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March 12, 2014 (Agenda)

March 12, 2014  
 Agenda Item 7

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

**Proposed FY 2014-15 LAFCO Budget**

Dear Members of the Commission:

**BUDGET SUMMARY**

The proposed FY 2014-15 budget (attached) includes appropriations totaling \$764,959 and reflects an overall increase of \$2,943 (0.4%) as compared to the FY 2013-14 budget. The increase is primarily attributable to increases in employee salary/benefit costs. Included in the total appropriations for FY 2014-15 is an \$80,000 contingency reserve fund, which is comparable to the current year's reserve. It is anticipated that FY 2014-15 actual revenues will be on par with FY 2013-14 revenues, with a comparable level of application activity. Details regarding expenditures and revenues are presented below.

**EXPENDITURES**

The expenditure portion of the budget is divided into three main objects: Salaries & Benefits, Services & Supplies, and Contingency.

Salaries & Benefits

In FY 2013-14, the Commission maintained a staffing level of two full-time employees; no change in LAFCO staffing is proposed in FY 2014-15. Of the 12 urban LAFCOs, Contra Costa LAFCO is one of four that operates with fewer than three full-time employees.

The amount budgeted in FY 2013-14 for *Salaries & Benefits* is \$351,936; the amount proposed for FY 2014-15 is \$388,585, reflecting an increase of \$36,649 or 10.4%. The difference is attributable to projected increases in employee salary, retirement, health care and workers compensation costs. The Contra Costa County Employees' Retirement Association (CCCERA) has informed LAFCO that both the employer and employee contributions have increased due to changes in the actuarial valuations.

Since FY 2011-12, LAFCO has included in its budget an annual expense of \$10,000 to fund its Other Post-Employment Benefits (OPEB) liability. LAFCO staff has included \$10,000 in the FY 2014-15 budget. At the direction of the Commission, LAFCO staff explored trust options for holding LAFCO's assets to pay post-employment healthcare benefits. The preferred option is to participate with Contra Costa County in the Public Agencies Retirement Services (PARS). PARS is a direct trust administrative provider, and not a broker.

In order to participate in the PARS trust program, LAFCO must first conduct an actuarial valuation to calculate the future liability for retiree healthcare and other post-employment benefits. The calculations will project the liability for active employees during their retirement, and for any retired employees who elect to receive post-employment benefits.

An actuarial valuation is currently underway to determine the amount of the unfunded post-employment healthcare benefits liability. The actuarial valuation is being prepared by Demsey, Filliger & Associates, LLC through an agreement with California Special Districts Association (CSDA) and the California School Boards Association (CSBA). Once complete, the report will be presented to the Commission, along with a recommendation that LAFCO become a subaccount under the County's PARS Post-Retirement Health Care Plan Trust Agreement.

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. The County provides fiscal, drafting, mapping and legal services. The FY 2014-15 budget assumes the continuation of these services. Also, LAFCO typically retains consultant services to assist with Municipal Service Reviews (MSRs) and special projects.

#### Services & Supplies

The amount budgeted in FY 2013-14 for *Services & Supplies* is \$320,080 and includes funding for a second round, countywide water and wastewater MSR. The amount proposed for FY 2014-15 is \$286,374, reflecting a decrease of \$33,706 (10.5%). The decreases are primarily attributable to anticipated reductions in legal and planning costs. The FY 2014-15 budget includes funding for second round EMS/Fire Services MSR.

#### Contingency Reserve Fund

Each year, the Commission appropriates \$80,000 for unanticipated expenses (i.e., special studies, potential litigation, etc.). These contingency funds do not accrue, and are re-appropriated each year. The FY 2014-15 includes an \$80,000 contingency reserve fund, which 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.

#### Application Charges and Other Revenue

The FY 2013-14 budget includes \$30,000 in proposal processing fees based on a multi-year historical average. It is estimated that LAFCO will receive approximately \$13,000 in application fees this year, significantly less than projected. Application activity continues to be sluggish. The projected application and other revenues for FY 2014-15 are projected to be \$21,000, which is less than the FY 2013-14 budgeted amount. As of March 5, 2014, LAFCO has received two new applications this fiscal year, as compared to eight applications received during the same time period last fiscal 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 2013-14 fund balance is currently unknown and will be calculated at year end (typically by October). However, based on the beginning year fund balance, and projected FY 2013-14 revenues and expenses, it is estimated that the available fund balance will be over \$140,000.

The LAFCO fund balance, or any portion thereof, can be used to offset the FY 2014-15 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 2014-15 budget, as proposed, provides that, to the extent possible, the available fund balance be used to offset FY 2014-15 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 2013-14 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, given the investment fees outweigh the interest income. The FY 2014-15 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”) 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. The CKH describes how the County Auditor is to make the apportionment and collect the revenues once LAFCO adopts a Final Budget (Gov. Code §56381. The city and district allocations are based on revenues reported to the State Controller and vary year to year.

As indicated above, the overall budget is expected to increase by approximately less than one percent. The proposed use of the available fund balance will offset agency contributions for FY 2014-15. The amount of revenue from other government agencies required to fund the FY 2013-14 LAFCO budget was \$582,016. As proposed, the total amount of revenue from other government agencies needed to fund the FY 2014-15 budget will be approximately \$603,959, reflecting a 3.8% increase. The increase is primarily due to projected increases in personnel costs and decreases in application revenue.

## **GENERAL DISCUSSION**

The CKH requires that each LAFCO adopt a proposed budget by May 1 and a final budget by June 15. In accordance with the 2014-15 Budget Schedule approved by the Commission in February, the hearing for the Proposed Budget is scheduled for March 12, and the hearing for the Final Budget is scheduled for May 14. 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 FY 2013-14

The following represents some of the major accomplishments of the Commission in the current fiscal year:

#### **Boundary Change and Related Applications**

- a. Completed the proceedings for two of the three Northeast Antioch Reorganizations – Areas 1 and 2B; expect to complete the proceedings for Area 2A in FY 2013-14.
- b. Processed two new applications including one annexation and one reorganization. Conducted three protest hearings as of March 5, 2014.

#### **Municipal Service Reviews (MSRs)/Sphere of Influence (SOI) Updates**

- a. Initiated a second round water/wastewater MSR covering eight cities, 19 special districts, and a number of private water companies and mutual water companies. The Public Review Draft MSR report was released on March 5, 2014. We expect to complete this MSR and related SOI updates by June 30, 2014.

#### **Special Projects**

- a. Ongoing participation in the County's EMS and fire service studies (stakeholder and community meetings).
- b. Working with CSDA and CSBA on an actuarial valuation, and with County staff on an administrative services agreement with PARS.

#### ***Administrative and Other Activities***

- a. Completed Request for Proposals and awarded a contract for second round water/wastewater MSR/SOI updates.
- b. Responded to three Grand Jury reports and follow-ups.
- c. Provided comments on several local agency environmental documents.
- d. Submitted three CALAFCO Achievement Award nominations; received two awards.
- e. The Commission adopted procedures for the following changes of organization: city annexations/detachments, district annexations/detachments, district mergers, establishment of subsidiary districts, LAFCO-initiated proposals, new or different services, district dissolution, district formation, district consolidation, city consolidation, disincorporation, reorganization and out of agency service; and updated the *Membership and Rules and Procedures* policies.
- f. Updated the LAFCO Directory of Local Agencies.
- g. Complete FY 2012-13 financial audit

### FY 2014-15 Work Plan

The recommended work plan for FY 2014-15 includes the following activities:

- ❖ Initiate second round MSRs covering EMS and fire services
- ❖ Revisit/complete SOI updates for the following agencies: Town of Danville, City of San Ramon, Crockett-Carquinez FPD, Kensington FPD, Rodeo-Hercules FPD, CSAs P-2, P-5, P-6, R-4, and Rollingwood Wilart Park Recreation & Park District.
- ❖ Continue work on the Commissioner Handbook including updating sections on changes of organization and SOIs, and developing new chapters on agriculture/open space,

Disadvantaged Unincorporated Communities (DUCs), personnel policies, and CEQA Guidelines

- ❖ Continue to work with the County, cities and districts on boundary clean-ups/islands
- ❖ Complete actuarial valuation and establish OPEB trust fund (PARS)
- ❖ Complete FY 2013-14 audit
- ❖ Continue to refine electronic records for easier access
- ❖ Update LAFCO Directory of Local Agencies

In addition to the above, LAFCO staff will continue to provide day-to-day and administrative tasks including Commission meeting management, records management, purchasing, budgeting, contract management; processing applications; inter-agency communications; and participation in CALAFCO training and activities. Your staff is currently serving on the CALAFCO Legislative Committee, on the 2014 Staff Workshop (Berkeley) and 2014 Annual Conference (Ontario) Program Committees, and is working with CALAFCO Executive Director and Clerks around the State to develop a Clerk Certification program.

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 MSRs/SOI updates.

#### RECOMMENDATIONS

1. Receive the staff report and open the public hearing to accept testimony on the Proposed FY 2014-15 LAFCO Budget,
2. After receiving public comments close the hearing,
3. After Commission discussion, adopt the Proposed Budget for FY 2014-15, 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 14, 2014 to adopt the Final FY 2014-15 LAFCO Budget.

Respectfully submitted,

LOU ANN TEXEIRA  
EXECUTIVE OFFICER

Attachment – Proposed FY 2014-15 LAFCO Budget

**PROPOSED FY 2014-15 LAFCO BUDGET**

	<b>FY 2013-14 Approved</b>	<b>FY 2013-14 Year-End (Estimated)</b>	<b>FY 2014-15 Proposed</b>	<b>% Change</b>
<b>Salaries and Employee Benefits</b>				
Permanent Salaries- 1011	\$ 193,046	\$ 193,036	\$ 202,688	
Deferred Comp Cty Contribution - 1015				
FICA- 1042	\$ 14,768	\$ 13,538	\$ 15,506	
Retirement expense- 1044	\$ 79,328	\$ 80,332	\$ 100,876	
Employee Group Insurance- 1060	\$ 42,960	\$ 44,699	\$ 47,535	
Retiree Health Insurance- 1061	\$ 20,000	\$ 19,263	\$ 20,000	
Unemployment Insurance- 1063	\$ 734	\$ 744	\$ 770	
Workers Comp Insurance- 1070	\$ 1,100	\$ 912	\$ 1,210	
<b>Total Salaries and Benefits</b>	<b>\$ 351,936</b>	<b>\$ 352,524</b>	<b>\$ 388,585</b>	<b>10.4%</b>
<b>Services and Supplies</b>				
Office Expense- 2100	\$ 4,000	\$ 2,888	\$ 3,000	
Publications -2102	\$ 300	\$ 50	\$ 50	
Postage -2103	\$ 2,000	\$ 1,557	\$ 2,000	
Communications - 2110	\$ 230	\$ 232	\$ 230	
Tele Exchange Services 2111	\$ 914	\$ 913	\$ 1,061	
Minor Comp Equipment - 2132	\$ 1,000	\$ -	\$ 1,000	
Pubs & Legal Notices 2190	\$ 3,000	\$ 1,597	\$ 2,000	
Memberships - 2200	\$ 8,319	\$ 8,324	\$ 8,500	
Rents & Leases - 2250 (copier)	\$ 4,000	\$ 2,713	\$ 3,000	
Computer Software - 2251	\$ 500	\$ 500	\$ 500	
Bldg Occupancy Costs - 2262	\$ 5,392	\$ 5,113	\$ 5,629	
Bldg Life Cycle Costs - 2265	\$ 276	\$ 272	\$ 305	
Auto Mileage Emp. - 2301	\$ 900	\$ 1,170	\$ 900	
Other Travel Employees - 2303	\$ 12,000	\$ 11,193	\$ 10,500	
Prof & Spec Services - 2310	\$ 227,359	\$ 168,312	\$ 198,750	
Assessor	\$ 13,000	\$ 12,386	\$ 15,000	
Financial Audit	\$ 6,000	\$ 6,000	\$ 7,000	
GIS/Mapping	\$ 20,000	\$ 13,061	\$ 22,500	
Legal	\$ 73,000	\$ 51,181	\$ 35,000	
MSRs	\$ 80,000	\$ 62,240	\$ 90,000	
Planning	\$ 30,000	\$ 17,083	\$ 25,000	
Special Projects (document imaging)	\$ 4,859	\$ 4,861	\$ 3,750	
Investment Services	\$ 500	\$ -	\$ 500	
LAFCO Sponsored Training	\$ -	\$ -	\$ -	
Special Study (Actuarial Valuation)		\$ 1,500		
Contracted Temp Help - 2314 (Web)	\$ 2,820	\$ 2,820	\$ 2,820	
Data Processing Services - 2315	\$ 4,000	\$ 2,980	\$ 4,000	
Data Processing Security - 2326	\$ 126	\$ 126	\$ 131	
Courier - 2331	\$ 2,041	\$ 2,070	\$ 2,174	
Other Inter-Dept Costs - 2340	\$ 123	\$ 93	\$ 124	
Liability/E&O Insurance - 2360	\$ 4,080	\$ 4,223	\$ 4,300	
Commission Training/Registration/Stipends - 2467	\$ 36,300	\$ 29,241	\$ 35,000	
NOD/NOE Filings - 2490	\$ 400	\$ 400	\$ 400	
<b>Total Services &amp; Supplies</b>	<b>\$ 320,080</b>	<b>\$ 246,787</b>	<b>\$ 286,374</b>	<b>-10.5%</b>
<b>Fixed Assets</b>				
Office Equipment & Furniture - 4951	\$ -	\$ -	\$ -	
<b>Total Fixed Assets</b>				
<b>Total Expenditures</b>	<b>\$ 672,016</b>	<b>\$ 599,311</b>	<b>\$ 674,959</b>	
<b>Contingency Reserve</b>	<b>\$ 80,000</b>	<b>\$ -</b>	<b>\$ 80,000</b>	
<b>OPEB Trust</b>	<b>\$ 10,000</b>	<b>\$ 10,000</b>	<b>\$ 10,000</b>	
<b>TOTAL APPROPRIATIONS</b>	<b>\$ 762,016</b>	<b>\$ 609,311</b>	<b>\$ 764,959</b>	<b>0.4%</b>
<b>TOTAL REVENUES</b>				
Agency contributions - 9500 & 9800	\$ 582,016	\$ 582,016	\$ 603,959	3.8%
Application & other revenues	\$ 30,000	\$ 12,859	\$ 21,000	
Interest Earnings				
Fund Balance	\$ 150,000		\$ 140,000	