



March 9, 2011 (Agenda)

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Agenda Item 10

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

Proposed FY 2011-12 LAFCO Budget

Dear Members of the Commission:

BUDGET SUMMARY

The FY 2011-12 Proposed Budget (attached) reflects an overall decrease of \$28,525 or 4% as compared to the FY 2010-11 budget. The decrease is primarily attributable to reductions in Services & Supplies with a decline in applications and related processing costs (e.g., assessor, planning), and the winding down of inaugural municipal service reviews (MSRs). This represents the third consecutive year of budget decreases, with a 9% decrease in FY 2009-10, and a 6% decrease in FY 2010-11. Also included in the total appropriations for FY 2011-12 is an \$80,000 contingency reserve fund, which is comparable to the current year's reserve. It is anticipated that FY 2011-12 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: Salaries & Benefits, Services & Supplies, and Contingency.

Salaries & Benefits

In FY 2010-11, the Commission maintained a staffing level of two full-time employees; no change in LAFCO staffing is proposed in FY 2011-12. Of the 12 urban LAFCOs, Contra Costa LAFCO is one of three that employs fewer than three full-time employees.

The amount budgeted in FY 2010-11 for Salaries & Benefits is \$318,116; the amount proposed for FY 2011-12 is \$326,607, reflecting an increase of \$8,491 or 2.67%. The difference is attributable to minor increases in salary and benefit costs.

Note on Retirement Benefits: LAFCO contracts with Contra Costa County Employees' Retirement Association (CCCERA) for retirement benefits. LAFCO staff has discussed with CCCERA and County staff the anticipated impacts of the unfunded retirement liability. As of December 31, 2009, LAFCO's Unfunded Actuarial Accrued Liability (UAAL) was \$378,000. Our liability increased considerably in the 2008 report due to market loss. We understand that CCCERA recently completed a "five-year smoothing

of rates.” Due to this smoothing of rates, the small size of LAFCO’s active employee base, and anticipated investment return rates in 2009 and 2010, it is assumed that our liability will be less in the next report and our rates are expected to decrease as part of the next smoothing cycle. LAFCO is “blended” with other County agencies that employ less than 50 employees. The new rates are amortized over an 18-year period, and it is expected that our current rates will fund the LAFCO liability during the 18 year period. The UAAL is separate from the Other Post Employment Benefits (OPEB).

As part of the FY 2011-12 budget, no action is requested with regard to LAFCO’s unfunded liability. Future options to consider include 1) maintain the status quo and continue to fund the debt over the 18-year period; 2) make a supplemental contribution toward the unfunded liability using fund balance (if available). We typically use available fund balance to offset the cost to the funding agencies (i.e., County, cities, districts) to reduce their LAFCO contributions. Also, any supplemental or lump sum payment would require an actuarial cost benefit analysis. 3) Reduce retirement benefits for current and/or future employees as a way to control future costs.

In addition to the two full-time LAFCO employees, staff support to the Commission is supplemented by private and public service providers. Outsourcing services minimizes costs associated with adding permanent staff and acquiring additional office space and equipment. LAFCO currently contracts with private firms for website maintenance, financial auditing, planning and environmental services. In accordance with Commission’s recent direction, LAFCO staff is in the process of collecting competitive bids for these services. Also, LAFCO periodically retains consultant services to assist with MSRs and special projects.

The County provides fiscal, drafting, mapping and legal services. The FY 2011-12 budget assumes the continuation of these County services.

Services & Supplies

The amount budgeted in FY 2010-11 for Services & Supplies is \$312,576; the amount proposed for FY 2011-12 is \$275,060, reflecting a decrease of \$37,016 or approximately 12%. The decrease is primarily attributable to a decline in LAFCO applications and related processing costs (e.g., assessor, planning), and the completion of first round MSRs.

The proposed budget includes funding based on current service providers. In February 2011, the Commission directed staff to prepare and circulate Requests for Proposals for financial auditing, planning and environmental, and website maintenance services. Depending on the firms selected to perform these services, the costs may need to be adjusted as part of the final budget to be presented to the Commission in May.

The proposed budget also includes funding to prepare a comprehensive library services MSR, along with a review of seven County Service Areas, which will complete our inaugural MSRs.

Contingency Reserve Fund

Last year, the Commission appropriated \$80,000 for unanticipated expenses (i.e., special studies, potential litigation, etc.). These contingency funds do not accrue, and are re-appropriated each year. Staff recommends that the Commission continue to maintain an appropriated contingency reserve of \$80,000, which represents approximately 13% of the total appropriations and is consistent with prior years.

REVENUES

Revenues consist primarily of application charges, available year-end fund balance, miscellaneous revenues (e.g., interest earnings), and County, city and independent special district contributions, with each group paying one-third of the net operating LAFCO budget. The city and district shares are prorated based on general revenues reported to the State Controller's Office.

Application Charges and Other Revenue

The FY 2010-11 budget includes \$34,000 in proposal processing fees based on a multi-year historical average. It is estimated that LAFCO will receive approximately \$32,000 in application fees this year, less than projected. The projected application and other revenues for FY 2011-12 are \$34,000, which is reflective of the anticipated decline in application activity. Based on the calendar year, as of March 3, 2011, LAFCO has received three new applications, as compared to two new applications received during the same period last year. The FY 2011-12 budget also includes a \$2,000 CALAFCO stipend for the Contra Costa LAFCO Executive Officer's services as CALAFCO Deputy Executive Officer.

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 2010-11 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 2010-11 revenues and expenses, it is estimated that the available fund balance will be in excess of \$200,000.

The LAFCO fund balance, or any portion thereof, can be used to offset the FY 2011-12 revenues, thereby reducing the revenues to be collected from the funding agencies (County, cities, districts); or placed in a reserve account, separate from the contingency reserve that is appropriated each year.

The FY 2011-12 budget, as proposed, provides that, to the extent possible, the available fund balance be used to offset FY 2011-12 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 2010-11 budget includes no anticipated interest earnings, based on the lack of investment activity and decline in the market. The County Treasurer's office has advised LAFCO to refrain from investing until further notice. The FY 2011-12 budget includes an estimate of zero in investment income. LAFCO staff will continue to monitor the investment market.

Revenues Received from the County, Cities and Independent Special Districts

After processing fees, available fund balance and other 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 describes how the County Auditor is to make the apportionment and collect the revenues once LAFCO adopts a Final Budget. The city and district allocations are based on revenues reported to the State Controller and vary year to year.

As indicated above, overall budget is expected to decrease by approximately 4%. This factor, coupled with the proposed use of the available fund balance, is expected to reduce agency contributions for FY 2011-12 by approximately 12% on average. The amount of revenue from other government agencies required to fund the FY 2010-11 LAFCO budget was \$555,575. As proposed, the total amount of revenue from other government agencies needed to fund the FY 2011-12 budget will be approximately \$487,667.

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 2011-12 Budget Schedule approved by your Commission in February, the hearing for the Proposed Budget is scheduled for March 9, and the hearing for the Final Budget is scheduled for May 11. 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 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.

Highlights of 2010-11

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

- Completed a number of comprehensive MSRs/SOI updates covering cemetery, parks & recreation, mosquito/vector control and resource conservation services;
- Initiated and expect to complete a countywide MSR covering law enforcement services;
- Held various special meetings including fire committee meetings and workshops
- Approved the FY 2008-09 Financial Audit
- Reviewed and approved a number of boundary and SOI changes
- Sat three new Commissioners – City regular member, City alternate member and special district regular member
- Approved updates to the Commissioner Handbook
- Initiated and completed an electronic document management system of all LAFCO files
- Updated Directory of Local Agencies
- Issued Requests for Proposals for financial auditing, planning and environmental, and website maintenance services

FY 2011-12 Work Plan

The work plan recommended for FY 2011-12 anticipates completion of the remaining inaugural MSRs and corresponding SOI updates and other projects and activities as summarized below.

- ❖ Initiate and complete countywide library services MSR/SOI updates
- ❖ Initiate and complete MSR/SOI updates for a number of County Service Areas
- ❖ Resume work to update Commissioner Handbook including revisions/additions to changes of organization/reorganization, SOI, agriculture, open space and personnel sections, and development of CEQA Guidelines
- ❖ Complete FY 2009-10 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 management, purchasing, budgeting, contract management, etc.
- *Proposal Processing* – Proposal processing 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, 2010, LAFCO has taken action on eight proposals. By the end of FY 2010-11, it is estimated that the Commission will have reviewed and acted on approximately 12 boundary change proposals. It is difficult to gauge the anticipated number of proposals for FY 2011-12 given the current economic climate. However, based on the first two months of 2011, a continued 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, 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.

Status of Municipal Service Reviews/Sphere of Influence Updates

The Commission's MSR work plan provides for a combination of countywide, sub-regional and agency specific reviews, using outside consultants and LAFCO staff (please refer to Agenda item #9). Currently underway is a countywide MSR covering law enforcement services.

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 nearing completion of inaugural MSRs. The proposed 2011-12 budget contains funding to prepare a countywide MSR covering library services, and review of a number of County Service Areas, thus completing the first rounds MSRs.

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 its work on inaugural and second round MSRs/SOI updates.

RECOMMENDATIONS

1. Receive the staff report and open the public hearing to accept testimony on the Proposed FY 2011-12 LAFCO Budget,
2. After receiving public comments close the hearing,
3. After Commission discussion, adopt the Proposed Budget for FY 2011-12, 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 11 to adopt the Final FY 2011-12 LAFCO Budget.

Respectfully submitted,

LOU ANN TEXEIRA
EXECUTIVE OFFICER

Attachment

**CONTRA COSTA LOCAL AGENCY FORMATION COMMISSION
PROPOSED BUDGET FOR FISCAL YEAR 2011-12**

Attachment 1

<u>Account name and number</u>	<u>FY 2010-11 Approved</u>	<u>FY 2010-11 Estimated</u>	<u>FY 2011-12 Proposed</u>	<u>% Change</u>
Salaries and Employee Benefits				
Permanent Salaries- 1011	\$ 184,500	\$ 181,487	\$ 188,340	
Deferred Comp Cty Contribution - 1015				
FICA- 1042	\$ 14,114	\$ 13,239	\$ 14,408	
Retirement expense- 1044	\$ 60,407	\$ 62,022	\$ 65,847	
Employee Group Insurance- 1060	\$ 36,228	\$ 36,205	\$ 36,228	
Retiree Health Insurance- 1061	\$ 20,000	\$ 18,687	\$ 20,000	
Unemployment Insurance- 1063	\$ 1,149	\$ 1,177	\$ 784	
Workers Comp Insurance- 1070	\$ 1,718	\$ 1,647	\$ 1,000	
Total Salaries and Benefits	\$ 318,116	\$ 314,464	\$ 326,607	2.67%
Services and Supplies				
Office Expense- 2100 (includes courier service)	\$ 5,000	\$ 2,425	\$ 5,000	
Publications -2102	\$ 300		\$ 300	
Postage -2103	\$ 3,000	\$ 1,252	\$ 3,000	
Communications - 2110	\$ 230	\$ 230	\$ 230	
Tele Exchange Services 2111	\$ 880	\$ 880	\$ 880	
Minor Comp Equipment - 2132	\$ 1,000		\$ 3,000	
Pubs & Legal Notices 2190	\$ 3,000	\$ 1,736	\$ 3,000	
Memberships - 2200	\$ 8,000	\$ 7,523	\$ 8,000	
Rents & Leases - 2250 (copier)	\$ 4,000	\$ 2,936	\$ 4,000	
Computer Software - 2251		\$ 71	\$ 1,100	
Bldg Occupancy Costs - 2262	\$ 7,282	\$ 5,983	\$ 7,282	
Auto Mileage Emp. - 2301	\$ 600	\$ 163	\$ 500	
Other Travel Employees - 2303	\$ 10,000	\$ 7,593	\$ 10,000	
Prof & Spec Services - 2310	\$ 222,247	\$ 175,474	\$ 179,500	
Assessor	\$ 20,000	\$ 16,240	\$ 20,800	
Financial Audit	\$ 6,800	\$ 6,800	\$ 6,800	
GIS/Mapping	\$ 32,000	\$ 17,000	\$ 25,000	
Legal	\$ 45,000	\$ 45,000	\$ 40,000	
MSRs	\$ 25,000	\$ 25,000	\$ 30,000	
Planning	\$ 50,000	\$ 35,000	\$ 50,000	
Special Projects (document imaging)	\$ 40,947	\$ 30,434	\$ 4,400	
Investment Services	\$ 500		\$ 500	
LAFCO Sponsored Training (CEQA, LAFCO 101)	\$ 2,000		\$ 2,000	
Contracted Temp Help - 2314 (Web)	\$ 2,280	\$ 2,280	\$ 2,340	
Data Processing Services - 2315	\$ 2,150	\$ 3,350	\$ 4,000	
Data Processing Security - 2326	\$ 78	\$ 78	\$ 100	
Courier - 2331	\$ 2,113	\$ 2,113	\$ 2,000	
Other Inter-Dept Costs - 2340	\$ 194			
Liability/E&O Insurance - 2360	\$ 4,622	\$ 3,836	\$ 4,028	
Commission Training/Registration/Stipends - 2467	\$ 35,100	\$ 31,865	\$ 36,300	
NOD/NOE Filings - 2490	\$ 500	\$ 300	\$ 500	
Total Services & Supplies	\$ 312,076	\$ 250,088	\$ 275,060	-11.86%
Total Expenditures	\$ 630,192	\$ 564,552	\$ 601,667	-4.53%
Contingency Reserve	\$ 80,000		\$ 80,000	
TOTAL APPROPRIATIONS	\$ 710,192	\$ 564,552	\$ 681,667	-4.02%
TOTAL REVENUES	\$ 710,692	\$ 587,442	\$ 681,667	-4.08%
Agency contributions - 9500 & 9800	\$ 555,575	\$ 555,728	\$ 487,667	-12.22%
Application & other revenues	\$ 34,000	\$ 31,714	\$ 34,000	
Interest Earnings				
Fund Balance	\$ 121,117		\$ 160,000	