EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF MARCH 28, 2018

REGULAR MEETING

TO:	**Shiva Frentzen, Chair, and Members of the El Dorado County Local Agency Formation Commission**
FROM:	**José C. Henríquez, Executive Officer**
AGENDA ITEM #9:	**PUBLIC HEARING TO CONSIDER AND ADOPT THE PROPOSED BUDGET FOR FISCAL YEAR 2018-19**

RECOMMENDATION

Staff recommends that the Commission:

1. Receive the information related to the draft Proposed Budget for Fiscal Year 2018-2019;
2. Open the Public Hearing on this matter; and
3. Adopt the Proposed Budget for Fiscal Year 2018-2019.

REASON FOR RECOMMENDED ACTION

The recommended LAFCO Budget provides adequate funding for the agency to meet the responsibilities under the Cortese-Knox-Hertzberg Act. El Dorado LAFCO adopts its own budget in a two-stage process with notice to all funding agencies.

BACKGROUND

Summary

Under normal circumstances this is a no surprise budget. All operating costs are consistent with LAFCO's expectations. Any increases were due either to contractual obligations or by the consumer price index. The staffing levels are also consistent with the discussions the Commission has had over the past two years with the pending retirement of the Administrative Assistant. In addition, last Fall the Commission was warned that the carryover amount to be used for the Fiscal Year 2018-19 was going to be half of the carryover amount for FY2017-18. What makes this budget a surprise was already discussed in Agenda Item 7: the staff salary increases. It should be noted, however, that the main driver behind the agency contributions was the lower carryover amount.

How to Read the Attached Budget:

Budgetary items will be referred to by its description and General Ledger (GL) Account. The GL number reflects the Fund Number in the Commission's accounting system. The Fund Number corresponds to the monthly Profit & Loss report the Commission receives as part of its meeting packet.

The attachments to this report mirror the narrative from this point forward:

- Attachment A contains the calculated carryover from FY2015-16. This number is inputted into next year's budget as a source of revenue under GL 4100, consistent with both your direction from last year as well as with your policies.
- Attachment B contains the estimated earned fee revenues from petitions and applications in the upcoming fiscal year. This number is inputted into the budget as a source of revenue under GL 4000.
- Attachment C contains the calculations for Operating Expenses.
- Attachment D contains the salary calculations and expenses. This attachment has been reformatted for simplicity and clarity.
- Attachment E contains the complete draft Proposed Budget for FY2018-19.

About the Carryover

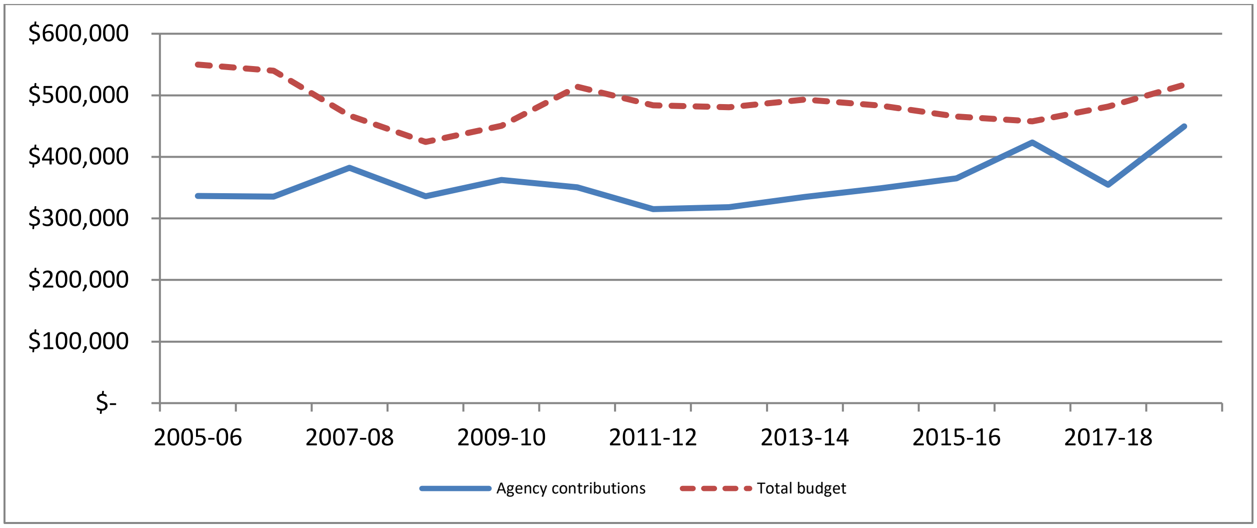
This is the second budget in which the known carryover amount is used in a budget. The amount to be used in FY2018-19 is $60,072, the carryover from Fiscal Year 2016-17. Last Fall, the Commission was informed of both the calculation of $59,299 and that the amount was half of the amount available for this fiscal year ($119,975). Given that that this revenue stream is lower for the coming year, it means that the shortfall will have to be compensated for with other revenues, namely agency contributions.

Having money left over at the end of a fiscal year means there are imperfections in the manner in which LAFCO budgets. While it is unfortunate that the carryover amount is lower than the previous amount, it should be noted that in an ideal world the situation would be *worse* for the contributing agencies. Supposing that all expenses occurred as predicted and all revenues came in as budgeted, the carryover amount would be $0. While having small carryover amounts is preferable, there is a recognition that having money left over at the end of the fiscal year is good in the sense that money was saved and those savings result in lower agency contributions. This is the love/hate relationship of the carryover amount.

Planning for Personnel Changes

As discussed last year, the Administrative Assistant is planning to retire in 2019. To prepare, the agency started recruiting candidates who can 1) train with and learn from your Admin Assistant about the office management and her duties and 2) assist your EO and AEO with the MSR project plan. The recruitment period ended on March 16. Depending on the number of applicants, interviews are scheduled to be on the week of March 19th and 26th. The goal is for the new person to be in place by mid-April at the earliest.

LAFCO Budget History



The draft budget crosses the $500,000 mark for the first time since 2010-11 and is about $3,000 higher than it was back then. For context, the highest budgets in recent memory are from FY2005-06 and 2006-007, when they were $549,853 and $540,065, respectively.

Budget at a Glance

Budget	**FY2017-18**	**FY2018-19**
Employee Expense	$351,421	$382,783
Operating Expense	$121,067	$123,023
Operating Contingency	$9,467	$12,302
Expense Total	**$481,955**	**$518,109**
Non-Agency Revenues	$6,977	$7,277
Agency Contributions	$355,003	$451,533
Prior Year Fund Balance	$119,975	$59,299
Revenue Total	**$481,955**	**$518,109**

There are three main drivers of the budget and why it is higher:

1. The carryover for FY2018-19 will be half the amount of the carryover used in this fiscal year;
2. As discussed last year, FY2018-19 was going to be the year in which it was necessary to budget for 3.5 people for a full fiscal year;
3. Salary increases as discussed in Agenda Item 7.

It should be noted that had item #3 above not occurred, your FY2018-19 budget's personnel costs would have been $369,095. The salary increases only amount to a budget increase of $13,688.

Expenditures

Operating Costs

Operational costs are almost flat from previous year, with the net increase just under $2,000. The only increases are nominal at best. Operational costs are locked in contractually or are slated to rise based on inflation (or in the case of the rent for the agency's office, both).

- The largest percentage drops in expenses are for Cell & Telephone Services (Fund 6040 at -34%), Office Expense (Fund 6210 at -51%) and Transportation (Fund 6770 at -10%).
- The largest percentage increases are for General Liability Insurance (Fund 5460 at 11%), County Clerk Fee (Fund 6010 at +150%) and Staff Development (Fund 6750 at +36%).

The net change for these five items is +$965. Almost all of the growth in expenditures is driven by two other contractual costs:

- The Annual Audit (Item 6030) is contractually bound to rise $526; and
- Lease (Item 6070) is slated to rise contractually by $600;

It should be noted that the discussion above relates to the Operating Costs alone, not taking into account the Operating Contingency. By Commission policy, the Operating Contingency is set at 10% of Operating Costs to take into account any unexpected increases in costs. If the Commission recalls, last September the Commission amended this year's budget by reallocating $2,400 out of contingency to Information Services (Fund 6000) and Office Expense (Fund 6210) in order to absorb the costs of switching website services and the new LAFCO logo, respectively. The Operating Contingency for FY2018-19 is set once again at 10% of Operating Costs.

Employee Expense

Most of the discussion on the costs themselves was covered on Agenda Item 7, but there will still be some other items included here. Last year the Commission weighed how to compensate for the Administrative Assistant's plan to retire in 2019. The most optimum plan was to hire someone who can not only backfill the Admin Assistant but also can expand workload capacity.

The problem is that unless there is prior experience with LAFCO Law, it takes about six months of training for someone to start to feel as if they are no longer underwater. It takes a few more months for the person to start independently contributing to the workload (as opposed to being in "training mode" where existing staff is training the new person as well as managing their own workload). And there should be a sufficient amount of overlap so that this person can learn as much as possible from the Admin Assistant before she retires.

This is why the plan was to hire someone in the second half of 2017-18, give them an overlap across all of 2018-19 and then the Admin Assistant will only be on board for half of 2019-20. From a budgetary standpoint, it meant that the largest burden would be on FY2018-19 since it would be a full year of budgeting for a 3.5-person staff.

As a reminder, the CalPERS rate is expected to increase steadily in the next few years because of the CalPERS Board of Directors' decision to cut the "discount rate" in January 2017. This is what the employer rate is forecast to be in the next few years, according to LAFCO's latest valuation report:

	Future employer contributions*			**Projected future employer contributions****	
Fiscal Year	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Employer Rate	9.4%	9.9%	10.8%	10.8%	10.8%

*From the August 2017 Valuation Report

** From the January 2017 CalPERS Letter

There are a couple of "lights" at the end of the tunnel. First is that LAFCO could see a flat employer rate for a couple of years if the projections are correct for the rate beyond 2021. This is a realistic scenario in that a projected range for LAFCO's employer rate was included in the 2017 letter announcing the cut in the discount rate. Based on those estimates, the employer rate was not expected to increase beyond 11.9% through 2023. The other is that the valuation reports keep seeing LAFCO's plan's funded ratio has been consistently above 90% since LAFCO adopted its own contract with CalPERS in 2013. Hopefully, at some point LAFCO could see a drop in the employer rate if the funded ratio continues at such a high rate.

<u>Attachments</u>

Attachment A: Carryover/Fund Balance Calculations Fiscal Year 2016-2017

Attachment B: Fiscal Year 2018-2019 Estimated Project Revenue

Attachment C: Operating Budget Calculations

Attachment D: Employee Salary & Benefit Schedule

Attachment E: Draft Proposed Budget FY 2018-2019