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March 11, 2009 (Agenda)

Contra Costa Local Agency Formation Commission
 651 Pine Street, Sixth Floor
 Martinez, CA 94553

Proposed FY 2009-10 LAFCO Budget

Dear Members of the Commission:

BUDGET SUMMARY

The FY 2009-10 Proposed Budget (Attachment 1) reflects an overall decrease of approximately \$40,000 or 5% as compared to the FY 2008-09 budget. The decrease is primarily attributable to reductions in salary and benefits (i.e., workers comp rates and retirement contributions), and services and supplies with the anticipated completion of special projects (i.e., Alamo incorporation, sphere of influence study) and a number of major municipal service reviews. Included in the total appropriations for FY 2009-10 is an \$80,000 contingency reserve fund, which is comparable to the current year's reserve. It is anticipated that FY 2009-10 revenues will decrease as a result of a projected decline in application activity and interest earnings. Details regarding expenditures and revenues are presented below.

EXPENDITURES

The expense portion of the budget is divided into three main objects: Salary and Benefits, Services and Supplies, and Contingency.

Salary and Benefits

In FY 2008-09, the Commission maintained a staffing level of two full-time employees; no change in LAFCO staffing is proposed in FY 2009-10.

The amount budgeted in FY 2008-09 for salary and benefits is \$332,278; the amount proposed for FY 2009-10 is \$313,757, reflecting a decrease of \$18,521 or 6%. The difference is primarily attributable to the following: 1) projected decreases in retirement contributions and in workers' compensation rates due to improved loss experience; and 2) transfer in charges relating to Commissioner stipends. Previously, Commissioner stipends for County members were charged to a salary account (#1011). During FY 2008-09, the expense was modified and these stipends are now charged to a service and supplies account (#2310) in accordance with the other Commissioner stipends.

As proposed, staff support to the Commission will be supplemented by outsourcing a number of functions including website maintenance, financial auditing, planning and environmental services. In addition, the FY 2009-10 budget assumes continued use of County fiscal, drafting, and mapping and legal services. Outsourcing these activities avoids costs associated with adding permanent staff and acquiring additional office space and equipment.

Services and Supplies

The amount budgeted in FY 2008-09 for services and supplies is \$295,807; the amount proposed for FY 2009-10 is \$365,026, reflecting an increase of approximately \$69,000 or 23%. The difference is primarily attributable to costs associated with completing baseline and second round municipal service reviews and corresponding boundary/SOI map updates, and cost of living adjustments for various other services.

The FY 2008-09 budget includes funding for special projects including the Alamo incorporation fiscal and environmental studies, and the sphere of influence expansion study for the Contra Costa Water District, Delta Diablo Sanitation District, and City of Pittsburg. These studies have been fully funded by third parties, and there is no direct cost to LAFCO. Other than some ongoing municipal service reviews, no other special studies are included in the proposed FY 2009-10 budget.

Contingency Reserve Fund

Last year, the Commission approved an appropriated reserve of \$80,000 for unanticipated expenses (i.e., special studies, potential litigation, etc.). This contingency does not accrue, and is re-appropriated each year. Staff recommends that the Commission continue to maintain an appropriated contingency reserve of \$80,000, which represents approximately 11% of the total appropriations and is consistent with prior years.

FINANCING SOURCES

Sources of financing consist of charges for services (i.e., application processing), the available year-end fund balance, miscellaneous revenues (e.g. interest earnings), and revenues received from the County, cities and independent special districts.

Charges for Service

The FY 2008-09 budget includes \$60,000 in proposal processing fees based on a six year historical average. It is estimated that LAFCO will receive approximately \$52,000 in application fees this year, less than projected. The projected processing fees for FY 2009-10 are \$55,000, which reflect a decrease in anticipation of a decline in application activity. As of February 28, 2009, LAFCO has received two new applications, as compared to nine new applications during the same period last year.

Fund Balance

Government Code §56381(c) provides “If at the end of the fiscal year, the Commission has funds in excess of what it needs, the Commission may retain those funds and calculate them into the following fiscal year’s budget.”

The FY 2008-09 fund balance is currently unknown and will be calculated at year end (typically by September-October). However, based on the beginning year fund balance, and projected FY 2008-09 revenues and expenses, it is estimated that the available fund balance will be approximately \$140,000.

The LAFCO fund balance, or any portion thereof, can be used as follows:

- To offset the FY 2009-10 revenues, thereby reducing the revenues to be collected from the funding agencies (County, cities and special districts), or
- To be placed in a reserve account, separate from the recommended \$80,000 contingency reserve that is appropriated each year.

The FY 2009-10 budget, as proposed, provides that the available fund balance be used to offset FY 2009-10 revenues.

Interest Earnings

In November 2006, the Commission initiated an investment policy and directed LAFCO staff to work with the County Treasurer to invest the appropriate level of LAFCO funds.

The FY 2008-09 budget includes an estimate of \$13,000 in anticipated interest earnings. Based on the recent investment activity and decline in the market, the FY 2008-09 projection of investment earnings is approximately \$3,052. The FY 2009-10 budget includes a conservative estimate of \$3,000 in investment income, which reflects current market interest rates.

Revenues Received from the County, Cities and Independent Special Districts

After processing fees, available fund balance and miscellaneous revenues, the balance of LAFCO's financial support comes from local governmental agencies. Agency contributions represent the most significant LAFCO revenue source.

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 ("CKH Act") requires that the net operational costs of LAFCO be apportioned one-third to the County, one-third to the cities, and one-third to the independent special districts. Government Code §56381 (Attachment 2) describes how the County Auditor is to make the apportionment and collect the revenues once LAFCO adopts a Final Budget.

As indicated above, overall budget is expected to decrease by approximately 5%. This factor, coupled with the proposed use of the available fund balance, is expected to maintain a comparable level of agency funding for FY 2009-10. The amount of revenue from other government agencies required to fund the FY 2008-09 budget was \$540,163. As proposed, the amount of revenue from other government agencies needed to fund the FY 2009-10 budget will be approximately \$560,783.

GENERAL DISCUSSION

The CKH Act requires that each LAFCO adopt a proposed budget by May 1 and a final budget by June 15. In accordance with the 2009-10 Budget Schedule approved by your Commission in

February, the hearing for the Proposed Budget is scheduled for March 11, and the hearing for the Final Budget is scheduled for May 13. The time between these Commission actions is to allow for review and comment by those agencies that fund LAFCO and other interested parties.

Major LAFCO Responsibilities

LAFCO receives its authority and obligations from the CKH Act. Included among LAFCO's major responsibilities are:

- Act on proposals for incorporation of cities; formations, dissolutions, consolidations and mergers of special districts; and annexations and detachments of territory to and from cities and special districts.
- Establish, review and update spheres of influence (SOIs) for cities and special districts.*
- Conduct municipal service reviews (MSRs) prior to or in conjunction with establishing or updating SOIs.*
- Perform special studies relating to services and make recommendations about consolidations, mergers or other governmental changes to improve services.
- Act on requests for out-of-agency service extensions.
- Serve as the Lead or Responsible Agency for compliance with the California Environmental Quality Act (CEQA).
- Serve as the conducting authority to conduct protest hearings relating to boundary changes.*
- Provide public information about LAFCO and public noticing of pending LAFCO actions.*
- Establish and maintain a website.*
- Adopt written policies and procedures.*
- Appoint an Executive Officer and Legal Counsel.
- Adopt an annual budget.*

* These are new responsibilities as of January 1, 2001.

Highlights of 2008-09

The following represents some of the major accomplishments of the Commission in the past 12 months):

- Completed Central and West County Water/Wastewater MSRs and updated a number of district SOIs
- Completed East County Sub-regional MSR and updated a number of city and district SOIs
- Completed an individual agency MSR (Green Valley Park & Recreation District)
- Initiated MSRs/SOI updates for Fire/Emergency Medical and Reclamation services; anticipate completing these MSRs by June 2009
- In conjunction with the East County MSRs, initiated an initial study to review proposed SOIs expansions for Contra Costa Water District (CCWD), Delta Diablo Sanitation District (DDSD), and City of Pittsburg
- Approved the incorporation of the Town of Alamo, corresponding SOI amendments, impartial analysis and related actions
- Approved the FY 2006-07 Financial Audit
- Approved an inventory of CSAs pursuant to SB 1458

- Reviewed and approved a number of boundary and SOI changes, including the Soldier Field Partners annexation to EBMUD, Old River School annexation to Discovery Bay CSD, Dutra SOI amendment and annexation to East Contra Costa Irrigation District, Mirant Power Plant SOI amendments and reorganization, Sky Ranch II SOI amendments and reorganization, DDSO SOI amendment (Northeast Antioch), and Faria Preserve SOI amendments and reorganization
- Reviewed and approved various other requests including activation of latent powers and out of agency service

There are currently a number of boundary change applications pending, including the following: the Northeast Antioch Reorganization and University of California Berkeley Russell Research Station SOI amendment and annexation to EBMUD.

In addition, it is anticipated that LAFCO will host a CEQA workshop either by the end of FY 2008-09 or early FY 2009-10.

FY 2009-10 Work Plan

The work plan recommended for FY 2009-10 anticipates completion of sub-regional MSRs and corresponding SOI updates and other projects and activities as summarized below.

- Complete Central and West County sub-regional MSRs/SOI updates
- Continue comprehensive update to Commissioner Handbook including revisions/additions to annexation, SOI, water, agriculture and environmental justice policies, along with development of CEQA Guidelines
- Fee Schedule Update
- Complete FY 2007-08 Financial Audit
- Conduct CEQA and/or LAFCO 101 workshops

In addition to the above, LAFCO staff will continue to provide the following ongoing services:

- *Administration* – Day-to-day and administrative tasks including Commission meeting management, records retention and digitization, purchasing, budgeting, contract management, etc.
- *Proposal Processing* – Proposal processing typically includes pre-application consultations, attending meetings, providing routine responses to proposal-related inquiries, project research and analysis, staff report preparation and public hearings, final filing and related paperwork. Since July 1, 2008, LAFCO has taken action on 19 proposals. By the end of FY 2007-08, it is estimated that the Commission will have reviewed and acted on approximately 26 boundary change proposals. It is difficult to gauge the anticipated number of proposals for FY 2009-10 given the current economic climate. However, based on the first two months of 2009, a decline in application activity is anticipated.
- *Communications* – Communication involves public presentations, noticing, media relations, progress reporting, website management, and networking with other agencies (e.g., County,

cities, special districts, ABAG, CALAFCO, Grand Jury), community and business organizations, and the general public.

- *Training* – Participation in CALAFCO and related training.
- *Special Projects* – Conduct special studies and projects as directed by the Commission. Currently, one special study is underway – initial study relating to the proposed SOI expansions for CCWD, DDS and City of Pittsburg.

Status of Municipal Service Reviews/Sphere of Influence Updates

The Commission's MSR workplan provides for a combination of countywide, sub-regional and individual agency reviews (see agenda item #7 for a complete update). We are currently completing baseline reviews for the cities and a number of special districts. In addition, LAFCO embarked on a comprehensive MSR update covering fire/emergency medical and reclamation services. The Commission is using a combination of outside consultants and LAFCO staff to conduct the MSRs.

The CKH Act requires that LAFCO review and update every five years, as necessary, the SOIs for local agencies and prepare corresponding MSRs. Contra Costa LAFCO is continuing to prepare baseline MSRs. In addition, some second round reviews are currently underway (i.e., fire/emergency, reclamation) and others are anticipated in FY 2009-10. LAFCO may choose to prepare comprehensive second round reviews for essential infrastructure services (e.g., fire, flood control) and/or other municipal services; simple second round reviews; or defer second round MSRs until the need arises. We anticipate preparing baseline reviews and a number of second round updates in FY 2009-10. The proposed 2009-10 budget contains funding to accomplish this.

In conclusion, the Commission and LAFCO staff continue to exercise fiscal prudence, and recognize the economic realities of the times and the current constraints on local government.

Approval of the proposed budget will enable the Commission to perform its core responsibilities effectively, and to continue to complete the baseline and second round MSRs/SOI updates.

RECOMMENDATIONS

1. Receive the staff report and open the public hearing to accept testimony on the Proposed FY 2009-10 LAFCO Budget,
2. After receiving public comments close the hearing,
3. After Commission discussion, adopt the Proposed Budget for FY 2009-10, with any desired changes, and authorize staff to distribute the Proposed Budget to the County, cities and independent special districts as required by Government Code Section 56381, and
4. Schedule a public hearing for May 13 to adopt the Final FY 2009-10 LAFCO Budget.

Respectfully submitted,

LOU ANN TEXEIRA
EXECUTIVE OFFICER

Attachment A – Proposed FY 2009-10 LAFCO Budget
Attachment B – Government Code §56381

**CONTRA COSTA LOCAL AGENCY FORMATION COMMISSION
PROPOSED BUDGET FOR FISCAL YEAR 2009-10**

<u>Account name and number</u>	<u>FY 2008-09 Final Budget (Adjusted)</u>	<u>FY 2008-09 Estimated</u>	<u>FY 2009-10 Recommended</u>
Salaries and Employee Benefits			
Permanent Salaries- 1011	\$ 192,485	\$ 175,001	\$ 181,845
Deferred Comp Cty Contribution - 1015	\$ 100		
FICA- 1042	\$ 13,178	\$ 13,813	\$ 12,517
Retirement - Pre 1997 Employee - 1043	\$ 900		
Retirement expense- 1044	\$ 68,848	\$ 65,615	\$ 56,783
Employee Group Insurance- 1060	\$ 31,224	\$ 32,799	\$ 36,733
Retiree Health Insurance- 1061	\$ 22,551	\$ 22,811	\$ 24,278
Unemployment Insurance- 1063	\$ 356	\$ 384	\$ 364
Workers Comp Insurance- 1070	\$ 2,636	\$ 2,494	\$ 1,237
Total Salaries and Benefits	\$ 332,278	\$ 312,917	\$ 313,757
Services and Supplies			
Office Expense- 2100	\$ 6,700	\$ 6,694	\$ 6,900
Publications -2102	\$ 300	\$ 160	\$ 300
Postage -2103	\$ 3,000	\$ 2,686	\$ 3,000
Communications - 2110	\$ 220	\$ 452	\$ 870
Tele Exchange Services 2111	\$ 1,100	\$ 900	\$ 900
Minor Comp Equipment - 2132	\$ 1,000	\$ 300	\$ 1,000
Pubs & Legal Notices 2190	\$ 3,000	\$ 3,815	\$ 3,500
Memberships - 2200	\$ 7,000	\$ 7,000	\$ 7,240
Bldg Occupancy Costs - 2262	\$ 8,800	\$ 8,767	\$ 8,800
Auto Mileage Emp. - 2301	\$ -	\$ 148	\$ 200
Other Travel Employees - 2303	\$ 21,000	\$ 15,530	\$ 20,000
Prof & Spec Services - 2310	\$ 236,700	\$ 236,064	\$ 303,620
Contracted Temp Help - 2314 (Web)	\$ 1,980	\$ 1,980	\$ 2,040
Data Processing Services - 2315	\$ 4,000	\$ 3,332	\$ 4,000
Data Processing Security - 2326	\$ 147	\$ 147	\$ 156
Courier - 2331			\$ 2,000
Other Inter-Dept Costs - 2340	\$ 360	\$ 360	
NOE Filings - 2490	\$ 500	\$ 1,500	\$ 500
Total Services & Supplies	\$ 295,807	\$ 289,835	\$ 365,026
Other Charges			
Alamo (CFA/CEQA)	\$ 34,750	\$ 44,856	
SOI Initial Study	\$ 56,000	\$ 56,000	
Total Expenditures	\$ 718,835	\$ 703,608	\$ 678,783
Contingency Reserve	\$ 80,000	\$ -	\$ 80,000
TOTAL APPROPRIATIONS	\$ 798,835	\$ 703,608	\$ 758,783
Revenues			
Agency contributions - 9500 & 9800	\$ 540,163	\$ 539,697	\$ 560,783
Application & other fees	\$ 60,000	\$ 52,478	\$ 55,000
Interest Earnings	\$ 13,000	\$ 3,052	\$ 3,000
Alamo (CFA/CEQA)	\$ 34,750	\$ 44,857	
SOI Initial Study	\$ 56,000	\$ 56,000	
Fund Balance	\$ 94,922		\$ 140,000
TOTAL FINANCE SOURCES & REVENUE	\$ 798,835	\$ 696,084	\$ 758,783

3/1/2009

ATTACHMENT 1

ANNUAL BUDGET

56381. (a) The commission shall adopt annually, following noticed public hearings, a proposed budget by May 1 and final budget by June 15. At a minimum, the proposed and final budget shall be equal to the budget adopted for the previous fiscal year unless the commission finds that reduced staffing or program costs will nevertheless allow the commission to fulfill the purposes and programs of this chapter. The commission shall transmit its proposed and final budgets to the board of supervisors***, to each city ***, **and** to each independent special district ***.

Transmission of budget**Apportionment by auditor**

(b) After public hearings, consideration of comments, and adoption of a final budget by the commission pursuant to subdivision (a), the auditor shall apportion the net operating expenses of a commission in the following manner:

Commissions with city and district representation

(1) (A) In counties in which there is city and independent special district representation on the commission, the county, cities, and independent special districts shall each provide a one-third share of the commission's operational costs.

(B) The cities' share shall be apportioned in proportion to each city's total revenues, as reported in the most recent edition of the Cities Annual Report published by the Controller, as a percentage of the combined city revenues within a county, or by an alternative method approved by a majority of cities representing the majority of the combined cities' populations.

(C) The independent special districts' share shall be apportioned in proportion to each district's total revenues as a percentage of the combined total district revenues within a county. Except as provided in subparagraph (D), an independent special district's total revenue shall be calculated for nonenterprise activities as total revenues for general purpose transactions less revenue category aid from other governmental agencies and for enterprise activities as total operating and nonoperating revenues less revenue category other governmental agencies, as reported in the most recent edition of the "Special Districts Annual Report" published by the Controller, or by an alternative method approved by a majority of the agencies, representing a majority of their combined populations. For the purposes of fulfilling the requirement of this section, a multicounty independent special district shall be required to pay its apportionment in its principal county. It is the intent of the Legislature that no single district or class or type of district shall bear a disproportionate amount of the district share of costs.

(D) (i) For purposes of apportioning costs to a health care district formed pursuant to Division 23 (commencing with Section 32000) of the Health and Safety Code that operates a hospital, a health care district's share, except as provided in clauses (ii) and (iii), shall be apportioned in proportion to each district's net from operations as reported in the most recent

edition of the hospital financial disclosure report form published by the Office of Statewide Health Planning and Development, as a percentage of the combined independent special districts' net operating revenues within a county.

(ii) A health care district for which net from operations is a negative number may not be apportioned any share of the commission's operational costs until the fiscal year following positive net from operations, as reported in the most recent edition of the hospital financial disclosure report form published by the Office of Statewide Health Planning and Development.

(iii) A health care district that has filed and is operating under public entity bankruptcy pursuant to federal bankruptcy law, shall not be apportioned any share of the commission's operational costs until the fiscal year following its discharge from bankruptcy.

(iv) As used in this subparagraph "net from operations" means total operating revenue less total operating expenses.

(E) Notwithstanding the requirements of subparagraph (C), the independent special districts' share may be apportioned by an alternative method approved by a majority of the districts, representing a majority of the combined populations. However, in no event shall an individual district's apportionment exceed the amount that would be calculated pursuant to subparagraphs (C) and (D), or in excess of 50 percent of the total independent special districts' share, without the consent of that district.

(F) Notwithstanding the requirements of subparagraph (C), no independent special district shall be apportioned a share of more than 50 percent of the total independent special districts' share of the commission's operational costs, without the consent of the district as otherwise provided in this section. In those counties in which a district's share is limited to 50 percent of the total independent special districts' share of the commission's operational costs, the share of the remaining districts shall be increased on a proportional basis so that the total amount for all districts equals the share apportioned by the auditor to independent special districts.

Commissions without district representation

(2) In counties in which there is no independent special district representation on the commission, the county and its cities shall each provide a one-half share of the commission's operational costs. The cities' share shall be apportioned in the manner described in paragraph (1).

Counties with no cities

(3) In counties in which there are no cities, the county and its special districts shall each provide a one-half share of the commission's operational costs. The independent special districts' share shall be apportioned in the manner described for cities' apportionment in paragraph (1). If there is no independent special district representation on the commission, the county shall pay all of the commission's operational costs.

Alternative apportionment

(4) Instead of determining apportionment pursuant to paragraph (1), (2), or (3), any alternative method of apportionment of the net operating expenses of the commission may be used if approved by a majority vote of each of the following: the board of supervisors; a majority of the cities representing a majority of the total population of cities in the county; and the independent special districts representing a majority of the combined total population of independent special districts in the county. However, in no event shall an individual district's apportionment exceed the amount that would be calculated pursuant to subparagraphs (C) and (D) of paragraph (1), or in excess of 50 percent of the total independent special districts' share, without the consent of that district.

Auditor requests payment by July 1

(c) After apportioning the costs as required in subdivision (b), the auditor shall request payment from the board of supervisors and from each city and each independent special district no later than July 1 of each year for the amount that entity owes and the actual administrative costs incurred by the auditor in apportioning costs and requesting payment from each entity. If the county, a city, or an independent special district does not remit its required payment within 60 days, the commission may determine an appropriate method of collecting the required payment, including a request to the auditor to collect an equivalent amount from the property tax, or any fee or eligible revenue owed to the county, city, or district. The auditor shall provide written notice to the county, city, or district prior to appropriating a share of the property tax or other revenue to the commission for the payment due the commission pursuant to this section. Any expenses incurred by the commission or the auditor in collecting late payments or successfully challenging nonpayment shall be added to the payment owed to the commission. Between the beginning of the fiscal year and the time the auditor receives payment from each affected city and district, the board of supervisors shall transmit funds to the commission sufficient to cover the first two months of the commission's operating expenses as specified by the commission. When the city and district payments are received by the commission, the county's portion of the commission's annual operating expenses shall be credited with funds already received from the county. If, at the end of the fiscal year, the commission has funds in excess of what it needs, the commission may retain those funds and calculate them into the following fiscal year's budget. If, during the fiscal year, the commission is without adequate funds to operate, the board of supervisors may loan the commission funds. The commission shall appropriate sufficient funds in its budget for the subsequent fiscal year to repay the loan.

Commission determines collection method

Cost of collections

Board of supervisors transmits funds

Provision for loan to commission