



Lou Ann Texeira
 Executive Officer

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April 17, 2019 (Agenda)

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 Agenda Item 10

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

Proposed FY 2019-20 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 2019-20.

BUDGET SUMMARY: The proposed FY 2019-20 budget (attached) includes appropriations totaling \$1,083,703 and reflects an overall increase of 8% as compared to the FY 2018-19 budget. The increase is primarily attributable to relocation of the LAFCO office (May or June 2019), the addition of an Analyst position, and purchase of new office furniture and a new server. Also included in the total appropriations for FY 2019-20 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 2018-19, Contra Costa LAFCO maintained a staffing level of two full-time employees. As previously discussed with the Commission and detailed in the LAFCO Staffing Plan (agenda item #9) LAFCO will add an Analyst position and reduce the LAFCO Executive Assistant/LAFCO Clerk position to half-time following relocation of the LAFCO office to 40 Muir Road in Martinez, which is scheduled for May or June 2019. In accordance with the relocation schedule, we anticipate hiring new staff as soon as practicable.

As proposed, the FY 2019-20 budget includes full year funding for the full-time Executive Officer and Analyst positions, along with funding for a half-time Executive Assistant/LAFCO Clerk as discussed in the LAFCO Staffing Plan (agenda item #9), subject to approval by the Commission.

The FY 2019-20 *Salaries & Benefits* total \$530,435, reflecting an increase of 14% over the approved FY 2018-19 budget. The increase is primarily attributable to funding of salary/benefits for an Analyst position, subject to approval by the Commission.

Regarding FY 2018-19 budget compared to year-end estimates, we note that the year-end estimate for *Salaries & Benefits* is approximately 9% lower than the budgeted amount. The FY 2018-19 budget included partial year funding for the new Analyst position. Given the office relocation was delayed, we were unable to fill the Analyst position in FY 2018-19.

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 2019-20 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 2019-20 budget includes \$381,568 for *Services & Supplies* and reflects a decrease of 3% as compared to the FY 2018-19 budget. Some of the costs associated with the relocation will be absorbed in the FY 2018-19 budget, including the purchase of office furniture, and moving expenses.

The proposed FY 2019-20 budget also includes funding associated with relocating the LAFCO office as reflected in the following accounts: *Office Expense, Tele Exchange Services, Minor Data Processing Services, Computer Equipment, Computer Software, Bldg Occupancy Costs, Bldg Lifecycle Costs, Bldg Maintenance, Courier, and Telecom/Rents/Leases/Labor*.

In addition to *Services & Supplies* we have added a new account for *Fixed Assets*. This account includes funding for office furniture and a new server.

Regarding FY 2018-19 budget compared to year-end estimates, we note savings in several accounts (i.e., *Postage, Minor Computer Equipment, and Building Occupancy*) most of which are associated with the delay in relocating the LAFCO office.

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 2019-20 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. The FY 2019-20 includes a \$40,000 contribution to fund the OPEB liability.

Earlier this year, LAFCO completed its third actuarial valuation. The 2019 report shows an Employer-Paid Accrued Liability of \$513,413, an unfunded accrued liability of \$380,867, and an actuarially determined contribution of \$43,396. 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 \$224,217 (including interest earned), which is held in the PARS trust account.

Pre-funding Retirement Liability (CCCERA)

The FY 2019-20 budget includes a \$30,000 contribution to fund LAFCO's unfunded retirement liability. The Commission added this expense in FY 2017-18 to begin prepaying a portion of its unfunded retirement liability in order to have a better contribution rate. LAFCO's proportionate share of net pension liability measured 12-31-17 and reported as of 6-30-18 is \$181,268.

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 2018-19 budget included an anticipated \$25,000 in proposal processing fees based on a multi-year historical average. It is projected that LAFCO will receive approximately \$40,259 in application fees in the current fiscal year, significantly more than budgeted. Application activity is steady. The proposed FY 2019-20 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 2018-19 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 2018-19 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 2019-20 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 2019-20 budget provides that, to the extent possible, the available fund balance be used to offset FY 2019-20 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 8%. The proposed use of the available fund balance will offset agency contributions for FY 2019-20. The amount of revenue from other government agencies required to fund the FY 2018-19 budget was \$796,415. As proposed, the total amount of revenue from other government agencies needed to fund the FY 2019-20 budget is \$883,703, reflecting a 10% increase.

BUDGET ENHANCEMENTS

During the past three budget cycle deliberations, the Commission discussed the future of Contra Costa LAFCO, including relocation staffing. Accordingly, the Commission directed staff to include costs associated with relocation of LAFCO office and staff augmentation.

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 restricted with limited opportunity to expand. Further, the County is currently constructing a new administration building, and the 651 Pine Street building will be demolished.

Since 2016, Contra Costa LAFCO has planned to relocate and lease office space at 40 Muir Road in Martinez. This location offers advantages, including additional office space to accommodate added LAFCO staff, and close proximity to the County GIS division with whom we have regular interaction. The move was delayed due to the remodel of the building.

We are happy to report that tenant improvements at 40 Muir Road are nearly complete and we anticipate moving in May or June 2019. 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 three years, the Commission discussed the potential to augment LAFCO staff. The Commission agreed that in order to meet increased activity and demands, expand work on local policies and procedures, embark on inventive projects and programs, enhance public outreach and education, maintain our current level of involvement at a statewide level with CALAFCO and other stakeholders, and have staff back-up, it is desirable to enhance LAFCO staff.

On April 17, 2019, the Commission received a LAFCO Staffing Plan and other personnel system updates, including a proposed job description and salary range for an Analyst position.

LAFCO RESPONSIBILITIES, ACCOMPLISHMENTS & GOALS

In accordance with the FY 2019-20 budget schedule and work plan presented to the Commission in February, the hearing for the Proposed Budget is scheduled for April 17th, and the hearing for the Final Budget is scheduled for June 12th. The time between these Commission actions is to allow for review and comment by those agencies that fund LAFCO and by 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 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, 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 2018-19

The following is a list of LAFCO's major accomplishments to date in FY 2018-19:

Boundary Change and Related Applications

- a. Completed proceedings for 12 changes of organization/reorganizations including four district dissolutions
- b. Received 8 new applications including one annexations, one SOI amendment, two reorganizations, one dissolution and three out of agency service requests
- c. Processed one request for reconsideration
- d. Conducted three protest hearings

MSRs/SOI Updates

- a. Initiated 2nd round “City Services” MSR covering all 19 cities and four community services districts – Public Review Draft released in March 2019; final report to be presented to the Commission in June 2019

Special Projects/Activities

- a. The Commission initiated and completed dissolution of County Service Area M-9
- b. Pending Litigation (Los Medanos Community Health Care District vs. Contra Costa LAFCO)
- c. Relocation of the LAFCO office to 40 Muir Road
- d. Initiate recruitments for Analyst and Executive Assistant/LAFCO Clerk positions

Administrative and Other Activities

- a. Appointed 2019 LAFCO Chair and Vice Chair
- b. Bade farewell to Commissioner Tatzin (City member) and welcomed Commissioner Wright (City member)
- c. Worked with the Contra Costa Mayors Conference on appointment of two city members
- d. Appointed Commissioner Lewis to the ad hoc policies & procedures committee
- e. Completed FY 2016-17 financial audit
- f. Currently working with CCCERA on employer audit
- g. Completed third actuarial valuation (OPEB)
- h. Will complete update to LAFCO Directory of Local Agencies (June 2019)
- i. Ongoing website updates
- j. Received quarterly budget reports
- k. Completed annual employee performance reviews
- l. Provided comments on various local agency environmental documents
- m. Responded to two Grand Jury reports
- n. Approved updates to LAFCO Policies & Procedures relating to *Rules and Procedures, CALAFCO, Roster of Cities and Special Districts, Document Retention and Destruction City Annexations and Detachments, and District Annexations and Detachments* and received an update on the LAFCO *Agricultural & Open Space Preservation Policy*
- o. Submitted position letters on various bills affecting LAFCOs
- p. Participated in and supported CALAFCO

FY 2019-20 Work Plan

The recommended work plan for FY 2019-20 includes the following activities:

- ❖ Complete relocation of the LAFCO office
- ❖ Hire a full-time Analyst
- ❖ Hire a half-time Executive Assistant/LAFCO Clerk
- ❖ Initiate 2nd round MSRs/SOI updates covering either CSAs, parks & recreation services, or other service as determined by the Commission
- ❖ 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.
- ❖ Complete FY 2017-18 financial audit

- ❖ Complete CCCERA audit
- ❖ Conduct election for one LAFCO Special District seat and work with Commission on appointment of public member seats
- ❖ 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). The Contra Costa LAFCO Executive Officer currently serves as Vice Chair of the CALAFCO Legislative Committee and is currently presiding over two CALAFCO legislative subcommittees; and the LAFCO Executive Assistant served as a key member of the 2019 CALAFCO staff workshop program committee. 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 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 2019-20 LAFCO Budget,
2. After receiving public comments close the hearing,
3. After Commission discussion, adopt the Proposed Budget for FY 2019-20, 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 12, 2019 to adopt the Final FY 2019-19 LAFCO Budget.

Respectfully submitted,

LOU ANN TEXEIRA
EXECUTIVE OFFICER

Attachment – Proposed FY 2019-20 LAFCO Budget

c: Distribution

PROPOSED FY 2019-20 LAFCO BUDGET

FY 2018-19

Attachment

	FY 2018-19	FY 2018-19	FY 2019-20	
	Approved	Year-end (Estimated)	Proposed	% Change
Salaries and Employee Benefits				
Permanent Salaries- 1011	\$ 244,970	\$ 225,621	\$ 286,575	
Deferred Comp Cty Contribution - 1015	\$ 1,700	\$ 2,040	\$ 1,105	
FICA- 1042	\$ 18,740	\$ 16,035	\$ 21,923	
Retirement expense- 1044	\$ 109,514	\$ 97,068	\$ 117,971	
Employee Group Insurance- 1060	\$ 59,575	\$ 53,653	\$ 73,039	
Retiree Health Insurance- 1061	\$ 19,100	\$ 18,609	\$ 28,406	
Unemployment Insurance- 1063	\$ 122	\$ 86	\$ 143	
Workers Comp Insurance- 1070	\$ 1,065	\$ 1,161	\$ 1,273	
Total Salaries and Benefits	\$ 454,786	\$ 414,273	\$ 530,435	14%
Services and Supplies				
Office Expense- 2100	\$ 6,000	\$ 5,992	\$ 3,500	
Publications -2102	\$ 30	\$ 21	\$ 25	
Postage -2103	\$ 1,800	\$ 1,011	\$ 1,800	
Communications - 2110	\$ 2,524	\$ 1,278	\$ 1,334	
Tele Exchange Services 2111	\$ 1,599	\$ 1,584	\$ 3,120	
Minor Comp Equipment - 2132	\$ 1,000	\$ -	\$ 1,800	
Pubs & Legal Notices 2190	\$ 4,000	\$ 3,371	\$ 3,500	
Memberships - 2200	\$ 10,503	\$ 10,303	\$ 12,036	
Rents & Leases - 2250 (copier)	\$ 5,500	\$ 5,014	\$ 5,500	
Computer Software - 2251	\$ 500	\$ 500	\$ 612	
Bldg Occupancy Costs - 2262	\$ 18,622	\$ 7,808	\$ 24,569	
Bldg Life Cycle Costs - 2265	\$ 1,455	\$ 1,266	\$ 1,463	
Bldg Maintennace - 2284	\$ 150	\$ 150	\$ 500	
Auto Mileage Emp. - 2301	\$ 500	\$ 336	\$ 500	
Other Travel Employees - 2303	\$ 12,000	\$ 12,236	\$ 17,370	
Prof & Spec Services - 2310	\$ 271,075	\$ 203,593	\$ 241,653	
Assessor	\$ 12,011	\$ 4,802	\$ 8,500	
Financial Audit	\$ 8,650	\$ 8,650	\$ 8,700	
GIS/Mapping	\$ 26,000	\$ 11,853	\$ 18,000	
Legal	\$ 75,000	\$ 73,100	\$ 60,000	
MSRs	\$ 135,000	\$ 90,000	\$ 130,000	
Planning	\$ 11,000	\$ 8,480	\$ 11,000	
Special Projects (document imaging)	\$ 3,414	\$ 3,413	\$ 5,213	
LAFCO Sponsored Training	-		\$ -	
Misc Investment Services/CCCERA Fees		\$ 220	\$ 240	
Special Studies	\$ -	\$ 1,875	\$ -	
Moving Service		\$ 1,200		
Contracted Temp Help - 2314 (Web)	\$ 2,880	\$ 3,360	\$ 3,060	
Data Processing Services - 2315	\$ 7,500	\$ 10,044	\$ 19,582	
Data Processing Security - 2326	\$ 231	\$ 196	\$ 210	
Courier - 2331	\$ 392	\$ 384	\$ 1,678	
Telcomm Rents, Leases, Labor		\$ 230	\$ 710	
Other Inter-Dept Costs - 2340	\$ 232	\$ 512	\$ 564	
Liability/E&O Insurance - 2360	\$ 5,436	\$ 5,029	\$ 5,682	
Commission Training/Registration/Stipends - 2467	\$ 37,000	\$ 27,109	\$ 30,000	
Application Refund - 2479		\$ -	\$ -	
NOD/NOE Filings - 2490	\$ 700	\$ 850	\$ 800	
Total Services & Supplies	\$ 391,629	\$ 302,177	\$ 381,568	-3%
Fixed Assets				
Office Equipment & Furniture - 4951		\$ 16,856	\$ 21,700	
Total Fixed Assets		\$ 16,856	\$ 21,700	
Total Expenditures	\$ 846,415	\$ 733,306	\$ 933,703	9%
Contingency Reserve	\$ 80,000		\$ 80,000	
OPEB Trust	\$ 40,000	\$ 40,000	\$ 40,000	
CCCERA Pre-Fund	\$ 30,000	\$ 30,000	\$ 30,000	
TOTAL APPROPRIATIONS	\$ 996,415	\$ 803,306	\$ 1,083,703	8%
TOTAL REVENUES	\$ 996,415	\$ 795,469	\$ 1,083,703	
Agency contributions - 9500 & 9800	\$ 796,415	\$ 755,210	\$ 883,703	10%
Application & other revenues	\$ 25,000	\$ 40,259	\$ 25,000	
Fund Balance	\$ 175,000		\$ 175,000	