



Lou Ann Teixeira
Executive Officer

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April 14, 2021 (Agenda)

April 14, 2021
Agenda Item 8

Contra Costa Local Agency Formation Commission
40 Muir Road, 1st Floor
Martinez, CA 94553

Proposed FY 2021-22 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. This report presents the proposed budget and work plan for FY 2021-22.

BUDGET SUMMARY: The proposed FY 2021-22 budget (attached) includes appropriations totaling \$856,248 and reflects an overall decrease of approximately 14% as compared to the FY 2020-21 budget. The decrease is primarily attributable to reduced employee benefit and retirement costs personnel costs, cost savings in several services & supplies accounts, and proposed reductions in Other Post Employment Benefit (OPEB) prefunding and the contingency reserve.

Included in the total appropriations for FY 2021-22 are annual pre-funding contributions of \$25,000 to fund LAFCO's 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. It is recommended that the Commission retain the annual \$30,000 CCCERA funding, reduce the OPEB pre-funding from \$40,000 to \$25,000 as LAFCO is over 80% funded as reflected in the most recent actuarial valuation. It is also recommended that the Commission retain a 10% contingency reserve of 80,000 pursuant to Commission policy. Details regarding expenditures and revenues are presented below.

EXPENDITURES: The expenditure portion of the budget is divided into three main categories: *Salaries & Benefits, Services & Supplies, and Contingency/Liability*. A summary of expenditures and variances is provided below.

Salaries & Benefits

The FY 2021-22 staffing level includes one full-time Executive Officer (EO) and one half-time Executive Assistant/LAFCO Clerk (Clerk). As proposed, the FY 2021-22 budget retains the current staffing level. LAFCO staff is supplemented with use of consultants and County services.

The proposed FY 2021-22 *Salaries & Benefits* account totals \$380,045, reflecting a 1.8% as compared to the FY 2020-21 budget.

Regarding the FY 2020-21 budget year-end estimates, we note that the year-end estimate for *Salaries & Benefits* is lower than the budgeted amount. This is due to anticipated savings in FICA, retirement, and employee group insurance.

LAFCO is supported by private and public service providers on an as-needed basis. The County provides fiscal, drafting, mapping/GIS 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 2021-22 budget assumes the continuation of these contract services as reflected in the Services & Supplies accounts.

Services & Supplies

The *Services & Supplies* account includes funding for various 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 2021-22 *Services & Supplies* account totals \$341,203 and reflects a decrease of 22% as compared to the FY 2020-21 budget. LAFCO anticipate reductions in several accounts including communications/equipment, planning, legal, special studies, and data processing.

Regarding the FY 2020-21 adopted budget compared to year-end estimates, we anticipate savings in several accounts (i.e., *Office Expense, Minor Computer Equipment, Employee Travel, Legal, MSRs, Special Studies, Data Processing Services, and Commissioner Training*). There were no significant cost overruns or unanticipated costs.

Contingency Reserve Fund

Each year, the Commission appropriates funds for unanticipated expenses (i.e., special studies, potential litigation, etc.). The Commission's policy provides that "*the annual budget shall include a contingency reserve (i.e., 10% of budget) as determined by the Commission. Funds budgeted in the contingency reserve shall not be used or transferred to any other expense account without prior approval of the Commission.*" No contingency funds have been used this fiscal year. The FY 2021-22 budget, as proposed, includes an \$80,000 contingency reserve fund in accordance with the Commission's policy.

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. The most recent GASB report (measurement period 7/1/19 to 6/30/20) shows LAFCO's net OPEB liability is \$67,463, and that LAFCO is over 80% funded. In consultation with LAFCO's actuarial and financial auditor, it is recommended that LAFCO reduce its annual OPEB pre-funding from \$40,000 to \$25,000. Also included in the FY 2021-22 budget is funding for an actuarial valuation.

Pre-funding Retirement Liability (CCCERA)

In FY 2017-18, LAFCO began prepaying a portion of its unfunded retirement liability to have a better contribution rate. As in prior years, the FY 2021-22 budget includes a \$30,000 contribution

to fund LAFCO's unfunded retirement liability. The most recent *CCCERA Contribution Rate Report* (12/31/19 Valuation) indicates LAFCO's Unfunded Actuarial Accrued Liability (UAAL) is \$82,000. LAFCO should reevaluate its liability in the next CCCERA report and consider reducing its annual prepayment.

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 apportionments received from the County, cities, and independent special districts 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. Other revenues include application fees, available year-end fund balance, and miscellaneous revenue (e.g., interest earnings).

Application Charges and Other Revenues

The FY 2020-21 budget included an anticipated \$25,000 in application fees based on a multi-year historical average. It is projected that LAFCO will receive approximately \$16,000 in application fees in the current fiscal year, which less than anticipated as application activity has recently declined. The proposed FY 2021-22 budget includes \$20,000 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 2020-21 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 2020-21 revenues and expenses, it is estimated that the available fund balance will be over \$175,000.

The LAFCO fund balance, or any portion thereof, can be used to offset the FY 2021-22 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 2021-22 budget provides that, to the extent possible, a portion of fund balance be used to offset FY 2021-22 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 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. The CKH Act 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 decrease by approximately 14%. The proposed use of the available fund balance will offset agency contributions for FY 2021-22. The amount of revenue from other government agencies required to fund the FY 2020-21 budget was \$794,882. As proposed, the total amount of revenue from other government agencies needed to fund the FY 2021-22 budget is \$661,248, reflecting a 16.8% decrease.

LAFCO RESPONSIBILITIES, ACCOMPLISHMENTS & GOALS

The FY 2021-22 budget schedule provides for public hearings and consideration of a Proposed Budget (April 14, 2021) and a Final Budget (June 9, 2021). The time between these Commission actions is to allow for review and comment by local agencies, the public other interested parties, as well as to update budget information.

In accordance with the work plan and proposed budget, staff provides a summary of LAFCO responsibilities, accomplishments as follows.

Major LAFCO Responsibilities

LAFCO receives its authority and statutory responsibilities 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, incorporations, consolidations/mergers, district formations/ dissolutions, 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 Responsible or Lead Agency for compliance with 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 2020-21

The following is a list of LAFCO's major goals and accomplishments for FY 2020-21:

Boundary Change and Related Applications

- a. Completed proceedings for five changes of organization/reorganizations and one SOI amendment; conducted corresponding public hearings
- b. Received four new applications including two annexations and two out of agency service requests
- c. Worked with San Joaquin LAFCO on transfer of jurisdiction

MSRs/SOI Updates

- a. Initiated and released Public Review Draft 2nd round “*Parks & Recreation Services*” MSR/SOI updates covering all 19 cities, four community services districts, three park & recreation districts, one regional parks district, and eight county service areas
- b. Hired Planwest Partners, Inc. and initiated 2nd round Cemetery Services MSR/SOI updates

Special Projects/Activities

- a. Issued a Request for Proposals and hired new environmental planning firm (Swale, Inc. and Baracco Associates)
- b. Participation in ongoing fire district consolidation study (Contra Costa County Fire Protection District, East Contra Costa Fire Protection District, Rodeo Hercules Fire Protection District)
- c. Pending Litigation (Los Medanos Community Health Care District vs. Contra Costa LAFCO)

Administrative and Other Activities

- a. Appointed 2021 LAFCO Chair (Skaredoff) and Vice Chair (Schroder)
- b. Bid farewell to Commissioner Sean Wright
- c. Worked with the CC Mayors Conference on appointment of new city member Edi Birsan
- d. Completed FY 2018-19 financial audit
- e. Initiated update to LAFCO Directory of Local Agencies (underway)
- f. Ongoing website updates
- g. Quarterly budget reports
- h. Updated LAFCO Employee Salary Plan
- i. Completed employee performance review (LAFCO Clerk)
- j. Provided comments on local agency environmental documents
- k. Received updates (Chang Boundary Reorganization)
- l. Submitted position letters on various bills affecting LAFCOs
- m. Participated in and supported CALAFCO

FY 2021-22 Work Plan

The recommended work plan for FY 2021-22 includes the following activities:

- ❖ Complete 2nd round *Parks & Recreation Services* MSR/SOI updates
- ❖ Complete 2nd round *Cemetery Services* MSRs/SOI updates
- ❖ Initiate 2nd round MSR/SOI updates covering either resource conservation, mosquito & vector control, county service area (CSAs), or other services as determined by the Commission
- ❖ Policy updates (i.e., SOIs, disadvantaged communities, procedures for processing multi-county boundary changes, environmental guidelines)
- ❖ Complete FY 2019-20 financial audit
- ❖ Complete annual actuarial valuation
- ❖ 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 needed; participate in

regional forums as appropriate; and participate in CALAFCO training and activities. In addition, LAFCO staff will continue to monitor and participate in ongoing litigation (LMCHD).

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 and continue its work on MSRs/SOI updates, processing proposals, legislative activities, policy development, and other projects.

RECOMMENDATIONS

1. Receive the staff report and open the public hearing to accept testimony on the Proposed FY 2021-22 LAFCO Budget,
2. After receiving public comments close the hearing,
3. After Commission discussion, adopt the Proposed Budget for FY 2021-22, 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 June 9, 2021 to adopt the Final FY 2021-22 LAFCO Budget.

Respectfully submitted,


LOU ANN TEXEIRA
EXECUTIVE OFFICER

Attachment – Proposed FY 2021-22 LAFCO Budget

c: Distribution

PROPOSED BUDGET**FY 2021-22****FY 2020-21****FY 2020-21****Year-end****FY 2021-22****Approved****(Estimated)****Proposed****Salaries and Employee Benefits**

Permanent Salaries- 1011	\$ 208,000	\$ 208,000	\$ 218,000
Deferred Comp Cty Contribution - 1015	\$ 1,615	\$ 2,040	\$ 2,040
FICA- 1042	\$ 18,000	\$ 13,684	\$ 15,000
Retirement expense- 1044	\$ 82,120	\$ 69,278	\$ 72,000
Employee Group Insurance- 1060	\$ 46,000	\$ 36,869	\$ 40,000
Retiree Health Insurance- 1061	\$ 30,000	\$ 30,150	\$ 31,700
Unemployment Insurance- 1063	\$ 150	\$ 218	\$ 230
Workers Comp Insurance- 1070	\$ 1,115		\$ 1,075
Total Salaries and Benefits	\$ 387,000	\$ 360,239	\$ 380,045

Services and Supplies

Office Expense- 2100	\$ 4,000	\$ 1,367	\$ 4,000
Publications -2102	\$ 25	\$ 144	\$ 250
Postage -2103	\$ 1,800	\$ 2,971	\$ 1,800
Communications - 2110	\$ 2,842	\$ 1,813	\$ 2,200
Tele Exchange Services 2111	\$ 2,382	\$ 1,618	\$ 2,000
Minor Furniture/Equipment - 2131	\$ -	-	-
Minor Comp Equipment - 2132	\$ 2,000	\$ 1,500	\$ 1,800
Pubs & Legal Notices 2190	\$ 3,800	\$ 1,847	\$ 2,100
Memberships - 2200	\$ 12,373	\$ 12,344	\$ 12,501
Rents & Leases - 2250 (copier)	\$ 5,600	\$ 5,031	\$ 5,600
Computer Software - 2251	\$ 1,000	\$ 1,176	\$ 1,000
Bldg Occupancy Costs - 2262	\$ 24,569	\$ 22,488	\$ 20,512
Bldg Life Cycle Costs - 2265	\$ 1,095	\$ 1,113	\$ 1,200
Bldg Maintenance - 2284	\$ 500	\$ 1,019	\$ 1,000
Auto Mileage Emp. - 2301	\$ 500	-	\$ 500
Other Travel Employees - 2303	\$ 11,900	\$ 7,200	\$ 13,000
Prof & Spec Services - 2310	\$ 300,113	\$ 137,245	\$ 215,940
Assessor	\$ 8,000	\$ 7,971	\$ 8,000
Financial Audit	\$ 8,700	\$ 5,233	\$ 8,700
GIS/Mapping	\$ 12,000	\$ 8,194	\$ 12,000
Legal	\$ 60,000	\$ 29,994	\$ 40,000
MSRs	\$ 150,000	\$ 81,153	\$ 130,000
Planning	\$ 25,000	\$ 3,000	\$ 10,000
Special Projects (document imaging)	\$ 3,673	-	\$ 2,000
Misc Investment Services/CCCERA Fees	\$ 240	\$ 200	\$ 240
Special Studies/Workshop/Actuarial Valuation	\$ 32,500	\$ 1,500	\$ 5,000
Contracted Temp Help - 2314 (Web)	\$ 3,060	\$ 3,060	\$ 3,060
Data Processing Services - 2315	\$ 19,700	\$ 6,179	\$ 13,000
Data Processing Security - 2326	\$ 250	-	\$ 250
Courier - 2331	\$ 1,000	\$ 894	\$ 1,000
Telcomm Rents, Leases, Labor - 2335	\$ 120	\$ 110	\$ 120
Other Inter-Dept Costs - 2340	\$ 599	-	\$ 400
Liability/E&O Insurance - 2360	\$ 6,854	\$ 6,854	\$ 6,170
Commission Training/Registration/Stipends - 2467	\$ 31,000	\$ 13,200	\$ 31,000
NOD/NOE Filings - 2490	\$ 800	\$ 550	\$ 800
Total Services & Supplies	\$ 437,882	\$ 229,723	\$ 341,203
Total Expenditures	\$ 824,882	\$ 589,962	\$ 721,248
Contingency Reserve	\$ 100,000		\$ 80,000
OPEB Trust	\$ 40,000	\$ 40,000	\$ 25,000
CCCERA Pre-Fund	\$ 30,000	\$ 30,000	\$ 30,000
TOTAL APPROPRIATIONS	\$ 994,882	\$ 659,962	\$ 856,248
TOTAL REVENUES	\$ 994,882	\$ 985,576	\$ 856,248
Agency contributions - 9500 & 9800	\$ 794,882	\$ 794,882	\$ 661,248
Application & other revenues	\$ 25,000	\$ 15,694	\$ 20,000
Fund Balance	\$ 175,000	\$ 175,000	\$ 175,000