms Community, request by the City of Twentynine Palms (scheduled for May 2022)

Per the Commission service review schedule approved July 2020, the subsequent order of reviews are: (1) park and recreation, (2) solid waste, (3) street lighting, (4) healthcare districts, and (5) roads.

However, changing circumstances warrants moving healthcare districts and streetlighting up the schedule. For healthcare districts, the Little Hoover Commission identified systemic concerns regarding healthcare districts, but the Commission delayed this service review due to the pandemic because health agencies were facing extraordinary burdens. With the pandemic ending, this service review should return towards the top. For streetlighting, staff has met with the County Public Works Department (to include Special Districts) regarding streetlights. This service is ripe for a review which would include options for alternate service delivery.

The revised order would be: (1) healthcare districts, (2) streetlighting, (3) park and recreation, (4) solid waste, and (5) roads.

Fiscal Indicators

In 2014 LAFCO advanced the use of audits and implemented an online Financial Indicators program. The purpose of the program is to provide more robust information on the financial condition of local agencies within San Bernardino County which will allow for better understanding of where an agency has been. Additionally, LAFCO uses the information in conducting state-mandated service reviews as a means to make the required determination of the financial ability of an agency to provide services.

The program is currently in hiatus. Portions of the program are incompatible with the current website, and portions of the program will be incompatible with the new website. Staff and the Admin Committee propose to revamp the program. In addition to a current and viable platform, improvements would include new design, mobile access, and replacement of certain indicators with more relevant indicators. Although there are nominal costs related to services and supplies, costs for this program mainly relate to LAFCO staff time.

Staff anticipates that the new website will be live by July. Subsequently, staff will move forward with the revamp of the Fiscal Indicators program.

Sustainable Agricultural Lands Conservation (SALC) Program and Grant

At its December 2020 meeting, the Department of Conservation awarded the Sustainable Agricultural Lands Conservation (SALC) grant to LAFCO. The program funds strategies related to establishing and implementing goals, policies, and objectives to support the economic viability of the local agricultural sector. It also supports planning processes to identify and designate priority lands for conservation and development. Tasks include mapping, stakeholder meetings, policy writing, and grant administration.

Accomplishments to Date:

- Reviewed existing agriculture policies in Chino, Ontario, Rancho Cucamonga, Loma Linda, and Highland
- Prepared an RFP for an Ag Facilitator Consultant
- Discussed Urban Agriculture Stakeholder Group project needs with Ag Facilitator Consultant, Onside Partners
- Developed a survey and flyer for the Urban Agriculture Stakeholder Group
- Developed a survey to assess producers' familiarity with ag policies and their outlook on agriculture in the Inland Empire for the next 10 years
- Created a template for the Regional Priority Plan
- Development of an engaging and interactive story map
- Developed a survey for determining the demand for mitigation in the Inland Empire and utilize the questions to facilitate the conversation during our meetings with cities
- Developed preliminary list of partners and organizations for the Urban Agriculture Stakeholder Group

The Proposed Budget does not include expenditures or revenues associated with this project or the grant. Staff will return at a subsequent hearing for the appropriate budget adjustments.

Agency Costs

In addition to processing proposals and conducting programs and projects, there are costs associated with running a government agency. The Commission continues to outsource its conduct of the annual audit with an independent auditor, Davis Farr LLP, processing of its accounting operations through the County Auditor's office, and the maintenance of computer systems through the County's IT.

Highlights for the year include:

- Account 2125 Inventoriable Equipment. No inventoriable equipment is budgeted for purchase this or next fiscal year.
- Account 2245 Other Insurance. Liability insurance is purchased through the Special District Risk Management Authority (SDRMA). The quote for the year is \$14,340.

- Account 2405 Auditing. A joint RFP was issued in 2020 with the other Southern California LAFCOs, and Davis Farr LLP was chosen. The contract cost for the 2021-22 audit is \$8,715.
- Account 2445 Other Professional Services. In this account is an allocation of \$45,000 for Robert Aldrich's supplemental staffing for the service reviews.
- Account 2905 Rent. The lease for use of the Norton Regional Event Center expires June 2023.
- Ongoing costs associated with being at the Train Depot are as follows:

<u>Account 2905 Rent.</u> Office Lease	\$ 57,024
<u>Account 2090 Building Expense.</u> HVAC & janitorial	\$ 7,380
<u>Account 2180 Electricity.</u>	\$ 6,000
Total	\$ 70,404

Amortization of costs related to the office refurbishment five years ago has matured. Thus, the Commission will no longer have to make amortization payments to SBCTA of roughly \$34,000 related to the office retrofit.

TRUST TRANSFERS

The Process

This category of accounts isolates the additional payments made to SBCERA, the retirement association. The reason for the payment processing under Trust Transfer is that LAFCO and SCBERA both are trust agencies of the County Treasury.

Review of Net Pension Liability

The Commission has been making additional contributions to SBCERA as a credit towards LAFCO's net pension liability (NPL) and credit with earnings based on the Plan's market value investment return every year. Previously the Commission used amortization as its additional payment method. At its February 2022 meeting, the Commission revised its additional payment method to be:

Budget for additional contributions to SBCERA in order to pay down the Commission's share of the pension plan's net pension liability by a static amount of \$50,000 beginning with the FY 2022-23 budget with annual increases tied to the CPI for the Riverside-San Bernardino-Ontario Region, not to exceed 5%.

The figure below shows the annual activity since the Governmental Accounting Standards Board pronounced GASB 68, effective FY 2012/13.

Pay Here Measurement (Budget) Year	Reflect NPL Here Audit Year	Net Pension Liability			
		LAFCO			
		Begin NPL	Actuary Increase	Additional Contribution	End NPL
2012/13	2013/14				581,103
2013/14	2014/15	581,103	3,628		584,731
2014/15	2015/16	584,731	96,716		681,447
2015/16	2016/17	681,447	87,726		769,173
2016/17	2017/18	769,173	95,787		864,960
2017/18	2018/19	864,960	20,287		885,247
2018/19	2019/20	885,247	273,317	(184,963)	973,601
2019/20	2020/21	973,601	273,739	(42,500)	1,204,840
2020/21	2021/22	1,204,840	TBD	(43,852)	TBD
2021/22	2022/23		TBD	(50,163)	TBD
2022/23	2023/24			(50,000)	

The Rates

Previous additional payments resulted in LAFCO being the only SBCERA member to experience a reduction in the contribution rate for FY 2020/21. This budget year the rates decreased 12% on average and are the lowest in five years.

RESERVES

At this time, the Commission has two Committed Reserves and two Assigned Reserves.

Committed Reserves (constrained to specific purposes)

Compensated Absences – The budget adds an additional \$5,000 to this account to fund the increase in compensated absences. The increase is due to natural increases.

Salaries for Extra Pay Period - Since the County pay schedule is every two weeks, rather than twice a month, the result is an additional pay period every ten years. This reserve funds the next occurrence, which would take place in 2031/32. The annual budgets include a 1/10th contribution, beginning with last year's budget (\$3,000).

Assigned Reserves (intended for specific purposes or general use)

Contingency – The Contingency Reserve is not defined in the Policy and Procedure Manual. Instead, it has been the Commission's practice to fund a Contingency Reserve for unanticipated expenses. The budget includes an additional \$5,000.

General – The General Reserve is for any purpose, but is generally the reserve for special legal matters or special needs. The budget includes an additional \$25,000 towards this reserve.

Summary

Below are the estimated balances on June 30, 2022 and funding summary of the reserve accounts.

Reserve Account	June 30, 2022 (est.)	FY 2022-23	
		Increase	Ending
Compensated Absences	152,095	5,000	157,095
Salary for Extra Pay Period	3,000	3,000	6,000
Contingency	25,000	5,000	30,000
General	175,000	25,000	200,000

REVENUES

Attachment #4 to this report includes a detail of each account to include: account description, charge measurement, identification of increase or decrease, and total cost. The remainder of this section contains highlights for FY 2022/23.

Proposal Activity (Accounts 8545-9800)

Fees, charges, and deposits ordinarily involve the appropriate LAFCO filing fee and deposits for the recovery of the outside costs, for such items as LAFCO Legal Counsel, environmental review, Registrar of Voters, individual notification, etc.

The current year has seen a return in application submissions. Further, staff has been coordinating with agencies regarding many likely and potential applications for the next fiscal year.

Apportionment (Account 8842)

Government Code Section 56381 requires that the net costs for LAFCO be apportioned equally to those seated on the Commission: the County, the 24 Cities, and the 51 Independent Special Districts within the county. The proposed apportionment to each group is \$363,499 – no change in apportionment.

Further, due to the alternative funding formula for independent special districts, the small districts would benefit most from no increase.

The County Auditor will be required to apportion this amount on July 1, 2022 pursuant to the requirements of law and Commission policies. Staff will circulate the apportionment schedule to the agencies when received by the County Auditor.

Interest and Other Revenues

LAFCO participates in the County's interest pool and is apportioned interest receipts quarterly.

Cost recovery for proposals and service contracts is not addressed in the budget due to its speculative nature.

Attachments:

1. [General Ledger](#)
2. [Salaries and Benefits Detail](#)
3. [Services and Supplies Detail](#)
4. [Revenues Detail](#)