

**EXECUTIVE OFFICER'S AGENDA REPORT
APRIL 26, 2017**

TO: LAFCO Commissioners

FROM: Sara Lytle-Pinhey, Executive Officer *SLP*

SUBJECT: PROPOSED LAFCO BUDGET FOR FISCAL YEAR 2017-2018

RECOMMENDATION

It is recommended that the Commission:

1. Receive the Executive Officer's report and accept public testimony regarding the Proposed LAFCO Budget.
2. Direct Staff as needed to make changes to be incorporated within the Final Budget, including use of undesignated fund balance, and Adopt Resolution No. 2017-05, approving the Proposed LAFCO Budget for Fiscal Year 2017-2018.
3. Schedule a public hearing for May 24, 2017, to consider and adopt the Final LAFCO Budget for Fiscal Year 2017-2018.

EXECUTIVE SUMMARY

The Proposed Fiscal Year (FY) 2017-2018 Budget includes operating expenses totaling \$453,375 and reflects a 10% increase as compared to the 2016-2017 budget. The increase is primarily attributable to increases in health insurance and retirement costs. The Proposed Budget maintains the core staffing of LAFCO (3 full-time employees), as reinstated in the FY 2016-2017 budget.

An analysis of the Commission's estimated year-end fund balance is also included in this report. Following allocations of reserve funds, Staff recommends the use of \$70,000 in undesignated fund balance to offset the FY 2017-2018 budget. Table 1, below, summarizes the Proposed Budget and includes a comparison to the current and prior year's budgets.

Table 1: LAFCO Proposed Budget Summary

Expenses	Prior Budget FY 2015-16	Current Budget FY 2016-17	Proposed Budget FY 2017-18	% Change (Proposed v. Current)
Salaries & Benefits	\$375,906	\$332,382	\$376,530	13%
Services & Supplies	61,044	77,373	74,345	-4%
Other Charges	3,200	2,750	2,000	-27%
Total Expenses	\$440,150	\$412,505	\$453,375	10%
Revenues				
Undesignated Fund Balance	(\$62,940)	(\$75,569)	(\$70,000)	-7%
Application & Other Revenues	-	(6,000)	(9,000)	-
Agency Contributions	\$377,210	\$330,936	\$374,375	13%

A detailed breakdown of each account for the Proposed Fiscal Year 2017-2018 Budget is attached to this report.

BACKGROUND

LAFCO is an independent commission established in each county by the State legislature. The Cortese-Knox-Hertzberg Local Government Reorganization Act establishes the specific funding methods and process for the annual LAFCO budget.

The Commission is funded by the County and its nine cities. Adopting the LAFCO budget is the responsibility of the Commission. The statutes governing LAFCO and directing its operations do not require separate approval of the financial program by the County, the nine cities, the independent special districts, nor any other local governmental agency. Section 56381(a) of the Government Code provides that:

- 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.

Following adoption of a final budget, the County Auditor will allocate and charge LAFCO's final net budget to all participating local agencies as outlined under Government Code Section 56381(b).

EXPENSES

The expense portion of the Proposed Budget is divided into three main categories: Salaries and Benefits, Services and Supplies, and Other Charges.

SALARIES AND BENEFITS (Accounts 50000+)

Expenses in the salaries and benefits category are projected to increase in Fiscal Year 2017-2018. LAFCO's employee benefits mirror the County's benefits, including health insurance and retirement (through StanCERA), pursuant to a Memorandum of Understanding between the County and the Commission. Estimates for increases in these accounts are provided by the County during each budget cycle and are incorporated into the LAFCO Budget. For FY 2017-2018, the County estimates that retirement costs will increase by 15%. Additionally, at the start of the next calendar year, health insurance costs are anticipated to increase by 5%. For LAFCO Staff, health insurance costs show a starker increase in FY 2017-2018 based on full use of the benefit. (Previously, costs had been significantly lower due to waiver of the available benefit.)

Additional increases in this category include a 3% salary increase that was approved by the Board of Supervisors, effective July 1, 2017, for unrepresented employees. The Board also approved the reinstatement of Professional Development benefits, which had been suspended since FY 2009-2010. Each of these increases has been included in to the Salaries and Benefits Category for the Proposed Budget. Overall, the budget for Salaries and Benefits is equivalent

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to the prior year (FY 2015-2016), although staffing has since returned to the core level of three full-time employees.

SERVICES AND SUPPLIES (Accounts 60000+)

The proposed expenditures in the Services and Supplies category have decreased slightly compared to the FY 2016-2017 budget. This is primarily due to costs for an independent audit being budgeted on a biennial basis. Increases within this category include items associated with the County's Cost Allocation Plan (CAP) charges for various services provided to LAFCO, including the County payroll, information technology, accounts payable/receivable, mailroom services, building services, and overhead charges. The following are highlights of various line items in the Services and Supplies category.

Outside Data Processing Services (Account #63990)

LAFCO's information technology services are provided by the County's Strategic Business Technology Department (SBT). SBT also houses the County's Geographical Information Systems (GIS) division, which offers reduced pricing for GIS license fees to County departments and partner agencies. New to this line item is the estimated annual cost for videotaping, televising, and live-streaming LAFCO meetings, totaling \$2,200. This additional service was added in FY 2016-2017 at the Commission's direction and was temporarily absorbed by the Miscellaneous Expense fund.

Building Maintenance & Supplies (Account #63000)

Each year, the Tenth Street Place JPA provides estimates of costs for building maintenance, utilities, and custodial expenses and divides these among the tenants in the building. During FY 2016-2017, the JPA incurred higher than anticipated costs for building maintenance that were passed on to Tenth Street Place tenants. (For LAFCO, this represented a \$1,000 increase in building maintenance and supplies costs.) This expense is expected to further increase in FY 2017-2018, although an exact amount will not be known until after LAFCO's approval of the budget. Staff will monitor this line item if adjustments are needed or further information is provided prior to Final Budget.

Education and Training (Account #65780)

An increase of \$300 is proposed in the education and training account to reflect minor increases in CALAFCO's annual conference and staff workshop registration fees. These training opportunities provide valuable learning forums for Commissioners and Staff. As in past budgets, the proposed budget includes funding for two Staff members and two to three Commissioners attendance at the annual CALAFCO Conference, as well as funding for Staff's attendance to the CALAFCO staff workshop.

Commission Expense (Account #65890)

The estimated Commission Expense for FY 2017-2018 is proposed to remain at \$6,100. The majority of this is expended on monthly meeting attendance stipends, with remaining funds used for Commissioner travel expenses to trainings, as opportunities arise. During Fiscal Year 2016-2017, no travel expenses were incurred by the Commission, resulting in a savings in this account. For the upcoming year, it is anticipated that the Commission will have one cancelled

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meeting in October, due to overlap with CALAFCO annual conference, resulting in stipend savings.

OTHER CHARGES (Accounts #70000+)

This category includes one account (#73024) for copy costs and a shared portion of the copier lease with the County Planning Department. These costs are trending lower than projected in the current fiscal year, as Staff strives to eliminate paper copies. Therefore, it is recommended that this account be reduced slightly to \$2,500.

REVENUES

The primary revenue source for LAFCO is contributions from the County and nine cities. Government Code Section 56381(b)(2) requires that the county and its cities shall each provide a one-half share of the commission's operational costs. By statute, the cities share is apportioned by the County Auditor relative to each city's total revenues, as reported in the most recent edition of the Cities Annual Report published by the State Controller.

In addition to scheduled municipal service review updates and a steady receipt of out-of-boundary service applications, Staff is aware of at least three annexation proposals that are in various planning stages and may be received in FY 2017-2018. Annexation applications are processed at actual cost, with deposits for different types starting at \$3,000 and increasing based on estimated complexity or combined requests. For FY 2017-18, Staff proposes budgeting estimated fee revenues of \$9,000. Application fees that are received in any given year can vary widely, so this item is estimated conservatively. Any additional revenue received above this amount will be credited during the Commission's next budget cycle.

FUND BALANCE & RESERVE FUNDS

Government Code Section 56381(c) provides that "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."

From 2001-2015, the Commission accumulated a surplus fund balance. Although the Commission had been regularly using portions of the fund balance to offset the subsequent year's budget (reducing agency contributions), an overall accumulation of positive fund balance occurred.

In 2015, an analysis was completed and the Commission reimbursed the majority of its undesignated fund balance, totaling \$437,139, back to the County and the nine cities. A remaining portion of the fund balance was used to maintain a General Reserve Fund (15% of operating expenses) and an Accrued Leave Fund (cash-out liability), consistent with the Commission's recently adopted Reserve Policy.

Table 2 outlines the changes to the fund balance based on projected operating revenues and expenses in the current fiscal year. The actual amount of the FY 2016-17 fund balance will be calculated at year end (typically by September). However, based on the beginning year fund balance (including additional revenues from FY 2015-2016), and projected FY 2016-17 revenues and expenses, Staff has estimated a year-end fund balance of \$305,229.

Reserve Funds

Consistent with the Commission's adopted Reserve Fund Policy, Staff recommends a General Reserve Fund of \$68,100 (15% of operating expenses) and an Accrued Leave Fund (based on estimated cash-out liability) of \$82,700. This results in an estimated \$154,429 undesignated fund balance.

Table 2: LAFCO Fund Balance

Fund Balance July 1, 2016	\$	340,091	
Revenues	Estimated Year-End	Budgeted FY 16-17	Difference
City/County Contribution	\$ 330,936	\$ 330,936	\$ -
Application Revenue	30,051	6,000	(24,051)
Interest	2,661	-	(2,661)
Total Revenues	\$ 363,648	\$ 336,936	\$ (26,712)
Expenses	Estimated Year-End	Budgeted FY 16-17	Difference
Salaries and Benefits	\$ 331,294	\$ 332,382	\$ 1,088
Services And Supplies	65,216	77,373	12,157
Other Charges (Copier)	2,000	2,750	750
Total Expenses	\$ 398,510	\$ 412,505	\$ 13,955
Estimated Fund Balance June 30, 2017	\$	305,229	
<i>General Reserve Fund (15%)</i>		<i>(68,100)</i>	
<i>Accrued Leave Fund (Cash-Out Liability)</i>		<i>(82,700)</i>	
Est. Undesignated Fund Balance	\$	154,429	

Fund Balance Options

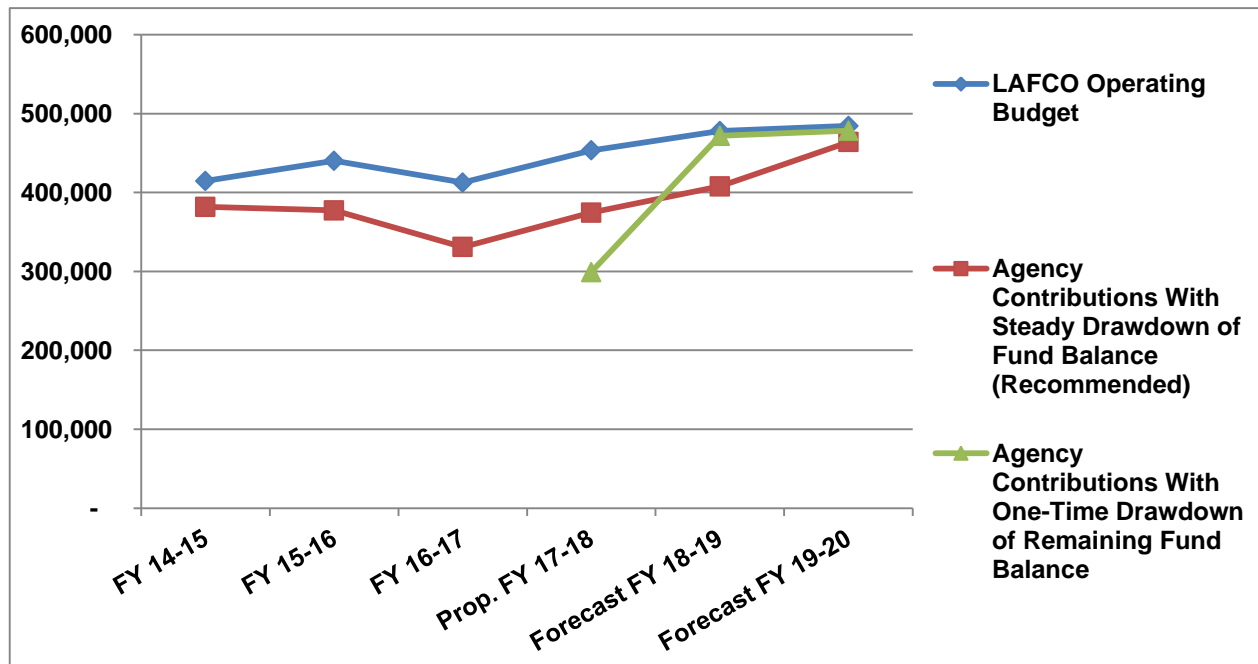
As the Commission depletes the remainder of its undesignated fund balance, agency contributions will see a corresponding increase in their allocation amounts. Staff considered two options with the FY 2017-2018 Proposed Budget: Use of the *entire* remaining undesignated fund balance (\$154,429) to offset the Proposed Budget or use of *partial* remaining fund balance for FY 2017-2018 and remainder for FY 2018-19 to transition into a budget year where agency contributions are no longer substantially offset by fund balance.

Staff recommends using \$70,000 of the undesignated fund balance to offset the proposed FY 2017-2018 Budget. This steady drawdown of remaining fund balance results in agency contributions that are higher than those of the current year, but similar to those in FY 2015-2016. Forecasting ahead to future allocations, additional increases would occur in agency contributions, but at a steadier rate, as shown in the following table and chart.

Table 3: Total Budget & Agency Contributions

	FY 15-16	FY 16-17	Proposed FY 17-18	Forecasted FY 18-19	Forecasted FY 19-20
Total Budget	\$ 440,150	\$ 412,505	\$ 453,375	\$ 477,760	\$ 484,320
Agency Contributions	377,210	330,936	374,375	407,760	463,755
Fund Balance Beg.	589,136	340,091	305,229	235,229	171,229
Drawdown	(249,045)	(34,862)	(70,000)	(64,000)	(11,581)
Fund Balance End	340,091	305,229	235,229	171,229	159,648
Designated Reserves: 15% Reserve		62,000	68,100	71,664	72,648
<i>Accrued Leave</i>		51,800	82,700	85,000	87,000
<i>Total Reserves</i>		\$ 113,800	150,800	156,664	\$ 159,648
Available Fund Balance to Offset Next FY Budget			\$ 84,429	\$ 14,565	\$ 0

Chart 1: Forecast of Agency Contributions



Unfunded Pension Liability (GASB 68)

An additional consideration is the Commission's unfunded pension liability. During adoption of the FY 2016-2017 Budget, the Commission was made aware of a new accounting requirement known as GASB 68. GASB 68 requires employers to report long-term unfunded pension liabilities. Accounting and budgeting for retirement costs are based on retirement contribution rates that are updated annually using actuarial analysis and adopted by the StanCERA Board.

The rates are subsequently approved by the County Board of Supervisors, and participating departments and agencies are charged for their respective employees throughout the year for the current liability due for retirement contributions to the retirement system.

As a result of GASB 68, the unfunded pension is required to be reported beyond the current period. This required a prior period adjustment to account for the full retirement liability exposure. For LAFCO this adjustment is reflected on the balance sheet as a \$267,843 long-term retirement liability. It does not impact the normal operating budget of LAFCO; however, the long-term goal is for the liability to be funded.

WORK PROGRAM & APPLICATION ACTIVITY

During the current fiscal year, Staff processed three district annexations, municipal service review and sphere updates for six special districts, a city sphere of influence amendment (with an updated municipal service review), and six out-of-boundary service extension applications. Staff has seen a steady increase in inquiries regarding both city and district boundary and sphere of influence information.

For the upcoming fiscal year, Staff expects to complete the Commission's 2017 adopted work program for municipal service reviews and sphere of influence updates. Staff also anticipates initiating updates for two city municipal service review documents. Other goals include enhanced coordination with the County's Geographical Information System's staff to ensure current and accurate boundary data for the cities and special districts is publicly available.

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 MSR/SOI updates, policy development, and current projects.

Attachments: LAFCO Resolution No. 2017-05
Proposed Fiscal Year 2017-2018 Budget Detail

DRAFT

**STANISLAUS COUNTY LOCAL AGENCY
FORMATION COMMISSION**

RESOLUTION

DATE: April 24, 2017

NO. 2017-05

SUBJECT: Adoption of the Proposed LAFCO Budget for Fiscal Year 2017-2018

On the motion of Commissioner _____, seconded by Commissioner _____, and approved by the following vote:

Ayes: Commissioners:
Noes: Commissioners:
Absent: Commissioners:
Ineligible: Commissioners:

THE FOLLOWING RESOLUTION WAS ADOPTED:

WHEREAS, Government Code Section 56381(a) requires the Commission to adopt annually, following noticed public hearings, a proposed budget by May 1 and a final budget by June 15;

WHEREAS, the Stanislaus Local Agency Formation Commission wishes to provide for a budget to fulfill its purposes and functions as set forth by State law;

WHEREAS, pursuant to Government Code Section 56381(a), the proposed budget must be, at a minimum, equal to the previous budget, unless a finding is made that the reduced costs will nevertheless allow the Commission to fulfill the purposes and programs of the Stanislaus Local Agency Formation Commission (LAFCO);

WHEREAS, approval of the Proposed Budget will enable the Commission to perform its core responsibilities effectively, and to continue its work on State mandated Municipal Service Reviews and Sphere of Influence Updates;

WHEREAS, the Commission mailed notices of the Proposed Budget to the County Board of Supervisors, the nine cities and the independent special districts; published a notice in Modesto Bee, and posted said notice on its website; and

WHEREAS, the Commission has conducted a public hearing on April 26, 2017, to consider the Proposed Budget for Fiscal Year 2017-2018, as submitted by the Executive Officer.

NOW, THEREFORE, BE IT RESOLVED that the Commission:

1. Finds that the Proposed Budget for Fiscal Year 2017-18 will allow the Stanislaus Local Agency Formation Commission to fulfill the purposes and programs of the Cortese-Knox-Hertzberg Local Government Reorganization Act.
2. Adopts the Proposed Budget for Fiscal Year 2017-18 as outlined in Exhibit 1, in accordance with Government Code Section 56381(a),

3. Hereby schedules the public hearing to consider the adoption of the Final Budget for Fiscal Year 2017-18, for the Commission's May 24, 2017 meeting.

ATTEST:

Sara Lytle-Pinhey
Executive Officer

Attachment: Proposed Fiscal Year 2017-2018 Budget

Stanislaus LAFCO
PROPOSED FISCAL YEAR 2017-2018 BUDGET

Account	FY 16-17 Legal Budget	FY 16-17 Estimated Year-End	FY 17-18 PROPOSED BUDGET	Increase or (Decrease)	% Change
Salaries and Benefits					
50000+ Salaries and wages	\$ 210,931	\$ 210,931	\$ 231,200	\$ 20,269	10%
52000 Retirement	53,350	49,500	61,360	8,010	15%
52010 FICA	18,483	16,375	18,310	(173)	-1%
52020 Deferred comp - part-time	-	(3)	-	-	-
53000 Group health insurance	39,731	41,500	53,195	13,464	34%
53009 OPEB health insurance liability	2,627	2,627	2,735	108	4%
53020 Unemployment insurance	225	90	300	75	33%
53051 Benefits admin fee	190	175	190	-	0%
53081 Long term disability	325	325	360	35	11%
54000 Workers compensation insurance	920	924	1,045	125	14%
55000 Auto allowance	2,400	2,400	2,400	-	0%
55080 Professional development	-	2,200	2,200	2,200	nb
55130 Deferred comp mgmt/conf	3,200	3,050	3,235	35	1%
55130 Cafeteria pln hlth cashout	-	1,200	-	-	nb
Total Salaries and Benefits	\$ 332,382	\$ 331,294	\$ 376,530	\$ 44,148	13%
Services and Supplies					
60400 Communications (SBT - Telecom)	\$ 1,055	\$ 1,055	\$ 1,120	\$ 65	6%
61000 Insurance (SDRMA)	2,900	2,809	3,240	340	12%
61030 Fiduciary liability insurance	30	36	40	10	33%
62200 Memberships (CSDA, CALAFCO)	5,290	5,321	5,670	380	7%
62400 Miscellaneous expense	3,000	2,250	3,000	-	0%
62410 Rebates & refunds	-	(26)	-	-	nb
62450 Indirect costs (A87 roll forward)	(423)	(1,847)	2,195	2,618	-619%
62600 Office supplies	1,500	1,500	1,500	-	0%
62730 Postage	1,200	1,200	1,200	-	0%
62750 Other mail room expense	325	325	400	75	23%
63000 Professional & special serv	10,923	11,708	13,065	2,142	20%
Building maint & supplies	2,340	3,250	3,420	1,080	46%
Office lease	3,683	3,683	3,950	267	7%
Utilities	1,440	1,250	1,400	(40)	-3%
Janitorial	460	550	575	115	25%
Purchasing	325	175	275	(50)	-15%
CEO/Risk Mgt overhead	2,675	2,800	3,445	770	29%
63090 Auditing & accounting	2,048	2,120	2,765	717	35%
63400 Engineering services	2,000	2,000	2,000	-	0%
63640 Legal services	16,000	12,000	16,000	-	0%
63990 Outside data proc services (IT & GIS Lic)	6,600	6,500	8,900	2,300	35%
IT Services	5,400	5,300	5,500	100	2%
<i>New</i> Video Streaming		<i>prev billed from #62400</i>	1,000	1,000	nb
<i>New</i> Mtg Recording (Final Cut Media)		<i>prev billed from #62400</i>	1,200	1,200	nb
GIS License	1,200	1,200	1,200	-	0%
65000 Publications & legal notices	800	750	800	-	0%
65660 Special dept expense (Biennial Audit)	12,000	8,000	-	(12,000)	-
65780 Education & training	5,200	5,200	5,500	300	6%
65810 Other supportive services (messenger)	250	200	230	(20)	-8%
65890 Commission expense (stipends, training)	6,100	3,600	6,100	-	0%
67040 Other travel expenses (mileage)	500	400	500	-	0%
67201 Salvage disposal	75	115	120	45	60%
Total Services and Supplies	\$ 77,373	\$ 65,216	\$ 74,345	\$ (3,029)	-4%
Other Charges					
73024 Planning dept services	\$ 2,750	\$ 2,000	\$ 2,500	\$ (250)	-9%
Total Other Charges	\$ 2,750	\$ 2,000	\$ 2,500	\$ (250)	-9%
TOTAL EXPENSES	\$ 412,505	\$ 398,510	\$ 453,375	\$ 40,870	10%
TOTAL REVENUES					
40680+ Agency Contributions	330,936	330,936	374,375	43,439	13%
36414 Application & Other Revenues	6,000	30,051	9,000	3,000	50%
17000 Interest Earnings	-	2,661	-	-	-
Undesignated Fund Balance (Est.)	\$ 75,569	\$ 75,569	\$ 70,000	\$ (5,569)	-7%

Stanislaus LAFCO
PROPOSED FISCAL YEAR 2017-2018 BUDGET
Reserve Funds & Undesignated Fund Balance

Estimated Fund Balance June 30, 2017	\$	305,229
<i>General Reserve Fund (15%)</i>		(68,100)
<i>Accrued Leave Fund (Cash-Out Liability)</i>		(82,700)
Undesignated Fund Balance (Est.)	\$	154,429