

EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF FEBRUARY 25, 2015

REGULAR MEETING

TO: Ken Humphreys, Chair, and
Members of the El Dorado County Local Agency Formation
Commission

FROM: José C. Henríquez, Executive Officer

AGENDA ITEM #7: PUBLIC HEARING TO CONSIDER AND ADOPT THE
PROPOSED BUDGET FOR FISCAL YEAR 2015-16

RECOMMENDATION

Staff recommends that the Commission:

1. Receive the information related to the draft Proposed Budget for Fiscal Year 2015-2016;
2. Open the Public Hearing on this matter; and
3. Adopt the Proposed Budget for Fiscal Year 2015-2016.

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

The Ad Hoc Committee has met to discuss and draft a budget that covers the agency's employee and operating expenses for the coming fiscal year. The size of next year's budget is expected to be lower than the current year's budget. Strict cost control measures already in place for many years have kept the majority of expenditures in line with the Commission's allocated amounts. The challenge for the next fiscal year is on the revenue side. The carryover from this year into next year is expected to be much lower. In addition, it is difficult to ascertain the number of applications staff can expect to receive. As a result, fee revenues are forecast to be low. The net effect is that while the overall size of the budget is \$18,000 lower, the agency contributions will be about \$15,000 higher. This was the subject of considerable discussion for the Budget Ad Hoc

Committee.

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 cash forecast through the end of the *current* fiscal year. This number is inputted into *next* year's budget as a source of revenue under GL 4100.
- Attachment B contains the estimated earned fee revenues from petitions and applications in the *next* 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.
- Attachment E contains the complete draft Proposed Budget for FY2015-16.

Overall Budget Highlights

As stated in the summary, on the revenue side staff calculates a decrease in fee revenue because it is difficult to ascertain the level of application activity next year. EID staff reports inquiries about annexation are very low. While the County Community Development Department has several large projects that are expected to require LAFCO action, none can be said that they will apply next year with a sufficient level of confidence. Staff estimates that if they come in next fiscal year, the timing will be closer to the second half. There are also fire district reorganizations that are brewing but it is unknown when they will be ready to apply to LAFCO. As a result, the Ad Hoc Committee and staff determined it was more prudent to budget for a modest amount for fee revenues next fiscal year.

The carryover into next fiscal year is projected to be much lower, approximately \$26,000 less than the carryover from FY2013-14 into this year. As you can see from Attachment A, almost all expenses are projected to finish under budget. Only a handful of expenses are projected to be higher than budgeted, and all but one are by modest amounts. So there is no real reason why the carryover is smaller except, perhaps, because the current budget is about \$10,000 smaller than the budget for FY2013-14.

Interest rate revenues will continue to be depressed because of the deflated Federal savings rate. It is doubtful LAFCO will hit \$200 in revenues this year, let alone next year.

The contribution amount for the funding agencies is expected to be higher, almost \$16,000 total. This translates to an increase of over \$5,000 per funding category (County, cities and special districts).

On the expenditure side, staff is requesting your support for a modest 2.5% cost of living increase for the Policy Analyst and Interim Commission Clerk. Their last salary

raise was in 2013. Both are at level 5 of their respective salary track, so there are little options to reward the exemplary work they do on behalf of the agency. As it is, employee costs will only increase 3% over current year even with the COLA for staff and the authorized increased compensation for the Executive Officer.

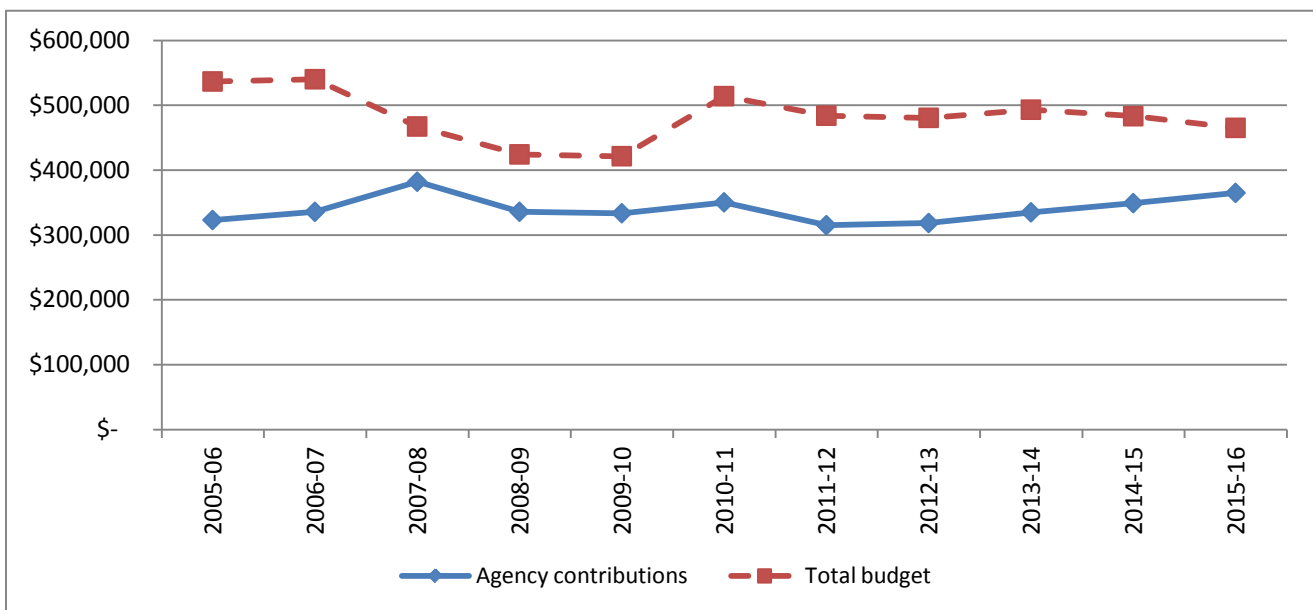
The CalPERS contract continues to save the Commission money. Set at 8.5%, the FY2015-16 employer rate is a percentage point lower than the current year.

The forecast for most operational expenses is primarily lower, most by double percentage digits. About seven items will see increases: rent, legal services, memberships, CALAFCO fees, office expenses, publications and equipment leases. Of these, five are due to contract increases. The Direct Deposit expenses were consolidated with "Accounting Services" since these are incurred during the payroll process.

The Budget Ad Hoc Committee also budgeted a 10% contingency for any reasonable increase in operating expenses that may occur during the course of the fiscal year per your Policies and Guidelines.

Since State Law requires that, at a minimum, the proposed and final budgets be equal to the approved budget from the previous fiscal year, the Commission will have to find that, if approved, this lower budget will nevertheless allow LAFCO to fulfill the purposes and programs specified in Cortese-Knox-Hertzberg.

LAFCO Budget History



Budget at a Glance

Budget	FY2014-15	FY2015-16
Employee Expense	\$333,400	\$344,466
Operating Expense	\$136,096	\$109,865
Operating Contingency	\$13,610	\$10,987
Expense Total	\$483,106	\$465,317
Non-Agency Revenues	\$14,628	\$6,977
Agency Contributions	\$349,092	\$365,075
Prior Year Fund Balance	\$119,386	\$93,265
Revenue Total	\$483,106	\$465,317

*Expenditures*Operating Costs

Overall operating expenses are approximately 19% lower, mostly due to not budgeting for any consultants to assist staff with the municipal service reviews and sphere of influence studies. Of the expenditures that are lower than current, about half are more than 10% lower than current. Some of the highlights include:

- **General Liability Insurance (GL 5460):** LAFCO purchases general liability insurance from the nonprofit Special District Risk Management Association (SDRMA) and supplemental GLI insurance from the private Alliant Insurance Services. General liability insurance costs remain high because of the Commission's preference to purchase insurance at the \$10M limit. Having said that, SDRMA recently announced that the FY2015-16 GLI premiums will remain the same as current. While Alliant has not disclosed any increase, historically their costs rise at an average of 15-20%. The budget includes a 15% increase in Alliant's premium.
- **Accounting Services (GL 6020):** Staff will restructure the way it allocates expenditures between this GL and GL 6560 (Direct Deposit). Most of the costs associated with payroll are billed to GL 6020, including the costs incurred by Terrie Prud'hon's office to do payroll every other week and the license to pay employees via direct deposit through Intuit (costs associated with Intuit's Quickbooks software are paid through GL 6000 – Information Services). The only cost associated with payroll not paid through GL 6020 was the fee Intuit charges LAFCO for the direct deposit itself (\$2 per employee per pay period plus tax). From an administrative standpoint, the demarcation appears trivial. As a result, GL 6560 will no longer be used and those costs will now be part of GL 6020. Future budgets will not include this fund account.
- **Staff Development (GL 6750) and Transportation (GL 6770):** Because of the location of the 2015 Conference in Sacramento, the Commission directed staff to ascertain the costs of sending four, five and six people to the Conference and deferred to the Ad Hoc Committee to recommend the funding level. The budget assumes sending 6 people to the Conference, the four Commissioners who have already indicated they wanted to attend plus two others. In addition, there is money in the budget for the

2016 CALAFCO Workshop in Los Angeles (plus travel) and for additional training sessions or classes for staff at the UC Extension, CSAC Institute for Leadership and Los Rios Community College District.

Employee Expenses

As noted above, employee expense (salaries and benefits) are projected to increase by 3% over the current year, including the authorized increase in EO compensation and the COLAs for the remaining staff. In addition, funding for a potential hiring of a clerk is included in the budget, but only for half a year. If the workload warrants it, the hiring would take place in January 2016. The practice of utilizing 3-day furloughs will continue in the coming year.

Policy Discussions

Reserve

As discussed in January, LAFCO will start building a modest reserve. In Fiscal Year 2013-14, the Commission estimated it would carry over \$119,386 into Fiscal Year 2014-15. Staff at Terrie Prod'hon's firm estimated the budget savings from last year carried over into this year was closer to \$138,746. This means that per Policies and Guidelines Section 2.10, a reserve with an initial deposit of up to \$19,358 can be made. The Ad Hoc Committee discussed the appropriate vehicle to deposit these funds and selected CalTRUST, a fund started by the League of California Cities and the California State Association of Counties' Finance Corporation. Staff will contact CalTRUST and file the appropriate paperwork to start the reserve. The initial deposit has been taken into account in the Cash Forecast in Attachment A.

Currently the new LAFCO reserve is built up incrementally over multiple years using any carryover funds in excess of the amount estimated in a Final Budget. The reserve maximum is set by policy to be 5% of the LAFCO budget, which makes the reserve be between \$23,265 (FY2015-16) and \$24,155 (FY2014-15). As noted above, LAFCO's initial deposit to start the reserve will be substantial. It is conceivable that the reserve will be fully funded in the coming years.

CalPERS

As noted above, the CalPERS contract continues to lower employee expense costs. According to the latest valuation report, LAFCO is 91.6% funded. Along with being part of the small agency pool, LAFCO's high funded state is probably why the agency continues to enjoy lower employer rates.

In Attachment D there is a line item that contains the "Annual Employer Unfunded Accrued Liability (UAL) Lump Sum" amount under the CalPERS heading. This is a change in practice for CalPERS. In prior years, the UAL used to be factored into the employer rate. Starting in FY2015-16, CalPERS will separate the UAL out of the employer rate so that the latter is almost exclusively composed of "normal costs." The UAL would then be a lump sum that can be paid in full at the beginning of the fiscal year or in monthly increments throughout the fiscal year.

The UAL will be over \$39,000 by the end of FY2014-15. The Commission should consider paying down the entirety of the UAL as early as possible. This would be akin to paying down a car or a home loan early. By being fully funded, LAFCO can lower its

employee costs by having a lower employer rate and by no longer having to pay the UAL lump sum and any associated interest on the UAL. Lower budgets, in turn, help the funding agencies.

Staff and the Ad Hoc Committee recommend that, once the reserve is fully funded, LAFCO starts using any carryover funds in excess of the estimate to start paying down the UAL. In speaking with CalPERS staff, LAFCO can pay that down earlier if it has the funds and the process for doing so does not appear to be onerous. If this is the will of the Commission, direction can be given to staff to draft a policy and return it for adoption.

Applicant Billing

This section is for introductory purposes only. LAFCO bills on a time and materials basis. An hour is deemed to be "earned" when staff spends an hour processing an application. Currently, the fee schedule indicates that LAFCO will collect up to two deposits from applicants prior to Commission action. Near the beginning of the process, that earned hour is billed against the deposit. Over time it is possible for earned hours to exceed the amount of the initial deposit(s). This is why, after Commission approval, staff conducts a final tally of the hours spent processing the application. Any deposit funds not spent are refunded to the applicant. If earned costs exceed the deposits, then the applicant is billed for the excess.

Projects can straddle fiscal years, meaning that fees could be earned in one fiscal year but the payment for those earned hours does not happen until the following fiscal year. A true-up occurs at the time LAFCO is audited. The amounts tend to be nominal; however, as it can be seen in the audit enclosed with this Agenda, the applicant fee true-up between FY2013-14 and FY2014-15 will be \$36,000.

In discussions with Christy Norton, CPA from KCOE ISOM, the current process seems outdated and impractical. Her recommendation would be to have the earned time accounting for applications be conducted monthly (and applicants billed accordingly if the deposit has been exceeded), which is standard in the private sector. This may increase workload for the Interim Clerk significantly. Your Executive Officer recommends changing the process so that the accounting for the earned hours be conducted twice each year (on June 30 and December 31) on all active projects until they close. The benefit of the June 30 date is that any reimbursement for earned hours in the prior fiscal year can be credited to that year before staff closes the agency's books. The benefit to applicants is that they will receive a more timely notification of the earned hours during the process.

By policy, the fee schedule should be reviewed this year. Staff will return to this discussion and offer a more in-depth proposal for billing applicants at that time. The Commission will then have an opportunity to further review this recommendation.

Attachments

- Attachment A: Cash Forecast Fiscal Year 2014-2015
- Attachment B: Fiscal Year 2015-2016 Expected Project Revenue
- Attachment C: Operating Budget Calculations
- Attachment D: Employee Salary & Benefit Schedule for Option 1
- Attachment E: Draft Proposed Budget FY 2015-2016