



Lou Ann Teixeira
Executive Officer

MEMBERS

Donald A. Blubaugh <i>Public Member</i>	Mary N. Piepho <i>County Member</i>
Federal Glover <i>County Member</i>	Rob Schroder <i>City Member</i>
Michael R. McGill <i>Special District Member</i>	Igor Skaredoff <i>Special District Member</i>
Don Tatzin <i>City Member</i>	

ALTERNATE MEMBERS

Candace Andersen
County Member
 Sharon Burke
Public Member
 Tom Butt
City Member
 George H. Schmidt
Special District Member

March 11, 2015
 Agenda Item 7

March 11, 2015 (Agenda)

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

Proposed FY 2015-16 LAFCO Budget

Dear Members of the Commission:

BUDGET SUMMARY

The proposed FY 2015-16 budget (attached) includes appropriations totaling \$808,750 and reflects an overall increase of 3.4% as compared to the FY 2014-15 budget. The increase is primarily attributable to increases in employee salary/benefit costs and an increase in funding for LAFCO's Other Post-Employment Benefits (OPEB) liability. Included in the total appropriations for FY 2015-16 is an \$80,000 contingency reserve fund, which is comparable to the current year's reserve. It is anticipated that FY 2015-16 actual revenues will be on par with FY 2014-15 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/Liability.

Salaries & Benefits

In FY 2014-15, the Commission maintained a staffing level of two full-time employees; no change in LAFCO staffing is proposed in FY 2015-16. 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 2014-15 for *Salaries & Benefits* is \$390,778; the amount proposed for FY 2015-16 is \$403,253, reflecting an increase of 3.2%. The difference is attributable to projected increases in employee salaries, 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. At the direction of the Commission, LAFCO staff explored trust options for holding LAFCO's assets to pay post-employment healthcare benefits. In October 2014, LAFCO adopted a resolution authorizing participation in PARS Public Agencies Post-Retirement Healthcare Plan Trust. LAFCO is considered a sub-account under the County's OPEB trust; and as such, will make all contributions through the County. Over the past four years, the Commission has appropriated \$10,000 per year to fund the LAFCO OPEB liability; that \$40,000 has been transferred into the PARS sub-account.

In order to participate in the PARS Trust program, LAFCO first needed to prepare an assessment of its future liability for retiree healthcare and other post-employment benefits. In March 2014, LAFCO completed an assessment prepared by Demsey, Filliger & Associates, LLC through a consortium with the California Special Districts Association and the California School Boards Association. The fiscal information will also be used in conjunction with LAFCO's annual financial audit.

Contra Costa LAFCO completed an alternative measurement method (AMM) assessment which differs from a full actuarial valuation. The AMM is permitted for employers with fewer than 100 plan members. The AMM is a method, characterized by permitting simplification of certain actuarial assumptions that is provided as an alternative means of measuring actuarial accrued liabilities and the annual required contribution. This method incorporates the same broad measurement steps as an actuarial valuation – projecting future cash outlays for benefits, discounting projected benefits to present value, and allocating the present value of benefits to periods using an actuarial cost method. It is recommended that employers who use the AMM perform new calculations at least every three years.

LAFCO's actuarial valuation shows an Employer-Paid Accrued Liability of \$516,522 and an annual contribution of \$52,278 which would fully fund the liability over a period of 30 years. LAFCO is not required to fund the OPEB liability at the recommended amount. The actuarial report does not reflect the \$40,000 LAFCO has accrued and placed in the new trust account. The proposed FY 2015-16 budget includes a contribution of \$40,000. The recommended amount takes into account the recent \$40,000 lump sum contribution, future fluctuations in the market, and avoids over-funding the account. It is recommended that a new AMM calculation be conducted in FY 2016-17.

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. The County provides fiscal, drafting, mapping and legal services. In addition, LAFCO contracts with private firms for website maintenance, financial auditing, planning and environmental services, and to assist with Municipal Service Reviews (MSRs) and special projects.

The FY 2015-16 budget assumes the continuation of these contract services, and proposes contract extensions with the existing auditing firm of R.J. Ricciardi, Inc. and the environmental planning firm of Lamphier-Gregory.

Services & Supplies

The amount budgeted in FY 2014-15 for *Services & Supplies* is \$301,374 and includes funding for a second round, countywide reclamation services MSR. The amount proposed for FY 2015-16 is \$285,497, reflecting a decrease of 5.3%. The decrease is primarily attributable to anticipated reductions in application processing costs (i.e., postage, drafting, GIS, and planning costs). The FY 2015-16 budget includes funding for second round MSR work and LAFCO-sponsored training (i.e. workshops).

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. We anticipate that no funds will be spent from the FY 2014-15 reserves. The FY 2015-16 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 2014-15 budget includes \$22,000 in proposal processing fees based on a multi-year historical average. It is estimated that LAFCO will receive approximately \$10,000 in application fees this year, significantly less than projected. Application activity remains sluggish. The projected application and other revenues for FY 2015-16 are projected to be \$12,000, which is significantly less than the FY 2014-15 budgeted amount. As of March 4, 2015, LAFCO has received three 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 2014-15 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 2014-15 revenues and expenses, it is estimated that the available fund balance will be over \$150,000.

The LAFCO fund balance, or any portion thereof, can be used to offset the FY 2015-16 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 2015-15 budget, as proposed, provides that, to the extent possible, the available fund balance be used to offset FY 2015-16 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 2014-15 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 2015-16 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 3.4%. The proposed use of the available fund balance will offset agency contributions for FY 2015-16. The amount of revenue from other government agencies required to fund the FY 2014-15 LAFCO budget was \$610,152. As proposed, the total amount of revenue from other government agencies needed to fund the FY 2015-16 budget will be approximately \$646,750, reflecting a 6% increase. The increase is primarily due to projected increases in personnel and OPEB liability costs and a decrease 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 2015-16 Budget Schedule approved by the 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 changes of organization (i.e., city incorporations; district formations, dissolutions, consolidations and mergers; annexations and detachments of territory to and from cities and special districts; out of agency service requests, etc.)
- 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
- 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
- Adopt an annual budget

Highlights of FY 2014-15

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

Boundary Change and Related Applications

- a. Completed proceedings for one out of agency service request, one SOI amendment, one SOI update, and six boundary changes/reorganizations.
- b. Processed two new applications including one annexation and one reorganization. Conducted one protest hearing.

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

- a. Initiated a second round reclamation services MSR covering 14 special districts. The Public Review Draft MSR report is expected to be released in June/July 2015.

Special Projects

- a. Participation in the County's EMS and fire service studies (stakeholder and community meetings).
- b. Initiated work on agriculture/open space preservation policy and workshop; will initiate work on broadband activities.

Administrative and Other Activities

- a. Conducted special election to fill Commissioner Dwight Meadows' seat.
- b. Completed Request for Proposals and awarded a contract for second round reclamation services MSR/SOI updates.
- c. Updated out of agency service policies and procedures.
- d. Hosted two informational presentations on agricultural and broadband issues.
- e. Executed Post-Retirement Medical Benefit Trust Agreement.
- f. Completed amendment to Employee Benefit Plan (Deferred Comp).
- g. Received quarterly budget reports.
- h. Completed annual employee performance reviews.
- i. Provided comments on a number of local agency environmental documents.
- j. Currently updating the LAFCO Directory of Local Agencies.
- k. Initiated FY 2013-14 financial audit.

FY 2015-16 Work Plan

The recommended work plan for FY 2015-16 includes the following activities:

- ❖ Complete second round MSR covering reclamation services.
- ❖ Initiate another second round MSR (TBD).
- ❖ Continue work on the Commissioner Handbook including developing ag/open space preservation and broadband policies, and developing new sections on Disadvantaged Unincorporated Communities (DUCs), personnel policies, and CEQA Guidelines.
- ❖ Continue to work with the County, cities and districts on boundary clean-ups/islands.
- ❖ Complete FY 2013-14 audit.
- ❖ Continue to refine electronic records for easier access.

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 (i.e., CALAFCO Legislative Committee, attendance at annual Staff Workshop and Conference, etc.). Also, LAFCO staff continues to work with the 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, recognizing the financial constraints faced by our funding agencies. Approval of the proposed budget will enable the Commission to perform its core responsibilities effectively, and continue its work on MSRs/SOI updates and other projects.

RECOMMENDATIONS

1. Receive the staff report and open the public hearing to accept testimony on the Proposed FY 2015-16 LAFCO Budget,
2. After receiving public comments close the hearing,
3. After Commission discussion, adopt the Proposed Budget for FY 2015-16, 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, 2015 to adopt the Final FY 2015-16 LAFCO Budget.

Respectfully submitted,

LOU ANN TEXEIRA
EXECUTIVE OFFICER

Attachment – Proposed FY 2015-16 LAFCO Budget

PROPOSED FY 2015-16 LAFCO BUDGET

	FY 2014-15	FY 2014-15	FY 2015-16	
	Approved	Year-End	Proposed	% Change
		(Estimated)		
Salaries and Employee Benefits				
Permanent Salaries- 1011	\$ 204,718	\$ 198,194	\$ 208,432	
Deferred Comp Cty Contribution - 1015			\$ 1,020	
FICA- 1042	\$ 15,661	\$ 15,162	\$ 16,049	
Retirement expense- 1044	\$ 100,876	\$ 100,876	\$ 105,740	
Employee Group Insurance- 1060	\$ 47,535	\$ 44,059	\$ 50,387	
Retiree Health Insurance- 1061	\$ 20,000	\$ 19,263	\$ 20,000	
Unemployment Insurance- 1063	\$ 778	\$ 637	\$ 625	
Workers Comp Insurance- 1070	\$ 1,210	\$ 979	\$ 1,000	
Total Salaries and Benefits	\$ 390,778	\$ 379,170	\$ 403,253	3.2%
Services and Supplies				
Office Expense- 2100	\$ 3,000	\$ 2,847	\$ 3,000	
Publications -2102	\$ 50	\$ 20	\$ 50	
Postage -2103	\$ 2,000	\$ 1,301	\$ 1,500	
Communications - 2110	\$ 230	\$ 230	\$ 230	
Tele Exchange Services 2111	\$ 1,061	\$ 1,058	\$ 1,375	
Minor Comp Equipment - 2132	\$ 1,000	\$ -	\$ 1,000	
Pubs & Legal Notices 2190	\$ 2,000	\$ 730	\$ 2,000	
Memberships - 2200	\$ 8,500	\$ 8,509	\$ 8,858	
Rents & Leases - 2250 (copier)	\$ 3,000	\$ 2,287	\$ 4,000	
Computer Software - 2251	\$ 500	\$ -	\$ 500	
Bldg Occupancy Costs - 2262	\$ 5,629	\$ 5,565	\$ 7,623	
Bldg Life Cycle Costs - 2265	\$ 305	\$ 252	\$ 381	
Bldg Maintenance - 2284		\$ 373	\$ -	
Auto Mileage Emp. - 2301	\$ 900	\$ 214		
Other Travel Employees - 2303	\$ 10,500	\$ 8,676	\$ 9,000	
Prof & Spec Services - 2310	\$ 213,750	\$ 130,129	\$ 198,250	
Assessor	\$ 15,000	\$ 8,939	\$ 13,000	
Financial Audit	\$ 7,000	\$ 7,000	\$ 7,000	
GIS/Mapping	\$ 22,500	\$ 11,726	\$ 20,000	
Legal	\$ 35,000	\$ 19,970	\$ 35,000	
MSRs	\$ 90,000	\$ 56,890	\$ 80,000	
Planning	\$ 40,000	\$ 21,943	\$ 38,000	
Special Projects (document imaging)	\$ 3,750	\$ 3,661	\$ 3,750	
Investment Services	\$ 500	\$ -		
LAFCO Sponsored Training	\$ -	\$ -	\$ 1,500	
Special Study		\$ -		
Contracted Temp Help - 2314 (Web)	\$ 2,820	\$ 2,820	\$ 2,880	
Data Processing Services - 2315	\$ 4,000	\$ 1,901	\$ 3,000	
Data Processing Security - 2326	\$ 131	\$ 121	\$ 223	
Courier - 2331	\$ 2,174	\$ 2,130	\$ 2,130	
Other Inter-Dept Costs - 2340	\$ 124	\$ -	\$ 97	
Liability/E&O Insurance - 2360	\$ 4,300	\$ 4,037	\$ 4,100	
Commission Training/Registration/Stipends - 2467	\$ 35,000	\$ 29,846	\$ 35,000	
NOD/NOE Filings - 2490	\$ 400	\$ 300	\$ 300	
Total Services & Supplies	\$ 301,374	\$ 203,346	\$ 285,497	-5.3%
Fixed Assets				
Office Equipment & Furniture - 4951	\$ -	\$ -		
Total Fixed Assets				
Total Expenditures	\$ 692,152	\$ 582,516	\$ 688,750	
Contingency Reserve	\$ 80,000	\$ -	\$ 80,000	
OPEB Trust	\$ 10,000	\$ 10,000	\$ 40,000	300%
TOTAL APPROPRIATIONS	\$ 782,152	\$ 592,516	\$ 808,750	3.4%
TOTAL REVENUES				
Agency contributions - 9500 & 9800	\$ 610,152	\$ 610,152	\$ 646,750	6.0%
Application & other revenues	\$ 22,000	\$ 10,000	\$ 12,000	
Interest Earnings				
Fund Balance	\$ 150,000		\$ 150,000	