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**March 10, 2010**  
**Agenda Item 8**

March 10, 2010 (Agenda)

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

**Proposed FY 2010-11 LAFCO Budget**

Dear Members of the Commission:

BUDGET SUMMARY

The FY 2010-11 Proposed Budget (Attachment 1) reflects an overall decrease of approximately \$41,440 or 6% as compared to the FY 2009-10 final 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 municipal service review (MSR) activity. Included in the total appropriations for FY 2010-11 is an \$80,000 contingency reserve fund, which is comparable to the current year's reserve. It is anticipated that FY 2010-11 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 2009-10, the Commission maintained a staffing level of two full-time employees; no change in LAFCO staffing is proposed in FY 2010-11. 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 2009-10 for Salaries & Benefits is \$313,671; the amount proposed for FY 2010-11 is \$318,288, reflecting an increase of \$4,617 or 1.47%. The difference is attributable to minor increases in salary and benefit costs.

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 2010-11 budget assumes continued use of County fiscal, drafting, mapping and legal services. Outsourcing these activities avoids costs associated with adding permanent staff and acquiring additional office space and equipment.

#### Services & Supplies

The amount budgeted in FY 2009-10 for Services & Supplies is \$340,433; the amount proposed for FY 2010-11 is \$303,376, reflecting a decrease of approximately \$37,057 or approximately 11%. The decrease is primarily attributable to a decline in LAFCO applications and related processing costs (e.g., assessor, planning), and the winding down of MSRs.

The proposed budget includes funding for an electronic document management system (i.e., software, hardware); affiliated professional, scanning and indexing, and maintenance services; and back file conversion. The electronic document system would eliminate the cumbersome paper-based filing system, allow immediate access to records, and address disaster recovery for the current paper-based documents. The budget also includes funding to prepare a police services MSR, which will essentially complete our comprehensive, baseline reviews.

#### 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 application charges and miscellaneous other revenue, available year-end fund balance, miscellaneous revenues (e.g. interest earnings), and revenues received from the County, cities and independent special districts.

#### Application Charges and Other Revenue

The FY 2009-10 budget includes \$50,000 in proposal processing fees based on a multi-year historical average. It is estimated that LAFCO will receive approximately \$31,000 in application fees this year, less than projected. The projected application and other revenues for FY 2010-11 are \$34,000, which is reflective of the anticipated continued decline in application activity. Based on the calendar year, as of March 3, 2010, LAFCO has received two new applications, as compared to three new applications during the same period last year. The FY 2010-11 estimate 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 2009-10 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 2009-10 revenues and expenses, it is estimated that the available fund balance will be in excess of \$100,000.

The LAFCO fund balance, or any portion thereof, can be used to offset the FY 2010-11 revenues, thereby reducing the revenues to be collected from the funding agencies (County, cities and special districts); or placed in a reserve account, separate from the recommended \$80,000 contingency reserve that is appropriated each year.

The FY 2010-11 budget, as proposed, provides that to the extent possible, the available fund balance be used to offset FY 2010-11 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 2009-10 budget includes \$2,000 in anticipated interest earnings, which is significantly below prior year estimates. Based on recent investment activity and decline in the market, the FY 2009-10 estimate of investment earnings is zero. The County Treasurer's office has advised LAFCO to refrain from investing until further notice. The FY 2010-11 budget includes an estimate of zero in investment income.

#### 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 (Attachment 2) 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 6%. This factor, coupled with the proposed use of the available fund balance, is expected to slightly reduce agency contributions for FY 2010-11. The amount of revenue from other government agencies required to fund the FY 2009-10 LAFCO budget was \$560,783. The projected agency revenue for FY 2009-10 is \$560,758. The minor difference is due to Reclamation District 2117 failing to remit its required payment of approximately \$25 to LAFCO. Under the statute, the auditor can collect an equivalent amount from the property tax, or any fee or eligible revenue owed to the county, city, or district. Given that this district does not receive a portion of the property tax, we have not pursued collection.

As proposed, the total amount of revenue from other government agencies needed to fund the FY 2010-11 budget will be approximately \$555,575.

## 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 2010-11 Budget Schedule approved by your Commission in February, the hearing for the Proposed Budget is scheduled for March 10, and the hearing for the Final Budget is scheduled for May 12. 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.

### Highlights of 2009-10

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

- Completed a number of comprehensive MSRs/SOI updates including Central and West County Sub-regional reviews covering 15 cities and several special districts; countywide review of fire and emergency medical services covering three cities and eight districts; countywide review of reclamation (levee) services covering 13 districts;
- Initiated MSRs/SOI updates covering cemetery, parks & recreation, mosquito/vector control and resource conservation services
- In conjunction with the East County MSRs, completed and adopted a Initial Study/Negative Declaration relating to SOI expansions for the City of Pittsburg, Contra Costa Water District, and Delta Diablo Sanitation District

- Held various special meetings including five Fire Committee meetings, a boat tour of the East County levees, and recently hosted a Fire Workshop
- Approved the FY 2007-08 Financial Audit
- Reviewed and approved a number of boundary and SOI changes
- Appointed a new Alternate Public Member to the Commission
- Approved updates to the Commissioner Handbook

There are currently a number of boundary change applications pending, including the following: the Northeast Antioch Reorganization, University of California Berkeley Russell Research Station SOI amendment and annexation to EBMUD, and Highlands Ranch Phase II SOI Amendment, and several Central Contra Costa Sanitary District annexation proposals.

In addition, it is anticipated that LAFCO will host a second Fire workshop this spring.

#### FY 2010-11 Work Plan

The work plan recommended for FY 2010-11 anticipates completion of a number of MSRs and corresponding SOI updates and other projects and activities as summarized below.

- ❖ Complete countywide mosquito/vector control and resource conservation services MSRs/SOI updates
- ❖ Complete cemetery, parks & recreation MSRs/SOI updates
- ❖ Initiate and complete a police services MSR/SOI updates
- ❖ Resume work to update Commissioner Handbook including revisions/additions to annexation, SOI, water, agriculture and other policies, along with development of CEQA Guidelines
- ❖ Fee Schedule Update
- ❖ Complete FY 2008-09 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, 2009, LAFCO has taken action on four proposals. By the end of FY 2009-10, it is estimated that the Commission will have reviewed and acted on approximately 10 boundary change proposals. It is difficult to gauge the anticipated number of proposals for FY 2010-11 given the current economic climate. However, based on the first two months of 2010, 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, 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.

#### Status of Municipal Service Reviews/Sphere of Influence Updates

The Commission's MSR workplan provides for a combination of service specific (countywide), sub-regional and agency specific reviews (see agenda item #9 for a complete update). Currently underway are MSRs covering mosquito/vector control, resource conservation, cemetery, parks & recreation 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 nearing completion of baseline MSRs. The proposed 2010-11 budget contains funding to prepare a countywide police services MSR.

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 2010-11 LAFCO Budget,
2. After receiving public comments close the hearing,
3. After Commission discussion, adopt the Proposed Budget for FY 2010-11, 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 12 to adopt the Final FY 2010-11 LAFCO Budget.

Respectfully submitted,

LOU ANN TEXEIRA  
EXECUTIVE OFFICER

Attachment 1 – Proposed FY 2010-11 LAFCO Budget

Attachment 2 – Government Code §56381

**CONTRA COSTA LOCAL AGENCY FORMATION COMMISSION  
PROPOSED BUDGET FOR FISCAL YEAR 2010-11**

<u>Account name and number</u>	<b>FY 2009-10 Final Budget (Adjusted)</b>	<b>FY 2009-10 Estimated</b>	<b>FY 2010-11 Proposed</b>
<b>Salaries and Employee Benefits</b>			
Permanent Salaries– 1011	\$ 181,845	\$ 177,062	\$ 184,500
Deferred Comp Cty Contribution - 1015			
FICA- 1042	\$ 12,517	\$ 13,233	\$ 14,114
Retirement expense- 1044	\$ 56,783	\$ 59,151	\$ 60,407
Employee Group Insurance- 1060	\$ 36,733	\$ 35,685	\$ 36,228
Retiree Health Insurance- 1061	\$ 24,278	\$ 19,674	\$ 20,000
Unemployment Insurance- 1063	\$ 364	\$ 872	\$ 1,149
Workers Comp Insurance- 1070	\$ 1,151	\$ 1,718	\$ 1,890
<b>Total Salaries and Benefits</b>	<b>\$ 313,671</b>	<b>\$ 307,395</b>	<b>\$ 318,288</b>
<b>Services and Supplies</b>			
Office Expense- 2100 (includes courier serv)	\$ 5,000	\$ 4,713	\$ 5,000
Publications -2102	\$ 300		\$ 300
Postage -2103	\$ 3,000	\$ 1,219	\$ 3,000
Communications - 2110	\$ 870	\$ 222	\$ 230
Tele Exchange Services 2111	\$ 900	\$ 867	\$ 880
Minor Comp Equipment - 2132	\$ 1,000	\$ 925	\$ 1,000
Pubs & Legal Notices 2190	\$ 3,500	\$ 1,291	\$ 3,000
Memberships - 2200	\$ 8,100	\$ 7,776	\$ 8,000
Rents & Leases - 2250 (copier)	\$ 4,000	\$ 3,267	\$ 4,000
Bldg Occupancy Costs - 2262	\$ 8,800	\$ 6,722	\$ 7,282
Auto Mileage Emp. – 2301	\$ 200	\$ 530	\$ 600
Other Travel Employees – 2303	\$ 8,000	\$ 15,853	\$ 10,000
Prof & Spec Services – 2310	\$ 269,195	\$ 210,771	\$ 235,635
Contracted Temp Help - 2314 (Web)	\$ 2,040	\$ 2,160	\$ 2,280
Data Processing Services - 2315	\$ 4,000	\$ 2,134	\$ 2,150
Data Processing Security - 2326	\$ 156	\$ 126	\$ 78
Courier - 2331	\$ 2,000		\$ 2,113
Other Inter-Dept Costs - 2340			\$ 194
NOD/NOE Filings - 2490	\$ 500		\$ 500
Liability/E&O Insurance - 2360	\$ 4,622	\$ 4,622	\$ 5,084
Training/Registrations - 2467	\$ 14,250		\$ 12,050
<b>Total Services &amp; Supplies</b>	<b>\$ 340,433</b>	<b>\$ 263,198</b>	<b>\$ 303,376</b>
<b>Other Charges</b>			
SOI Initial Study	\$ 9,000	\$ 9,000	
<b>Total Expenditures</b>	<b>\$ 663,104</b>	<b>\$ 579,593</b>	<b>\$ 621,664</b>
<b>Contingency Reserve</b>	<b>\$ 80,000</b>		<b>\$ 80,000</b>
<b>TOTAL APPROPRIATIONS</b>	<b>\$ 743,104</b>	<b>\$ 579,593</b>	<b>\$ 701,664</b>
<b>Revenues</b>			
Agency contributions - 9500 & 9800	\$ 560,783	\$ 560,758	\$ 555,575
Application & other revenues	\$ 50,000	\$ 30,567	\$ 34,000
Interest Earnings	\$ 2,000		
SOI Initial Study	\$ 9,000	\$ 9,000	
Fund Balance	\$ 121,321		\$ 112,089
<b>TOTAL FINANCE SOURCES &amp; REVENUE</b>	<b>\$ 743,104</b>	<b>\$ 600,325</b>	<b>\$ 701,664</b>

**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 \*\*\*.

(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:

(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.

(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).

(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.

(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.

(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. **(Amended by Stats. 2007, Ch. 244.)**