



Lou Ann Teixeira  
 Executive Officer

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<b>Stanley Caldwell</b> <i>Special District Member</i>
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<b>Sean Wright</b> <i>City Member</i>

March 11, 2020 (Agenda)

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 Agenda Item 8

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

**Proposed FY 2020-21 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 2020-21.

**BUDGET SUMMARY:** The proposed FY 2020-21 budget (attached) includes appropriations totaling \$1,004,143 and reflects an overall decrease of 8% as compared to the FY 2019-20 budget. The decrease is primarily attributable to reduced personnel costs, which include six months of staffing costs associated with the Analyst position instead of 12 months.

Included in the total appropriations for FY 2020-21 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 variances is provided below.

Salaries & Benefits

The FY 2019-20 staffing level includes one full-time Executive Officer (EO), one half-time Executive Assistant/LAFCO Clerk (Clerk), one full-time Analyst, along with funding for an “on call temporary employee” (retiree Kate Sibley). Recruitment and hiring of the full-time Analyst is currently on hold and will not occur in FY 2019-20.

As proposed, the FY 2020-21 budget includes 12 months funding for the full-time EO and half-time Clerk, and six months funding for a full-time Analyst.

The FY 2020-21 *Salaries & Benefits* total \$460,415, reflecting a decrease of 15% as compared to the FY 2019-20 budget. The decrease is primarily attributable to funding the Analyst position for six months instead of 12 months.

Regarding the FY 2019-20 budget year-end estimates, we note that the year-end estimate for *Salaries & Benefits* is significantly lower than the budgeted amount. The FY 2019-20 budget includes full year funding for the new Analyst position. Given other activities including the office relocation and unanticipated staffing changes, we were unable to fill the Analyst position in FY 2019-20. The FY 2020-21 budget includes six months funding for the new Analyst position. This will provide time to acclimate the new Clerk before bringing in another new employee.

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 2020-21 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 2020-21 budget includes \$393,728 for *Services & Supplies* and reflects an increase of 3% as compared to the FY 2019-20 budget. The increase reflects increased costs associated with the new location. Also, the Fixed Assets account was eliminated in August 2019, in conjunction with the Commission's approval of migration to a virtual server versus purchasing a new physical server which resulted in a cost savings.

Regarding FY 2019-20 budget compared to year-end estimates, we note savings in several accounts (i.e., *Postage, Communications, Publications and Legal Notices, Minor Computer Equipment, and Building Maintenance, Employee Travel, Professional & Specialized Services, Data processing Services*). There was a significant increase in Minor Furniture and Equipment as costs associated with the new furniture was budgeted in FY 2018-19 and was charged to FY 2019-20 due to a delay in the office relocation.

#### 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 2020-21 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 2020-21 budget includes a \$40,000 contribution to fund the OPEB liability. Also included in the FY 2020-21 budget is funding for actuarial valuation.

#### Pre-funding Retirement Liability (CCCERA)

The FY 2020-21 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. The latest LAFCO proportionate share of net pension liability measured 12-31-18 and reported 6-30-19 is \$304,195.

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 2019-20 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 \$33,344 in application fees in the current fiscal year, which exceeds the budgeted amount. Application activity has declined. The proposed FY 2020-21 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 2019-20 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 2019-20 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 2020-21 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 2020-21 budget provides that, to the extent possible, the available fund balance be used to offset FY 2020-21 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 decrease by approximately 8%. The proposed use of the available fund balance will offset agency contributions for FY 2020-21. The amount of revenue from other government agencies required to fund the FY 2019-20 budget was \$885,493. As proposed, the total amount of revenue from other government agencies needed to fund the FY 2020-21 budget is \$804,797, reflecting a 10% decrease.

### **LAFCO RESPONSIBILITIES, ACCOMPLISHMENTS & GOALS**

In accordance with the FY 2020-21 budget schedule and work plan presented to the Commission in February, the hearing for the Proposed Budget is scheduled for consideration on March 11<sup>th</sup>, and the hearing for the Final Budget is scheduled for May 13<sup>th</sup>. 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 2019-20

The following is a list of LAFCO's major accomplishments to date in FY 2019-20:

### **Boundary Change and Related Applications**

- a. Completed proceedings for three changes of organization/reorganizations and one SOI amendment; conducted corresponding public hearings
- b. Approved two requests for time extensions (annexations)
- c. Received six new applications including one annexation and five out of agency service requests

### **MSRs/SOI Updates**

- a. Completed "City Services" MSR/SOI updates covering all 19 cities and four community services districts
- b. Initiated 2<sup>nd</sup> round Parks & Recreation MSR/SOI updates following RFP process

### **Special Projects/Activities**

- a. Relocation of the LAFCO office to 40 Muir Road
- b. Staffing changes (i.e., retirement, recruitments, new hires)
- c. Pending Litigation (Los Medanos Community Health Care District vs. Contra Costa LAFCO)
- d. Received a special presentation and adopted a resolution of support - 2020 Census

### ***Administrative and Other Activities***

- a. Appointed 2020 LAFCO Chair and Vice Chair
- b. Reappointed public members
- c. Worked with the Contra Costa Mayors Conference on appointment of city member
- d. Completed FY 2017-18 financial audit
- e. Completed CCCERA Employer Audit
- f. Completed update to LAFCO Directory of Local Agencies
- g. Ongoing website updates
- h. Quarterly budget reports
- i. Completed annual employee performance review
- j. Provided comments on various local agency environmental documents
- k. Responded to one Grand Jury report
- l. Approved updates to LAFCO's island policies
- m. Complete election for Special District LAFCO member
- n. Submitted position letters on various bills affecting LAFCOs
- o. Participated in and supported CALAFCO
- p. Received CALAFCO Award – "*Most Effective Commission*"
- q. Participated in SDRMA election

## **FY 2020-21 Work Plan**

The recommended work plan for FY 2020-21 includes the following activities:

- ❖ Complete 2<sup>nd</sup> round Parks & Recreation Services MSR/SOI updates
- ❖ Initiate 2<sup>nd</sup> round MSRs/SOI updates covering either CSAs, cemetery districts, resource conservation, mosquito & vector control 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.
- ❖ Hire Analyst
- ❖ Complete FY 2018-19 financial audit
- ❖ Complete actuarial valuation
- ❖ Continue to participate in and support CALAFCO

In addition to the above, LAFCO staff will continue ongoing activities including processing applications; supporting Commission/Committee meetings; administering the budget; managing records, purchasing, and contracts; and performing other administrative activities. Staff will facilitate inter-agency communications; conduct education and outreach as time allows; participate in regional forums as appropriate; participate in CALAFCO training and activities (i.e., Legislative Committee, Staff Workshop, Annual Conference, CALAFCO U). 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 2020-21 LAFCO Budget,
2. After receiving public comments close the hearing,
3. After Commission discussion, adopt the Proposed Budget for FY 2020-21, 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 13, 2020 to adopt the Final FY 2020-21 LAFCO Budget.

Respectfully submitted,

LOU ANN TEXEIRA  
EXECUTIVE OFFICER

Attachment – Proposed FY 2020-21 LAFCO Budget

c: Distribution

**PROPOSED FY 2020-21 LAFCO BUDGET**

	FY 2019-20		FY 2020-21		
	<u>FY 2019-20</u>	<u>Year-end</u>	<u>FY 2020-21</u>		
	<u>Approved</u>	<u>(Estimated)</u>	<u>Proposed</u>		
<b>Salaries and Employee Benefits</b>					
Permanent Salaries- 1011	\$ 286,575	\$ 202,188	\$ 248,000		
Temporary Pay - 1013		\$ 13,755	\$ -		
Deferred Comp Cty Contribution - 1015	\$ 1,105	\$ 1,020	\$ 1,615		
FICA- 1042	\$ 21,923	\$ 16,520	\$ 18,972		
Retirement expense- 1044	\$ 117,971	\$ 76,008	\$ 97,120		
Employee Group Insurance- 1060	\$ 73,039	\$ 41,229	\$ 74,609		
Retiree Health Insurance- 1061	\$ 28,406	\$ 18,609	\$ 18,612		
Unemployment Insurance- 1063	\$ 143	\$ 129	\$ 150		
Workers Comp Insurance- 1070	\$ 1,273	\$ 1,112	\$ 1,337		
<b>Total Salaries and Benefits</b>	<b>\$ 530,435</b>	<b>\$ 370,570</b>	<b>\$ 460,415</b>		<b>-15%</b>
<b>Services and Supplies</b>					
Office Expense- 2100	\$ 5,000	\$ 4,100	\$ 4,000		
Publications -2102	\$ 25	\$ 21	\$ 25		
Postage -2103	\$ 1,800	\$ 518	\$ 1,800		
Communications - 2110	\$ 1,334	\$ 1,334	\$ 2,842		
Tele Exchange Services 2111	\$ 3,120	\$ 3,000	\$ 2,382		
Minor Furniture/Equipment - 2131	\$ 2,000	\$ 19,000	\$ -		
Minor Comp Equipment - 2132	\$ 1,800	\$ -	\$ 2,000		
Pubs & Legal Notices 2190	\$ 3,800	\$ 269	\$ 3,800		
Memberships - 2200	\$ 12,036	\$ 12,022	\$ 12,373		
Rents & Leases - 2250 (copier)	\$ 5,500	\$ 5,578	\$ 5,600		
Computer Software - 2251	\$ 612	\$ 956	\$ 1,000		
Bldg Occupancy Costs - 2262	\$ 24,569	\$ 24,569	\$ 24,569		
Bldg Life Cycle Costs - 2265	\$ 1,463	\$ 1,235	\$ 1,095		
Bldg Maintennace - 2284	\$ 500	\$ 1,430	\$ 500		
Auto Mileage Emp. - 2301	\$ 500	\$ 421	\$ 500		
Other Travel Employees - 2303	\$ 17,370	\$ 9,581	\$ 13,000		
Prof & Spec Services - 2310	\$ 237,153	\$ 137,055	\$ 250,113		
Assessor	\$ 8,500	\$ 5,337	\$ 8,000		
Financial Audit	\$ 8,700	\$ 7,470	\$ 8,700		
GIS/Mapping	\$ 12,000	\$ 9,939	\$ 12,000		
Legal	\$ 60,000	\$ 25,805	\$ 60,000		
MSRs	\$ 130,000	\$ 70,668	\$ 130,000		
Planning	\$ 11,000	\$ 11,003	\$ 25,000		
Special Projects (document imaging)	\$ 5,213	\$ 5,213	\$ 3,673		
LAFCO Sponsored Training	\$ -	\$ -	\$ -		
Misc Investment Services/CCCERA Fees	\$ 240	\$ 120	\$ 240		
Special Studies/Actuarial Valuation	\$ -	\$ 1,500	\$ 2,500		
Moving Service	\$ 1,500	\$ -	\$ -		
Contracted Temp Help - 2314 (Web)	\$ 3,060	\$ 2,970	\$ 3,060		
Data Processing Services - 2315	\$ 19,582	\$ 16,164	\$ 19,700		
Data Processing Security - 2326	\$ 210	\$ 172	\$ 250		
Courier - 2331	\$ 1,678	\$ 850	\$ 1,000		
Telcomm Rents, Leases, Labor - 2335		\$ 108	\$ 120		
Other Inter-Dept Costs - 2340	\$ 564	\$ -	\$ 599		
Liability/E&O Insurance - 2360	\$ 5,682	\$ 5,302	\$ 5,600		
Commission Training/Registration/Stipends - 2467	\$ 30,000	\$ 30,259	\$ 37,000		
NOD/NOE Filings - 2490	\$ 700	\$ 700	\$ 800		
<b>Total Services &amp; Supplies</b>	<b>\$ 380,058</b>	<b>\$ 277,614</b>	<b>\$ 393,728</b>		<b>3%</b>
<b>Fixed Assets</b>					
Office Equipment & Furniture - 4951	\$ 20,000	\$ -	\$ -		
<b>Total Fixed Assets</b>	<b>\$ 20,000</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Expenditures</b>	<b>\$ 930,493</b>	<b>\$ 648,184</b>	<b>\$ 854,143</b>		<b>-9%</b>
<b>Contingency Reserve</b>	<b>\$ 80,000</b>	<b>\$ -</b>	<b>\$ 80,000</b>		
<b>OPEB Trust</b>	<b>\$ 40,000</b>	<b>\$ 40,000</b>	<b>\$ 40,000</b>		
<b>CCCERA Pre-Fund</b>	<b>\$ 30,000</b>	<b>\$ 30,000</b>	<b>\$ 30,000</b>		
<b>TOTAL APPROPRIATIONS</b>	<b>\$ 1,080,493</b>	<b>\$ 718,184</b>	<b>\$ 1,004,143</b>		<b>-8%</b>
<b>TOTAL REVENUES</b>	<b>\$ 1,080,493</b>	<b>\$ 918,837</b>	<b>\$ 1,004,143</b>		
Agency contributions - 9500 & 9800	\$ 885,493	\$ 885,493	\$ 804,143		<b>-10%</b>
Application & other revenues	\$ 25,000	\$ 33,344	\$ 25,000		
Fund Balance	\$ 170,000		\$ 175,000		