



Lou Ann Teixeira
 Executive Officer

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March 14, 2018 (Agenda)

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 Agenda Item 8

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

Proposed FY 2018-19 LAFCO Budget

Dear Members of the Commission:

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act) establishes a specific process for preparing and adopting LAFCO’s budget. Government Code §56381 provides that the Commission shall annually adopt a proposed budget by May 1 and final budget by June 15, following noticed public hearings.

Contra Costa LAFCO generally adopts a proposed budget in March and a final budget in May each year. This report presents the proposed budget and work plan for FY 2018-19.

BUDGET SUMMARY: The proposed FY 2018-19 budget (attached) includes appropriations totaling \$990,735 and reflects an overall increase of 5% as compared to the approved FY 2017-18 budget. The increase is primarily attributable to relocation of the LAFCO office (September 2018), an increase in staffing, and ongoing second round Municipal Service Reviews (MSRs). Included in the total appropriations for FY 2018-19 are annual pre-funding contributions of \$40,000 to fund LAFCO’s Other Post-Employment Benefits (OPEB) liability and \$30,000 to fund LAFCO’s retirement liability (Contra Costa County Employees’ Retirement Association – CCCERA), along with an \$80,000 contingency reserve fund, all of which are comparable to current year funding. 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*. A summary of expenditures and notable variances is provided below.

Salaries & Benefits

In FY 2017-18, Contra Costa LAFCO maintained a staffing level of two full-time employees. As previously discussed with the Commission, LAFCO will add an Analyst position following relocation of the LAFCO office. As indicated below, we anticipate moving the LAFCO office to 40 Muir Road (Martinez) in September 2018.

In accordance with the relocation schedule, we anticipate bringing in the new Analyst on April 1, 2019. As proposed, the FY 2018-19 budget includes full year funding for the current two-full time positions (Executive Officer and Executive Assistant/Clerk), plus partial year funding for a new Analyst position (April – June 2019). The estimated salary for the Analyst position is based on a salary survey of comparable LAFCO Analyst positions. A job description and proposed salary range will be presented to the Commission at a future meeting.

The FY 2018-19 *Salaries & Benefits* total \$454,106, reflecting an increase of 11% over the approved FY 2017-18 budget. The increase is primarily attributable to partial year funding of salary/benefits for an Analyst position.

In comparing the FY 2017-18 approved budget to year-end estimates, we note the following variances:

- 12% overage in retirement expense due to representation of prior year overpayment
- 15% savings in employee group health insurance due to changes in benefit tier structure
- 19% savings in unemployment insurance due to reserves in the unemployment trust fund

In addition to the LAFCO employees, staff support is supplemented by private and public service providers on an as-needed basis. The County provides fiscal, drafting, mapping and legal services. Also, LAFCO contracts with private firms for website maintenance, financial auditing, environmental planning, and to assist with Municipal Service Reviews (MSRs) and special studies. The FY 2018-19 budget assumes the continuation of these contract services as reflected in the Services & Supplies accounts.

Services & Supplies

The *Services & Supplies* account includes funding for a variety of services, programs and projects including administrative (e.g., office, insurance, rent, utilities, equipment/systems, training, memberships, etc.), contract services (assessor, auditing, GIS, legal, planning, website, etc.), and programs/projects (e.g., MSRs, special studies, etc.).

The proposed FY 2018-19 budget includes \$386,629 for *Services & Supplies*, and is comparable to the FY 2017-18 budget. The proposed budget includes funding associated with relocating the LAFCO office, along with funding to complete the “city services” MSR and initiated a 2nd round MSR covering either community service areas (CSAs) or park & recreation services.

In February 2018, LAFCO released a Request for Proposals (RFP) for 2nd round “city services” covering 19 cities and four community services districts (CSDs). The schedule calls for awarding a contract in April 2018 and initiating work in May 2018. Following completion of the “city services” MSR, LAFCO will move forward with another 2nd round MSR (i.e., CSAs, parks & recreation).

In comparing the FY 2017-18 approved budget to year-end estimates, we note savings in several accounts (i.e., office expenses, communications, rents & leases, building occupancy, data processing services, inter-departmental costs) associated with the anticipated move in FY 2017-18, which will not occur. In addition, we note the following other variances:

- 30% overage in Publications & Legal Notices due to increased application activity and the Alternate Public Member vacancy
- 94% savings in legal costs due to fewer matters requiring legal services
- 212% savings in MSR expenses due to delay in initiating “city services” MSR

- 95% savings in contract planning services due to fewer matters requiring planning services
- 1,494% savings in LAFCO sponsored training due to use of an in-house facilitator versus a paid facilitator for the Commission's strategic planning session

Contingency Reserve Fund

Each year, the Commission appropriates \$80,000 for unanticipated expenses (i.e., special studies, potential litigation, etc.). The contingency funds do not accrue, and are re-appropriated each year. Use of the contingency funds is subject to Commission approval. No contingency funds have been used this fiscal year. The FY 2018-19 budget, as proposed, includes an \$80,000 contingency reserve fund, which is consistent with prior years.

Other Post-Employment Benefits (OPEB)

Since FY 2011-12, LAFCO has included in its budget an annual expense to pre-fund its OPEB liability. The FY 2011-12 through FY 2014-15 budgets included an appropriation of \$10,000 per year to fund this liability.

Following LAFCO's first actuarial valuation in 2014, the Commission increased its annual appropriation to \$40,000. In September 2016, LAFCO completed its second actuarial valuation. The report showed an Employer-Paid Accrued Liability of \$546,116, an unfunded accrued liability of \$463,815, and an annual required contribution of \$52,505. The OPEB funds are currently held in the PARS Public Agencies Post-Retirement Healthcare Plan Trust; LAFCO is a sub-account under the County's OPEB trust. To date, LAFCO has accrued \$181,633 (including interest earned).

Pre-funding Retirement Liability (CCCERA)

The FY 2017-18 budget includes a \$30,000 contribution to fund LAFCO's unfunded retirement liability. The Commission added this expense to begin prepaying a portion of its unfunded retirement liability in order to have a better contribution rate. LAFCO's current Net Pension Liability (net after plan assets) is \$359,329 (12/31/16).

LAFCO entered into an agreement with CCCERA and CCCERA's actuary determines the liability and impact of pay down. The payments made to CCCERA are added to fiduciary plan assets and earn investment income like all other assets. CCCERA does not require a separate trust like an OPEB irrevocable trust because CCCERA, by definition, is a fiduciary trust fund. CCCERA's actuary tracks payments made against the LAFCO liability, which will reduce the liability and annual contributions from employer and employees because the liability is decreasing. Every three years, an experience is performed to confirm if the valuation and assumptions used to determine the liability are on track and accurate.

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 Revenues

The FY 2017-18 budget includes an anticipated \$20,000 in proposal processing fees based on a multi-year historical average. It is projected that LAFCO will receive approximately \$40,259 in application

fees this year, significantly more than budgeted. Application activity remains high. Accordingly, the proposed FY 2018-19 budget includes \$25,000 in anticipated application fees.

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 2017-18 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 2017-18 revenues and expenses, it is estimated that the available fund balance will be over \$170,000.

The LAFCO fund balance, or any portion thereof, can be used to offset the FY 2018-19 revenues, thereby reducing contributions from the funding agencies (County, cities, districts); or placed in a reserve account, separate from the contingency reserve that is appropriated each year.

The proposed FY 2018-19 budget provides that, to the extent possible, the available fund balance be used to offset FY 2018-19 revenues.

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 5%. The proposed use of the available fund balance will offset agency contributions for FY 2018-19. The amount of revenue from other government agencies required to fund the FY 2017-18 budget was \$755,210. As proposed, the total amount of revenue from other government agencies needed to fund the FY 2018-19 budget is \$795,735, reflecting a 5% increase.

BUDGET ENHANCEMENTS

During the FY 2016-17 and FY 2017-18 budget deliberations, the Commission discussed the future of Contra Costa LAFCO and succession planning. The Commission directed staff to include in these budgets costs associated with relocation of LAFCO offices and additional staff.

Office Space - LAFCO currently leases 580± sq. ft. of office space (plus common area) at 651 Pine Street, 6th Floor in Martinez. The office space is somewhat restricted with limited opportunity to expand.

Since 2016, Contra Costa LAFCO has planned to relocate and lease office space at 40 Muir Road in Martinez. This location offers several advantages, including close proximity to the County GIS division with whom we have regular interaction, and the opportunity to lease additional office space

than is currently available at 651 Pine Street. Unfortunately, the move was delayed due to the occupancy and other issues.

We understand now that tenant improvements are underway and we have an anticipated move in date of September 2018. Costs associated with the move, rent, and related expenses are reflected in the *Services & Supplies* accounts.

LAFCO Staffing- Contra Costa LAFCO currently employs two full-time staff – an Executive Officer and an Executive Assistant/LAFCO Clerk.

For the past two years, the Commission discussed the potential to augment LAFCO staff in the future. The Commission agreed that in order to meet increased application activity demands, expand our work on local policies and procedures, embark on inventive projects and programs, enhance our public outreach and education, and maintain our current level of involvement at a statewide level with CALAFCO and other stakeholders, it is desirable to enhance LAFCO staff.

LAFCO staff is currently developing a staffing/succession plan, along with a job description and salary range for an Analyst position. This information, along with necessary amendments to LAFCO's classification, salary and benefit plans, will be presented to the Commission in the near future.

LAFCO RESPONSIBILITIES, ACCOMPLISHMENTS & GOALS

In accordance with the 2018-19 Budget Schedule approved by the Commission in February, the hearing for the Proposed Budget is scheduled for March 14th, and the hearing for the Final Budget is scheduled for May 9th. The time between these Commission actions is to allow for review and comment by those agencies that fund LAFCO and by other interested parties, and to update budget information.

Major LAFCO Responsibilities

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

- Act on proposals for changes of organization and reorganizations (i.e., annexations/ detachments, out of agency service extensions, consolidations/mergers, district formations/ dissolutions, city incorporations/disincorporations, 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/enhance services and efficiencies
- 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 changes of organization/reorganizations
- Provide public information about LAFCO and public noticing of pending LAFCO actions
- Establish and maintain a website
- Adopt and update written policies and procedures
- Adopt an annual budget

Highlights of FY 2017-18

The following represents some of LAFCO's major accomplishments in the current fiscal year:

Boundary Change and Related Applications

- a. Completed proceedings for six changes of organization/reorganization proposals
- b. Received 11 new applications including five annexations, three SOI amendments, one reorganization, one dissolution and one out of agency service request
- c. Requested approval for one transfer of jurisdiction related to a proposed annexation (Alameda LAFCO)

MSRs/SOI Updates

- a. Completed 2nd round Healthcare Services MSR
- b. Issued Request for Proposals for 2nd round “city services” MSR
- c. Received updates on West Contra Costa Healthcare District, Reclamation District (RD) 2121, EMS/Fire services, and Knightsen Town Community Services District

Special Projects/Activities

- a. The Commission participated in a strategic planning workshop (September 2017)
- b. The Commission adopted a resolution initiating dissolution of the Rollingwood Wilart Park Recreation & Park District (RWPRPD) (January 2018)

Administrative and Other Activities

- a. Appointed 2018 LAFCO Chair and Vice Chair
- b. Conducted recruitment for Alternate Public Member
- c. Appointed an ad hoc committee (Commissioners Burgis, McGill, Skaredoff) to work with RD 2121
- d. Appointed Commissioner Blubaugh to the ad hoc policies & procedures committee
- e. Completed FY 2015-16 audit
- f. Completed comprehensive website update
- g. Completed update to Directory of Local Agencies
- h. Received quarterly budget reports
- i. Completed annual employee performance reviews
- j. Provided comments on various local agency environmental documents
- k. Approved amendments to LAFCO Employee Benefit Plan (adding new health insurance options and deleting catastrophic leave provisions)
- l. Approved amendments to liability insurance policy
- m. Recognized outgoing Alternate Public Member Sharon Burke
- n. Submitted position letters on various bills affecting LAFCOs
- o. Participated in and cast a vote in SDRMA Board election
- p. Participated in and supported CALAFCO

FY 2018-19 Work Plan

The recommended work plan for FY 2018-19 includes the following activities:

- ❖ Complete 2nd round MSR/SOI updates covering “city services”
- ❖ Initiate 2nd round MSRs/SOI updates covering either CSAs or park & recreation services
- ❖ Complete dissolution of RWPRPD
- ❖ Process applications including proposed dissolution of the Los Medanos Community Healthcare District
- ❖ Resume work on updating/enhancing Commissioner Handbook including developing policies to address SOIs, disadvantaged communities, procedures for processing multi-county boundary changes, environmental guidelines, etc.
- ❖ Relocate the LAFCO office to 40 Muir Road, Martinez

- ❖ Complete LAFCO staffing/succession plan and related staffing enhancements
- ❖ Complete update to LAFCO Directory of Local Agencies
- ❖ Complete FY 2016-17 audit
- ❖ Continue to refine electronic records for easier access
- ❖ Develop a Clerk's desk manual
- ❖ Continue to participate in and support CALAFCO

In addition to the above, LAFCO staff will continue ongoing activities including processing applications; supporting Commission/Committee meetings; administering the budget; managing records, purchasing, and contracts; and performing other administrative activities. Staff will facilitate inter-agency communications; conduct education and outreach as time allows; participate in regional forums as appropriate; participate in CALAFCO training and activities (i.e., Legislative Committee, Staff Workshop, Annual Conference, CALAFCO U). LAFCO staff currently serves as Vice Chair of the Legislative Committee and is a regular presenter at the CALAFCO Annual Conference and Staff Workshop.

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, special studies, policy development and other projects.

RECOMMENDATIONS

1. Receive the staff report and open the public hearing to accept testimony on the Proposed FY 2018-19 LAFCO Budget,
2. After receiving public comments close the hearing,
3. After Commission discussion, adopt the Proposed Budget for FY 2018-19, 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 9, 2018 to adopt the Final FY 2018-19 LAFCO Budget.

Respectfully submitted,

LOU ANN TEXEIRA
EXECUTIVE OFFICER

Attachment – Proposed FY 2018-19 LAFCO Budget

c: Distribution

PROPOSED FY 2018-19 LAFCO BUDGET

	FY 2017-18	FY 2017-18	FY 2018-19	
	Approved	Year-end	Proposed	% Change
		(Estimated)		
Salaries and Employee Benefits				
Permanent Salaries– 1011	\$ 219,803	\$ 218,333	\$ 244,970	
Deferred Comp Cty Contribution - 1015	\$ 1,020	\$ 1,020	\$ 1,020	
FICA- 1042	\$ 16,925	\$ 15,594	\$ 18,740	
Retirement expense- 1044	\$ 83,576	\$ 94,683	\$ 109,514	
Employee Group Insurance- 1060	\$ 61,378	\$ 53,458	\$ 59,575	
Retiree Health Insurance- 1061	\$ 20,000	\$ 18,609	\$ 19,100	
Unemployment Insurance- 1063	\$ 593	\$ 499	\$ 122	
Workers Comp Insurance- 1070	\$ 1,075	\$ 1,001	\$ 1,065	
Total Salaries and Benefits	\$ 404,370	\$ 403,197	\$ 454,106	11%
Services and Supplies				
Office Expense- 2100	\$ 5,000	\$ 2,207	\$ 6,000	
Publications -2102	\$ 30	\$ 21	\$ 30	
Postage -2103	\$ 1,800	\$ 1,195	\$ 1,800	
Communications - 2110	\$ 2,130	\$ 830	\$ 2,524	
Tele Exchange Services 2111	\$ 1,551	\$ 1,551	\$ 1,599	
Minor Comp Equipment - 2132	\$ 1,000	\$ 2,600	\$ 1,000	
Pubs & Legal Notices 2190	\$ 3,000	\$ 4,309	\$ 4,000	
Memberships - 2200	\$ 10,228	\$ 10,173	\$ 10,503	
Rents & Leases - 2250 (copier)	\$ 4,291	\$ 5,655	\$ 5,500	
Computer Software - 2251	\$ 500	\$ 400	\$ 500	
Bldg Occupancy Costs - 2262	\$ 15,003	\$ 7,496	\$ 18,622	
Bldg Life Cycle Costs - 2265	\$ 1,565	\$ 1,565	\$ 1,455	
Bldg Maintennace - 2284	\$ 150	\$ -	\$ 150	
Auto Mileage Emp. – 2301	\$ 500	\$ 334	\$ 500	
Other Travel Employees – 2303	\$ 12,000	\$ 10,633	\$ 12,000	
Prof & Spec Services – 2310	\$ 277,414	\$ 135,280	\$ 266,075	
Assessor	\$ 10,000	\$ 10,000	\$ 12,011	
Financial Audit	\$ 8,000	\$ 8,000	\$ 8,650	
GIS/Mapping	\$ 20,000	\$ 20,000	\$ 26,000	
Legal	\$ 70,000	\$ 36,047	\$ 55,000	
MSRs	\$ 140,000	\$ 44,888	\$ 150,000	
Planning	\$ 22,000	\$ 11,280	\$ 11,000	
Special Projects (document imaging)	\$ 3,414	\$ 4,814	\$ 3,414	
LAFCO Sponsored Training	\$ 4,000	\$ 251	\$ -	
Special Studies	\$ -	\$ -	\$ -	
Contracted Temp Help - 2314 (Web)	\$ 3,380	\$ 3,380	\$ 2,880	
Data Processing Services - 2315	\$ 7,000	\$ 2,776	\$ 7,500	
Data Processing Security - 2326	\$ 221	\$ 221	\$ 231	
Courier - 2331	\$ 2,460	\$ 2,460	\$ 392	
Other Inter-Dept Costs - 2340	\$ 217	\$ 84	\$ 232	
Liability/E&O Insurance - 2360	\$ 4,700	\$ 4,990	\$ 5,436	
Commission Training/Registration/Stipends - 2467	\$ 36,000	\$ 36,610	\$ 37,000	
Application Refund - 2479		\$ 515	\$ -	
NOD/NOE Filings - 2490	\$ 700	\$ 700	\$ 700	
Total Services & Supplies	\$ 390,840	\$ 235,985	\$ 386,629	-1%
Fixed Assets				
Office Equipment & Furniture - 4951				
Total Fixed Assets				
Total Expenditures	\$ 795,210	\$ 639,182	\$ 840,735	5%
Contingency Reserve	\$ 80,000	\$ 80,000	\$ 80,000	
OPEB Trust	\$ 40,000	\$ 40,000	\$ 40,000	
CCCERA Pre-Fund	\$ 30,000	\$ 30,000	\$ 30,000	
TOTAL APPROPRIATIONS	\$ 945,210	\$ 709,182	\$ 990,735	5%
TOTAL REVENUES	\$ 945,210	\$ 795,469	\$ 990,735	
Agency contributions - 9500 & 9800	\$ 755,210	\$ 755,210	\$ 795,735	5%
Application & other revenues	\$ 20,000	\$ 40,259	\$ 25,000	
Fund Balance	\$ 170,000		\$ 170,000	