

**EXECUTIVE OFFICER'S AGENDA REPORT
MARCH 25, 2015**

TO: LAFCO Commissioners
FROM: Marjorie Blom, Executive Officer *MB*
SUBJECT: Adoption of the Proposed LAFCO Budget for FY 2015-2016

RECOMMENDATION

It is recommended that the Commission:

1. Receive the Executive Officer's report, accept any public testimony, modify the proposal if necessary, and adopt Resolution No. 2015-05, approving the Proposed Budget for Fiscal Year 2015-2016, in the amount of \$436,150.
2. Direct Staff to distribute the Proposed Budget, upon adoption, to the Board of Supervisors, each City, and to each Independent Special District pursuant to Government Code Section 56381(a).
3. Schedule a public hearing for May 27, 2015, to consider and adopt the Final LAFCO Budget for Fiscal Year 2015-2016.

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 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, upon its adoption, to all participating local agencies as outlined under Government Code Section 56381(b).

PROPOSED BUDGET SUMMARY

For Fiscal Year (FY) 2015-16, cost containment measures, such as reducing nonessential expenditures in services and supplies accounts, along with carrying over net savings, continue to be utilized to limit and/or decrease budgetary growth.

EXPENDITURES

The total Proposed Budget for Fiscal Year (FY) 2015-16 is \$436,150. The Proposed Net Budget or the amount which would be allocated to the County and the nine cities is proposed at \$389,008. This net budget cost reflects off-sets including \$38,202 for estimated employee cash out liabilities and \$8,940 in estimated budget savings from this current fiscal year.

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

**Stanislaus Local Agency Formation Commission
PROPOSED BUDGET SUMMARY COMPARISON
FY 2014-2015 & 2015-16**

CATEGORIES	ADOPTED BUDGET FY 2014-15	PROPOSED BUDGET FY 2015-16	% CHANGE
Salaries & Benefits	\$329,655.00	\$375,906.00	14.03%
Services & Supplies	\$62,850.00	\$42,050.00	-33.09%
Other Charges	\$21,971.00	\$18,194.00	-17.19%
TOTAL EXPENSES	\$414,476.00	\$436,150.00	5.23%
Est Revenue Carry-Over	(\$12,000.00)	(\$38,202.00)	218.35%
Year-End Net Savings	(\$20,900.00)	(\$8,940.00)	-57.22%
NET BUDGET COST	\$381,576.00	\$389,008.00	1.95%

**Estimated Fee Revenue for FY 2014/15 – currently at \$2,500, as of March 17, 2015*

***Fee Revenue Carryover from FY 2013/14*

ALLOCATIONS/REVENUES

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 shall be apportioned by the County Auditor in proportion to each city's total revenues, as reported in the most recent edition of the Cities Annual Report published by the State Controller.

The estimated LAFCO service fee revenues, for next fiscal year is \$12,000, which is the same as previous budget years. The amount has been conservatively estimated, so as to not create a budget deficit caused by unrealized revenues. *(With the exception of this current fiscal year, fee revenues have in the past, exceeded the estimated \$12,000 in fee revenues.)*

FINANCIAL AUDIT

At your December 3, 2014 meeting, the Commission approved a Professional Services Agreement with Robert A. Hawks, Jr. CPA for financial auditing services to perform a comprehensive review of the agency's financial statements for the fiscal years ending June 30, 2001 thru June 30, 2014. Completion of the Audit will also confirm the Commission's existing fund balance. According to Mr. Hawks, the status of the Audit is still in process, however, he expects to finish the Audit by June 30, 2015.

Upon completion and acceptance of the Audit, Staff will bring forth to the Commission a formal

Reserve Fund Policy. A formal reserve policy would also outline how the Commission intends to designate its net assets (reserves/fund balance/accrued annual interest), once classified in a statement of financial position (e.g. audit).

Adoption of a reserve fund policy will also communicate to the Commission's funding agencies (the County and nine cities), interested agencies and the general public how the Commission intends to utilize its fund balance during the annual LAFCO budget process. Further, the policy would establish guidelines and requirements for the classification of fund balances consistent with the Governmental Accounting Standards Board (GASB) Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for local governmental agencies.

As part of the adoption of the Reserve Fund Policy, Staff anticipates recommending to the Commission, future distribution of the available unassigned fund balance to its funding agencies, beginning in Fiscal Year 2016-17 through Fiscal Year 2020-21.

PROPOSED NET BUDGET

For next FY 2015-16, in order to maintain the practice of utilizing budget offsets to reduce the Commission's overall operating expenses for our funding agencies (the County and nine cities), Staff proposes that:

- The Commission utilize a portion of estimated current year-end net savings in the amount of \$8,940; along with utilizing unrealized reserve funds, in the amount of \$38,202 (employee cash out liability), for a total budget offset of \$47,142.

PROPOSED BUDGET NARRATIVE AND DETAIL SUMMARY TABLE

The following information has been prepared and is attached for the Commission's review and consideration: Attachment 1 – a Narrative Budget which explains each budget category and the reasons for the changes for the upcoming year; and Attachment 2 – a Budget Detail Summary which compares the general category costs for the current year, including the adopted budget amounts for FY 2014-15, and the proposed budget for FY 2015-16.

CONCLUSION

The proposed budget has very few corners to cut. The most obvious are the funds budgeted for attendance at the annual CALAFCO Conference and Staff Workshop. These educational opportunities available for your Staff and new Commissioners are important to understand LAFCO's role and purpose. If the Education and Training line item is reduced this year, it would be important to consider it again in next year's fiscal budget.

Consideration and Adoption of Final Budget

Consideration and adoption of a final budget must occur prior to June 15th. Therefore, the Public Hearing for the Final LAFCO Budget for FY 2015-2016 has been scheduled for the Commission's May 27, 2015 meeting.

Attachments: Attachment 1: Budget Narrative
Attachment 2: Budget Detail Summary
LAFCO Resolution No. 2015-05

ATTACHMENT 1
PROPOSED FY 2015-2016 BUDGET NARRATIVE

DISCUSSION OF INDIVIDUAL BUDGET CATEGORY ITEMS

The proposed budget for Fiscal Year (FY) 2015-2016 consists of authorized expenditures and projected revenues, which are highlighted below in narrative form by budget category.

SALARIES AND BENEFITS

This budget category includes funds for LAFCO employee salaries and benefits, including retirement; unemployment insurance; medical, dental and vision insurance; workers compensation; and Medicare.

For FY 2015-16, employee salaries are to be restored (per County BOS Resolution No. 2014-291); along with funding the employee cash out liability for the retiring current Executive Officer. (Please refer to the Reserve Fund narrative under Service & Supplies for additional information regarding one-time employee liability costs associated with the retiring Executive Officer.) Recruitment for the Executive Officer position is currently underway, therefore any potential cost savings from hiring a new Executive Officer is unknown at this time; and may, if possible, be determined at Final Budget.

Continued for next FY is to maintain the minimum staffing level of 2.5 employees. Not currently recommended is to increase the Commission Clerk's hours from part-time to full-time. Changes to restore the part-time Commission Clerk to the allocated full-time level will require Commission approval.

Estimated expenditures proposed for this budget category totals \$375,906.

SERVICES & SUPPLIES

The Services and Supplies expense category includes costs associated with office supplies, publications and legal hearing notices, insurance, membership dues, Commissioner Stipends, education and training, Legal Counsel, and miscellaneous (contingency funds).

Overall, estimated expenditures proposed for this budget category are trending 33% or \$20,800 less than last year's adopted budget - for a proposed total of \$42,050.

County Charges

Charges under this category are set by the County and include expenses from: SBT (telecommunications, IT services); General Services Agency (postage metering and mailroom services), as well as the County Auditor's Office (Accounting/Payroll). Also included in this budget category are County indirect and/or overhead charges from the Chief Executive Office (CEO).

Some County charge accounts have been grouped into a new line item account (63000) under "Services and Supplies", which were formerly booked under "Other Charges". This change is upon the recommendation of the Auditor-Controller's Office.

Membership Dues/General Liability Insurance

CALAFCO – The California Association of Local Agency Formation Commissions (CALAFCO) was founded in 1971. CALAFCO serves as an organization dedicated to assisting LAFCOs with

educational and technical resources, as well acts as a resource to the Legislature and other bodies.

The annual CALAFCO dues have remained flat for the past several years. However, on January 30, 2015, the CALAFCO Board of Directors implemented a 1.5% Consumer Price Index or "CPI" increase for next year. Therefore, the CPI increase will equate to an additional \$56 over the current dues of \$3,747, for a total of \$3,803.

CSDA/SDRMA - Stanislaus LAFCO is a member of the California Special Districts Association (CSDA), which allows the Commission to participate in programs and/or services offered by CSDA and/or their affiliates. Estimated CSDA membership dues for next fiscal year are \$1,197.

Payment of the CSDA membership dues allows LAFCO to purchase, at a lower cost, property and general liability insurance through the Special Districts Risk Management Authority (SDRMA). On February 12, 2015, the SDRMA Board voted to keep the Fiscal Year 2015-16 member rates flat for the Property/Liability Program. Therefore, this line item total is expected to remain at \$2,750.

Education and Training

Expenses for attendance at the annual CALAFCO Conference, staff workshops, and other educational opportunities, which become available throughout the year have been included in the previous budgets and are included in the Proposed Budget.

Conference attendance for education and training opportunities provide valuable learning forums for Commissioners and Staff. CALAFCO conferences, workshops and courses are also accredited by the California Bar and the American Planning Association.

The proposed budget typically includes funding for two staff members and two or three Commissioner's attendance at the annual CALAFCO Conference, as well as funding for Staff attendance at the annual CALAFCO Staff Workshop. The 2015 CALAFCO Conference will be held September 2-4, 2015, in Sacramento. The CALAFCO Annual Staff Workshop will be held in the Los Angeles area, Spring 2016.

Funding for miscellaneous educational opportunities of interest to the Commission and Staff, which arise throughout the fiscal year, such as the annual county planning commissioners' workshop, and/or CALAFCO University courses, is also included in the proposed budget.

Based on the above, Staff is proposing that the Education and Training Budget continue to be funded at \$5,000.

Commission Expense

The estimated Commission expense for FY 2015-16 is proposed to remain at \$6,100. Commission expenses include the monthly meeting attendance stipends, other minor miscellaneous charges including Commissioner Nameplates, out-going Commissioner Plaques and/or acknowledgments.

Commissioner conference registration and/or travel accommodations may also be included in this line item, should additional Commissioners wish to attend CALAFCO Conferences and/or CALAFCO University events.

Other Travel

The line item of "other travel" reflects expenses associated with the Commission and Staff travel costs, which includes mileage reimbursement, gasoline charges, parking fees, etc. The annual cost is recommended to remain at \$500.

Contingencies/Miscellaneous Expenses

The contingency fund, for FY 2015-16, is recommended to be minimally maintained at \$3,000. This line item has been established to assist in reducing LAFCO's exposure to operating shortfalls or unexpected expenses, if necessary.

Reserve Fund Account

The primary purpose of the Reserve Fund Account is to: 1) allocate reserve monies to fund the hiring of outside legal and/or consultant services; 2) ensure that funds are available to cover liability costs associated with future employee cash-out benefits; and 3) maintain funds in reserve to stabilize LAFCO's operating revenues.

With regards to future employee cash-outs, or unanticipated expenditures related to retirement or termination cash-outs, our Agency must absorb these costs within our departmental budget. Since 2001, there have been two retirements of long-time LAFCO/County employees, with the cash out liabilities funded by LAFCO.

The Commission's Reserve Fund (Special Department Expense) has been re-built over the past several years as a safety net for future unexpected liabilities, such as employee benefit cash outs.

As the Commission is aware, the current Executive Officer has announced her retirement which will coincide with the beginning of next year's fiscal year budget. The timing of this retirement allows for the Commission to budget for her employee benefit cash out, which is expected to be paid from past reserve fund savings. Therefore, as there are sufficient funds the Commission's Reserve Fund at this time, no funding under this line item is being recommended at this time.

OTHER CHARGES

Charges under this category are set by the County and include expenses from: SBT (telecommunications, IT services); General Services Agency (postage metering and mailroom services); and County Auditor (accounting/payroll).

Also included in this budget category are County indirect and/or overhead charges from the Chief Executive Office. Additionally, this budget category includes \$3,200 for expenses associated shared copy machine lease/maintenance charges with County Planning.

New this year is a GIS (ArcView/ESRI) License charge from County Public Works in the amount of \$1,200. Because LAFCO provides up to the minute boundary change mapping information to end users, it is important for LAFCO to purchase the software license at a discounted rate from County Public Works, which oversees the GIS Central Division.

Total estimated expenditures under the "Other Charges" budget category are \$18,194; which reflects a reduction of \$3,777, from last year's budget.

REVENUE

Sources of revenue consist of the funding allocations received from the County and nine cities pursuant to State law; charges for services (i.e. application processing); and miscellaneous revenues (e.g. document copying charges, interest earnings).

Charges for Services – Processing Fees

LAFCO has established a schedule of fees for processing applications filed with the Commission. Pursuant to Government Code Section 56383, the fees shall not exceed the estimated reasonable cost of providing the service for which the fee is charged.

Further, Government Code Section 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."

To give a historical perspective of the practice of utilizing net budget offsets to reduce the agency contributions for the County and the nine Cities, over the past fourteen (14) years, the Commission has funded back approximately \$454,468, for a yearly average of \$32,462.

For next FY 2015-16, in order to maintain the practice of utilizing budget offsets to reduce the Commission's overall operating expenses for our funding agencies (the County and nine cities), Staff proposes that:

- The Commission utilize a portion of estimated current year-end net savings in the amount of \$8,940; along with utilizing reserve funds in the amount of \$38,202 (employee cash out liability), for a total budget offset of \$47,142.

Allocations - 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. Currently, the cities share shall be apportioned by the County Auditor in proportion to each city's total revenues, as reported in the most recent edition of the Cities Annual Report published by the State Controller.

CONCLUSION

The proposed budget has very few corners to cut. The most obvious are the funds budgeted for attendance at the annual CALAFCO and Staff Conferences. These educational opportunities available for your Staff and new Commissioners are important to understand LAFCO's role and purpose. If the Education and Training line item is reduced this year it would be important to consider it again in next year's fiscal budget.

Consideration and Adoption of Final Budget

Consideration and adoption of a final budget must occur prior to June 15th. Therefore, the Public Hearing for the Final LAFCO Budget for FY 2015-2016, has been scheduled for the Commission's May 27, 2015 meeting.

ATTACHMENT 2

**Stanislaus Local Agency Formation Commission
PROPOSED FY 2015-2016 OPERATIONAL BUDGET**

LINE ITEMS	ADOPTED BUDGET FY 14-15	PROPOSED BUDGET FY 15-16	DIFFERENCE
SALARIES & BENEFITS			
Salaries and Wages (Salary Rest/Term CO)	\$213,404.00	\$258,008.00	\$44,604.00
Retirement (STANCERA, PARS)	\$52,254.00	\$50,686.00	(\$1,568.00)
FICA	\$17,961.00	\$19,064.00	\$1,103.00
Group Medical Insurance	\$36,412.00	\$39,412.00	\$3,000.00
OPEB Liability Insurance	\$1,076.00	\$1,108.00	\$32.00
Unemployment Insurance	\$150.00	\$150.00	\$0.00
Employee Benefit Admin. Fee	\$215.00	\$215.00	\$0.00
Long Term (Management) Disability	\$385.00	\$402.00	\$17.00
Workers Comp. Insurance	\$1,130.00	\$860.00	(\$270.00)
Auto Allowance	\$2,400.00	\$2,400.00	\$0.00
Deferred Compensation	\$3,214.00	\$3,601.00	\$387.00
Cafeteria Plan Health Benefit	\$1,254.00	\$0.00	(\$1,254.00)
Subtotal Salaries & Benefits	\$329,855.00	\$375,906.00	\$46,051.00

LINE ITEMS	ADOPTED BUDGET FY 14-15	PROPOSED BUDGET FY 15-16	DIFFERENCE
SERVICES & SUPPLIES			
Insurance (SDRMA)	\$2,750.00	\$2,750.00	\$0.00
Memberships (CALAFCO, CSDA)	\$4,750.00	\$5,000.00	\$250.00
Miscellaneous Expense	\$3,000.00	\$3,000.00	\$0.00
Prof & Spec Serv- NEW (CEO, GSA, TSP)	\$0.00	\$5,400.00	\$5,400.00
Office Supplies	\$1,500.00	\$1,500.00	\$0.00
Legal Services	\$13,500.00	\$12,000.00	(\$1,500.00)
Special Dept. Exp (CPA/Liability/Reserves)	\$25,000.00	\$0.00	(\$25,000.00)
Publications & Legal Notices	\$750.00	\$800.00	\$50.00
Education & Training (CALAFCO)	\$5,000.00	\$5,000.00	\$0.00
Commission Expense	\$6,100.00	\$6,100.00	\$0.00
Other Travel	\$500.00	\$500.00	\$0.00
Subtotal Services & Supplies	\$62,850.00	\$42,050.00	(\$20,800.00)

PROPOSED FY 2014-2015 BUDGET Cont.

LINE ITEMS	ADOPTED BUDGET FY 14-15	PROPOSED BUDGET FY 15-16	DIFFERENCE
SERVICES & OTHER CHARGES			
Co. Planning Support (Other Charges)	\$4,700.00	\$3,200.00	(\$1,500.00)
Communications (SBT)	\$970.00	\$1,005.00	\$35.00
Postage (GSA)	\$1,254.00	\$1,200.00	(\$54.00)
Presort Postage (GSA)	\$40.00	\$0.00	(\$40.00)
Mailroom Expenses (GSA)	\$325.00	\$325.00	\$0.00
Messenger Services (GSA)	\$250.00	\$250.00	\$0.00
Salvage Disposal (GSA)	\$75.00	\$75.00	\$0.00
Data Processing Services (SBT)	\$4,310.00	\$4,889.00	\$579.00
Mail Delivery (GSA) - now under 63000	\$140.00	\$0.00	(\$140.00)
Co. Public Works (Surveyor)	\$1,250.00	\$950.00	(\$300.00)
Auditing & Accounting (AUD)	\$3,250.00	\$2,108.00	(\$1,142.00)
Purchasing (GSA) - now under 63000	\$350.00	\$0.00	(\$350.00)
Risk Management- now under 63000	\$650.00	\$0.00	(\$650.00)
Other Supportive Services (CEO)	\$1,418.00	\$1,786.00	\$368.00
Bldg Maint - now under 63000 (TSP//GSA)	\$1,515.00	\$0.00	(\$1,515.00)
Utilities - now under 63000	\$1,274.00	\$0.00	(\$1,274.00)
GIS License (PW) - NEW	\$0.00	\$1,200.00	\$1,200.00
Janitorial - now under 63000 (GSA/TSP)	\$560.00	\$0.00	(\$560.00)
A-87 Roll Over (CEO)	(\$390.00)	\$1,176.00	\$1,566.00
Fiduciary Liability Insurance (CEO)	\$30.00	\$30.00	\$0.00
Subtotal Services & Other Charges	\$21,971.00	\$18,194.00	(\$3,777.00)
TOTAL	\$414,676.00	\$436,150.00	\$21,474.00

**STANISLAUS COUNTY LOCAL AGENCY
FORMATION COMMISSION**

RESOLUTION

DATE: March 25, 2015

NO. 2015-05

SUBJECT: Adoption of the Proposed LAFCO Budget for Fiscal Year (FY) 2015-2016

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

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 (MSRs) and Sphere of Influence Updates;

WHEREAS, the Commission sent out mailed hearing notices to the County Board of Supervisors, the nine cities and the independent special districts; along with publishing a hearing notice in Modesto Bee on March 4, 2015, as well as posted said notice on its website at: www.stanisluaslafo.org; and

WHEREAS, the Commission has conducted the said noticed public hearing on March 25, 2015, to consider the Proposed Budget for Fiscal Year 2015-2016, as submitted by the Executive Officer.

NOW, THEREFORE, BE IT RESOLVED that the Commission:

1. In accordance with Government Code Section 56381(a), adopts the Proposed Operational Budget for Fiscal Year 2015-2016, in the amount of \$436,150, with a Proposed Net Budget amount of \$389,008, as outlined in Exhibit 1, attached.
2. Determines that the Proposed Budget for Fiscal Year 20145-2016 will allow the Stanislaus Local Agency Formation Commission to fulfill the purposes and programs of the Cortese-Knox-Hertzberg Local Government Reorganization Act.

3. Directs Staff to distribute the Proposed Adopted LAFCO Budget for Fiscal Year 2015-2016, to the Board of Supervisors, each City, and to each Independent Special District pursuant to Government Code Section 56381(a).
4. Hereby schedules the public hearing to consider the adoption of the Final Budget for Fiscal Year 2015-2016, for the Commission's May 27, 2015 meeting.

ATTEST: _____
Marjorie Blom
Executive Officer

Attachment: Exhibit 1

EXHIBIT 1

**Stanislaus Local Agency Formation Commission
PROPOSED BUDGET
FY 2015-2016**

CATEGORIES	AMOUNT
Salaries & Benefits	\$375,906.00
Services & Supplies	\$42,050.00
Other Charges	\$18,194.00
TOTAL EXPENSES	\$436,150.00
Reserve Fund* (Est. Empl. Benefit C/O)	(\$38,202.00)
Estimated Year-End Net Savings	(\$8,940.00)
NET BUDGET COST	\$389,008.00

*from FYs 11-13