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Executive Officer

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March 9, 2016 (Agenda)

March 9, 2016
 Agenda Item 9

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

Proposed FY 2016-17 LAFCO Budget

Dear Members of the Commission:

This report presents the proposed FY 2016-17 budget, along with budget options and a work plan.

BUDGET SUMMARY

The proposed FY 2016-17 budget (attached) includes appropriations totaling \$876,445 and reflects an overall increase of 8.3% as compared to the FY 2015-16 budget. The increase is primarily attributable to increases in Services & Supplies including funding for two municipal service reviews (MSRs), a special study, and an actuarial valuation. Also included in the total appropriations for FY 2016-17 is \$40,000 to fund LAFCO’s Other Post-Employment Benefits (OPEB) liability, and \$80,000 contingency reserve fund, which is comparable to the current year’s reserve. It is projected that FY 2016-17 revenues will be higher than FY 2015-16 revenues, with an anticipated increase in application activity. Details regarding expenditures and revenues, along with budget options, 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 2015-16, the Commission maintained a staffing level of two full-time employees; no change in LAFCO staffing is proposed in FY 2016-17. The budget amount proposed for FY 2016-17 is \$403,257, reflecting decrease of 1.0% which is primarily attributable to a projected decrease in retirement costs due to a decrease in the average employer rate calculated in CCCERA’s 2014 actuarial valuation (excluding any employer subvention of member rates or member subvention of employer rates). The rates have decreased from 43.58% of payroll to 40.06% of payroll. This decrease is due an investment return on actuarial value (i.e., after

smoothing) greater than the 7.25% assumed rate, lower than expected individual salary increases, lower than expected COLA increases for retirees and beneficiaries, and other experience gains. A complete reconciliation of CCCERA's aggregate employer rate is provided in the Association's 2014 actuarial valuation.

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 MSRs and special projects and studies. The FY 2016-17 budget assumes the continuation of these contract services.

Services & Supplies

Last month, the Commission received the FY 2016-17 budget schedule and work plan preview. At that time, the Commission directed staff to include in the proposed FY 2016-17 budget the following: 2nd round MSRs for health care services and cities/community services districts; a special governance study for the Rollingwood Wilart Park Recreation & Park District (RWPRPD); relocation of LAFCO offices; and additional staffing. The Commission also expressed an interest in preparing a governance study for the West Contra Costa Healthcare District (WCCHCD) in the current fiscal year (see agenda item #10).

The proposed FY 2016-17 includes \$353,188 for *Services & Supplies*, reflecting an increase of 18.9%, which is related to conducting two 2nd round MSRs, a special study (i.e., RWPRPD) and the AMM (actuarial valuation).

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. Should the Commission approve a special study of WCCHCD (see agenda item #10), an FY 2015-16 budget adjustment and appropriation of \$25,000 from the contingency reserve will be required. The FY 2016-17 includes an \$80,000 contingency reserve fund, which is consistent with prior years.

Other Post-Employment Benefits

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

In March 2014, Contra Costa LAFCO completed its first alternative measurement method (AMM) report, similar to an actuarial valuation. The AMM was prepared by Demsey, Filliger & Associates in conjunction with a consortium of the California Special Districts Association and California School Boards Association, LLC.

The FY 2013-14 AMM showed 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. The FY

2013-14 AMM did not reflect the \$40,000 LAFCO had already contributed to this liability. LAFCO is not required to fund the OPEB liability at the recommended amount. In FY 2015-16, the Commission contributed \$40,000 toward the OPEB liability. The proposed FY 2016-17 budget includes a contribution of \$40,000.

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.

Federal accounting rules - Government Accounting Standard Board Statement 45 (GASB 45) - require LAFCO to disclose any unfunded post-employment benefits in its annual audits. Also, that if the employer has less than 100 "plan members" it is eligible for an approved AMM to comply with GASB 45 (in lieu of actuarial valuation).

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. The 2016-17 budget includes funding in the amount of \$1,500 for the next AMM which is the same amount paid in FY 2013-14 for the initial AMM.

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 2015-16 budget includes \$12,000 in proposal processing fees based on a multi-year historical average. It is estimated that LAFCO will receive approximately \$27,623 in application fees this year, significantly more than projected. Application activity appears to be on the rise. The estimated application and other revenues for FY 2016-17 are projected to be \$18,000, given an anticipated increase in applications. As of March 2, 2016, LAFCO has received four new applications this fiscal year, as compared to zero 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 2015-16 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 2015-16 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 2016-17 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 2016-17 budget, as proposed, provides that, to the extent possible, the available fund balance be used to offset FY 2016-17 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 2016-17 budget includes no anticipated interest earnings, based on the anticipated lack of investment activity due to market volatility. The County Treasurer's office has advised LAFCO to refrain from investing until further notice, given the investment fees currently outweigh the interest 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 8.3%. The proposed use of the available fund balance will offset agency contributions for FY 2016-17. The amount of revenue from other government agencies required to fund the FY 2015-16 LAFCO budget was \$651,730. As proposed, the total amount of revenue from other government agencies needed to fund the FY 2016-17 budget will be approximately \$708,445, reflecting an 8% increase. Not all funding agencies will see an 8% increase in the LAFCO contributions, some may see less than 8%, while others may see more than 8%. The city and district shares are prorated based on general revenues reported to the State Controller.

BUDGET OPTIONS

Last month, the Commission received the FY 2016-17 budget schedule and work plan preview. As part of the conversation, the Commission discussed the future of Contra Costa LAFCO, succession planning, and short and long range and goals and objectives. The Commission directed staff to include in the proposed budget costs associated with relocation of LAFCO offices and additional staffing.

Budget Option 1 - Relocation of LAFCO Office

Contra Costa LAFCO currently leases office space at 651 Pine Street in Martinez. We have an opportunity to relocate to 40 Muir Road in Martinez. There are several advantages to a possible relocation, including close proximity to the County GIS division with whom we have regular interaction, and the potential to lease additional office space than is currently available at 651 Pine Street.

LAFCO staff has been working with the County Department of Development and Conservation and Public Works on a possible relocation.

The annual costs associated with relocation as compared to remaining at 651 Pine Street are summarized below.

Factors	651 Pine Street (current location)	40 Muir Rd (potential new location)
Square footage	580 sq. ft. dedicated space, plus common area	1,000 sq. ft. dedicated space (currently unimproved), plus common area
FY 2016-17 rent (1)	\$ 8,624	\$11,550
Building Life Cycle Cost	\$ 305	\$ 578
Copier lease	\$ 4,000	\$ 4,000
Construction costs (amortized over 5 years)	N/A	\$12,000
Total Annual Cost	\$12,929	\$28,128

Note: (1) Includes maintenance, custodial, utilities, parking, use of Commission meeting room and conference rooms

In addition to those costs listed above, there would be additional costs associated with relocating, including moving and disposal of surplus property, along with “change of address” costs (e.g., business cards, mailing labels, etc.) which could be absorbed in the Office Supplies account.

The cost per square foot at 40 Muir Road (\$11.55/yr), excluding the amortized construction costs, and including the amenities listed above (e.g., maintenance, custodial, utilities, parking, etc.) is competitive with the market. The current average rates in Martinez (Commercial/Business/Retail), range from approximately \$11.50/yr to \$29.40/yr (excluding most amenities).

The primary advantages of relocating to 40 Muir Road are that it provides LAFCO room to grow and potentially add staff; whereas 651 Pine Street does not afford that opportunity. The Muir Road location offers proximity and commonality with County GIS/Demographics/Planning, with whom LAFCO has regular interaction. Finally, the 651 Pine Street building is nearly 60 years old, and could be likely to be demolished or replaced within the next 10 years—perhaps earlier, if a major quake were to affect Martinez.

The timing of a possible move to 40 Muir Road is currently uncertain and would likely not occur until after January 1, 2017. Should the Commission support relocation of the LAFCO office, staff will include costs associated with seven months rent at 651 Pine Street, and five months

rent at 40 Muir Road, along with related moving costs in the FY 2016-17 Final Budget to be presented on May 11, 2016. The table below summarizes the budget impact of relocating to 40 Muir Road effective February 1, 2017.

FY 2016-17 Proposed Budget and Budget Option 1 (Relocation)

Account	FY 2016-17 Proposed Budget	Option 1	Percentage Difference
Salaries & Benefits	\$403,257	\$403,257	-
Services & Supplies	353,188	362,021	2.5%
Contingency/Reserve	80,000	80,000	-
OPEB Trust	40,000	40,000	-
Total Appropriations	\$876,445	\$885,278	1.01%
Agency Contributions	\$708,445	\$717,278	1.25%
Application/Other Revenue	18,000	18,000	-
Interest Earnings		-	-
Fund Balance	150,000	150,000	-
Total Revenues	\$876,445	\$885,278	

Budget Option 2 - Relocation of LAFCO Office and Additional Staffing

In February, the Commission discussed the potential to expand LAFCO staff in the future, as application activity increases, as we continue/expand our work on policies and procedures, to embark on inventive projects and programs, to enhance our public outreach and education, and to maintain our current level of involvement at a statewide level with CALAFCO and other stakeholders.

Contra Costa LAFCO currently employs two full-time staff – an Executive Officer and an Executive Assistant/LAFCO Clerk. Of the 16 Bay Area and urban LAFCOs, Contra Costa LAFCO is one of four that operates with fewer than three full-time employees. In addition, we outsource a number of services as discussed above.

While LAFCO staff believes that additional staff is reasonable, LAFCO must first decide whether or not to relocate the LAFCO office. Relocation is a prerequisite to adding staff, as there is no additional office space at our current location.

Also, additional time is needed to assess the types of assignments/projects to be performed by a new staff position, the type of position (employee, contractor), position classification (e.g., Analyst, Planner, etc.), level of staffing (i.e., part-time, full-time), and other factors. Depending on the type of position, amendments to LAFCO’s classification, salary and benefit plans may also be necessary.

Should the Commission approve the relocation of the LAFCO office, staff will begin assessment of the above. Also, given the potential timing of relocation of the LAFCO office (after January 1, 2017), it is unlikely that a new staff position would be in place in FY 2016/17. Costs associated with a new staff position would likely be included in the FY 2017-18 budget.

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 2016-17 Budget Schedule approved by the Commission in February, the hearing for the Proposed Budget is scheduled for March 9th, and the hearing for the Final Budget is scheduled for May 11th. The time between these Commission actions is to allow for review and comment by those agencies that fund LAFCO and by other interested parties.

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 (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/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 2015-16

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 four boundary changes/reorganizations.
- b. Received four new applications including two annexations, one detachment and one out of agency service request.
- c. Requested and received approval for transfers of jurisdiction related to a proposed annexation (Alameda LAFCO) and a proposed detachment (San Joaquin LAFCO).

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

- a. Completed 2nd round Reclamation Services MSR covering 14 special districts.
- b. Initiated 2nd round EMS/Fire MSR. The Public Review Draft MSR is expected to be released in April 2016.

Special Projects

- a. Hosted an Agricultural & Open Space Preservation Workshop.
- b. Hosted a series of informational presentations dealing with drought and related issues.

- c. Continued work on developing an agriculture/open space preservation policy; made presentations to various stakeholder groups.

Administrative and Other Activities

- a. Conducted special election to fill Commissioner George Schmidt's seat.
- b. Completed Request for Proposals and awarded a contract for 2nd round EMS/Fire MSR/SOI updates.
- c. Approved new Legislative and Broadband policies.
- d. Revised SOI and boundary change applications and procedures to include an agricultural and open space impact assessment.
- e. Adopted a new fee schedule.
- f. Received quarterly budget reports.
- g. Completed annual employee performance reviews.
- h. Provided comments on a number of local agency environmental documents.
- i. Updated the LAFCO Directory of Local Agencies.
- j. Initiated FY 2014-15 financial audit.
- k. Submitted position letters on various bills affecting LAFCOs.
- l. Participated in and supported CALAFCO.

FY 2016-17 Work Plan

The recommended work plan for FY 2016-17 includes the following activities:

- ❖ Complete 2nd round MSR/SOI updates covering EMS/Fire services
- ❖ Initiate 2nd round MSRs/SOI updates covering healthcare services and cities/community services districts
- ❖ Initiate/complete special studies (e.g., West Contra Costa Healthcare District, Rollingwood Wilart Park Recreation & Park District)
- ❖ Continue work on the updating/enhancing of Commissioner Handbook including developing policies to address ag/open space preservation, Disadvantaged Unincorporated Communities (DUCs), CEQA Guidelines, and processing multi-county applications
- ❖ Continue to work with the County, cities and districts on boundary clean-ups/islands
- ❖ Update LAFCO website
- ❖ Complete FY 2014-15 audit
- ❖ Continue to refine electronic records for easier access
- ❖ Continue to participate in and support CALAFCO

In addition to the above, LAFCO staff will continue ongoing activities including processing LAFCO applications; supporting Commission/Committee meetings; administering the budget; managing records, purchasing, and contracts; 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., CALAFCO Legislative Committee, Staff Workshop, Annual Conference, CALAFCO U). LAFCO staff currently serves as a member of the Staff Workshop Program Committee, and 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, 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 2016-17 LAFCO Budget,
2. After receiving public comments close the hearing,
3. After Commission discussion, adopt the Proposed Budget for FY 2016-17, 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 11, 2016 to adopt the Final FY 2016-17 LAFCO Budget.

Respectfully submitted,

LOU ANN TEXEIRA
EXECUTIVE OFFICER

Attachment – Proposed FY 2016-17 LAFCO Budget

PROPOSED FY 2016-17 LAFCO BUDGET

	FY 2015-16	FY 2015-16	FY 2016-17	
	Approved	Year-End	Proposed	% Change
		(Estimated)		
Salaries and Employee Benefits				
Permanent Salaries- 1011	\$ 208,432	\$ 205,330	\$ 213,401	2.3%
Deferred Comp Cty Contribution - 1015	\$ 1,020	255	\$ 1,020	0.0%
FICA- 1042	\$ 16,049	\$ 15,810	\$ 16,432	2.3%
Retirement expense- 1044	\$ 109,740	\$ 112,372	\$ 97,418	-12.6%
Employee Group Insurance- 1060	\$ 50,387	\$ 52,242	\$ 53,410	5.7%
Retiree Health Insurance- 1061	\$ 20,000	\$ 19,263	\$ 20,000	0.0%
Unemployment Insurance- 1063	\$ 625	\$ 616	\$ 576	-8.5%
Workers Comp Insurance- 1070	\$ 1,000	\$ 987	\$ 1,000	0.0%
Total Salaries and Benefits	\$ 407,253	\$ 406,875	\$ 403,257	-1.0%
Services and Supplies				
Office Expense- 2100	\$ 3,000	\$ 917	\$ 3,000	0.0%
Publications -2102	\$ 50	\$ 20	\$ 30	-66.7%
Postage -2103	\$ 1,500	\$ 653	\$ 1,800	16.7%
Communications - 2110	\$ 230	\$ 728	\$ 1,000	77.0%
Tele Exchange Services 2111	\$ 1,375	\$ 1,376	\$ 1,404	2.1%
Minor Comp Equipment - 2132	\$ 1,000	\$ -	\$ 1,000	0.0%
Pubs & Legal Notices 2190	\$ 2,000	\$ 1,238	\$ 2,000	0.0%
Memberships - 2200	\$ 8,858	\$ 8,933	\$ 9,599	7.7%
Rents & Leases - 2250 (copier)	\$ 4,000	\$ 3,347	\$ 4,000	0.0%
Computer Software - 2251	\$ 500	\$ -	\$ 500	0.0%
Bldg Occupancy Costs - 2262	\$ 7,623	\$ 7,207	\$ 8,624	11.6%
Bldg Life Cycle Costs - 2265	\$ 381	\$ 332	\$ 305	-24.9%
Bldg Maintenance - 2284	\$ -	\$ 270		
Auto Mileage Emp. - 2301		\$ 589	\$ 1,000	100.0%
Other Travel Employees - 2303	\$ 10,000	\$ 10,000	\$ 11,000	9.1%
Prof & Spec Services - 2310	\$ 198,250	\$ 205,243	\$ 264,300	25.0%
Assessor	\$ 13,000	\$ 9,352	\$ 13,000	0.0%
Financial Audit	\$ 7,000	\$ 7,900	\$ 7,900	11.4%
GIS/Mapping	\$ 20,000	\$ 19,216	\$ 20,000	0.0%
Legal	\$ 35,000	\$ 33,454	\$ 37,000	5.4%
MSRs	\$ 80,000	\$ 112,287	\$ 115,000	30.4%
Planning	\$ 38,000	\$ 18,284	\$ 38,000	0.0%
Special Projects (document imaging)	\$ 3,750	\$ 3,414	\$ 4,900	23.5%
Investment Services		\$ -		
LAFCO Sponsored Training	\$ 1,500	\$ 1,336	\$ 1,500	0.0%
Special Study		\$ -	\$ 27,000	100.0%
Contracted Temp Help - 2314 (Web)	\$ 2,880	\$ 2,880	\$ 3,380	14.8%
Data Processing Services - 2315	\$ 3,000	\$ 2,970	\$ 3,500	14.3%
Data Processing Security - 2326	\$ 223	\$ 223	\$ 173	-28.9%
Courier - 2331	\$ 2,130	\$ 2,064	\$ 1,963	-8.5%
Other Inter-Dept Costs - 2340	\$ 97	\$ 96	\$ 110	11.8%
Liability/E&O Insurance - 2360	\$ 4,100	\$ 4,163	\$ 4,200	2.4%
Commission Training/Registration/Stipends - 2467	\$ 35,000	\$ 26,190	\$ 30,000	-16.7%
NOD/NOE Filings - 2490	\$ 300	\$ 250	\$ 300	0.0%
Total Services & Supplies	\$ 286,497	\$ 279,689	\$ 353,188	18.9%
Fixed Assets				
Office Equipment & Furniture - 4951		\$ -		
Total Fixed Assets				
Total Expenditures	\$ 693,750	\$ 686,564	\$ 756,445	8.3%
Contingency Reserve	\$ 80,000	\$ -	\$ 80,000	
OPEB Trust	\$ 40,000	\$ 40,000	\$ 40,000	
TOTAL APPROPRIATIONS	\$ 813,750	\$ 726,564	\$ 876,445	7.2%
TOTAL REVENUES	\$ 813,730	\$ 679,353	\$ 876,445	7.2%
Agency contributions - 9500 & 9800	\$ 651,730	\$ 651,730	\$ 708,445	8.0%
Application & other revenues	\$ 12,000	\$ 27,623	\$ 18,000	33.3%
Interest Earnings				
Fund Balance	\$ 150,000		\$ 150,000	