

**EXECUTIVE OFFICER'S AGENDA REPORT
MAY 24, 2017**

TO: LAFCO Commissioners

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

SUBJECT: FINAL LAFCO BUDGET FOR FISCAL YEAR 2017-2018

RECOMMENDATION

Staff recommends that following the Executive Officer's report and public testimony regarding the Final LAFCO Budget that the Commission:

1. Adopt Resolution No. 2017-08, approving the Final Budget for Fiscal Year 2017-2018.
2. Direct Staff to transmit the adopted Final Budget to the Board of Supervisors, each City, each Independent Special District, and the County Auditor, in accordance with State law.
3. Request that the County Auditor apportion and collect the net operating expenses of the Final Budget from the County and nine cities in accordance with Government Code Sections 56381(b)(2) and 56381(c).

EXECUTIVE SUMMARY

At the April 26, 2017 meeting, the Commission reviewed and approved the Proposed Budget for Fiscal Year (FY) 2017-2018. The Final Budget, as summarized in the table below, reflects this approval, with no recommended changes. The Final Budget includes operating expenses totaling \$453,375 and reflects a 10% increase as compared to the current year's budget. Detail of individual accounts in each expense category is attached to this report.

Table 1: LAFCO Final Budget Summary

Expenses	Prior Budget FY 2015-16	Current Budget FY 2016-17	Final Budget FY 2017-18	% Change (Final v. Current)
Salaries & Benefits	\$375,906	\$332,382	\$376,530	13%
Services & Supplies	61,044	77,373	74,345	-4%
Other Charges	3,200	2,750	2,000	-27%
Total Expenses	\$440,150	\$412,505	\$453,375	10%

DISCUSSION

During the approval of the Proposed Budget, the Commission discussed use of its remaining fund balance, assignment of reserve funds, and concerns regarding long-term pension liabilities. The Commission directed Staff to include options for use of fund balance and reserves as part of the Final Budget.

Staff estimates that approximately \$154,429 will be available in the Commission's undesignated fund balance that could potentially be used to offset agency contributions. This estimate takes into account the estimated fund balance at year-end and the Commission's policies for setting aside a General Reserve Fund (15%) and an Accrued Leave Fund (for cash-out liability).

Table 2: LAFCO Fund Balance

	Final FY 2017-18
Estimated Fund Balance June 30, 2017	\$ 305,229
<i>General Reserve Fund (15%)</i>	<i>(68,100)</i>
<i>Accrued Leave Fund (Cash-Out Liability)</i>	<i>(82,700)</i>
Est. Undesignated Fund Balance	\$ 154,429

For the Proposed Budget, Staff recommended using \$70,000 of this undesignated fund balance to offset agency contributions for the FY 2017-2018 Budget. This would help to transition into future budget years where agency contributions will no longer be substantially offset by the Commission's fund balance. Staff presented a forecast of how agency contributions would gradually increase in the coming years as the remaining undesignated fund balance is depleted.

Governmental Accounting Standards Board (GASB 68) – Long-Term Pension Liability

Since the last Commission meeting, LAFCO Staff met with the County Auditor's office to obtain further clarification regarding GASB 68. GASB 68 is a fairly new accounting standard that requires employers to report long-term unfunded pension liabilities on their balance sheets. The Commission was particularly concerned with how the liability is estimated, whether it is appropriate to set aside reserve funds towards it, and how other agencies may be treating the liability.

LAFCO's employees are eligible for retirement benefits through StanCERA, a cost-sharing, multiple-employer pension plan. Accounting and budgeting for retirement costs are based on retirement contribution rates that are updated annually per an actuarial analysis and are adopted by the StanCERA Board. The rates are subsequently approved by the County Board of Supervisors and departments/agencies are charged for their respective employees throughout the year for current liability due for retirement contributions to the system. The estimated unfunded portion of the pension will vary each year based on investment returns, contribution rates, and the overall health of the StanCERA retirement system.

Long-term pension liability is currently reported on the Commission's balance sheet in the amount of \$168,764. (The higher amount noted in the Proposed Budget was a one-time, prior period adjustment reported during the onset of GASB 68 in FY 2015-2016.) It is important to note that the estimated unfunded pension liability for LAFCO is based on a proportion of StanCERA system's total unfunded pension liability and not actual amounts for LAFCO's individual employees, their years of service, etc.

Staff from the County Auditor's office identified that there are uncertainties with regards to amount and timing of the long-term pension liability. Staff also noted that they were not aware of any other agencies setting aside funds for GASB 68 and that the County was not setting aside any additional reserve funds for this purpose. Based on feedback from the County Auditor's office, setting aside additional reserves for GASB 68 is not currently recommended.

Reserve Funds

The Commission currently maintains a General Fund Reserve that is set at a minimum of 15% of LAFCO's total operating expenses annually. For Fiscal Year 2017-2018, the General Fund Reserve is proposed to be \$68,100. As LAFCO's budget increases, this fund would correspondingly be increased to maintain a level of at least 15%. LAFCO also budgets for an Accrued Leave Fund based on cash-out liability. Option 1, as shown in the table below, provides a status quo approach using the Commission's two reserve funds as previously described. Option 2, includes an additional reserve category for long-term liabilities and provides for a strategy to gradually set aside reserve funds, while still using a modest amount of fund balance to offset agency contributions.

Option 1 – Existing Reserve Amounts:

	FY 15-16	FY 16-17	Proposed FY 17-18	Forecasted FY 18-19	Forecasted FY 19-20
Total Budget	\$ 440,150	\$ 412,505	\$ 453,375	\$ 481,044	\$ 499,846
Application Revenue	8,940	6,000	9,000	9,000	9,000
Agency Contributions	377,210	330,936	374,375	408,044	481,846
Fund Balance Beg.	589,136	340,091	305,229	235,229	171,229
Drawdown (Offset)	(249,045)	(34,862)	(70,000)	(64,000)	(9,000)
Fund Balance End	340,091	305,229	235,229	171,229	162,229
Designated Reserves:					
15% Reserve		62,000	68,100	72,157	74,977
Accrued Leave		51,800	82,700	85,000	87,000
Total Reserves		\$ 113,800	150,800	157,157	\$ 161,977
Remaining Undesignated Fund Balance			\$ 84,429	\$ 14,072	\$ 252

Option 2 – Additional Reserves (Long-Term Liability):

	FY 15-16	FY 16-17	Proposed FY 17-18	Forecasted FY 18-19	Forecasted FY 19-20
Total Budget	\$ 440,150	\$ 412,505	\$ 453,375	\$ 481,044	\$ 499,846
Application Revenue	8,940	6,000	9,000	9,000	9,000
Agency Contributions	377,210	330,936	394,375	442,044	481,846
Fund Balance Beg.	589,136	340,091	305,229	255,229	225,229
Drawdown (Offset)	(249,045)	(34,862)	(50,000)	(30,000)	(9,000)
Fund Balance End	340,091	305,229	255,229	225,229	216,229
Designated Reserves:					
15% Reserve		62,000	68,100	72,157	74,977
Long-Term Liability		-	25,000	35,000	45,000
Accrued Leave		51,800	82,700	85,000	87,000
Total Reserves		\$ 113,800	175,800	192,157	\$ 206,977
Remaining Undesignated Fund Balance			\$ 79,429	\$ 33,072	\$ 9,252

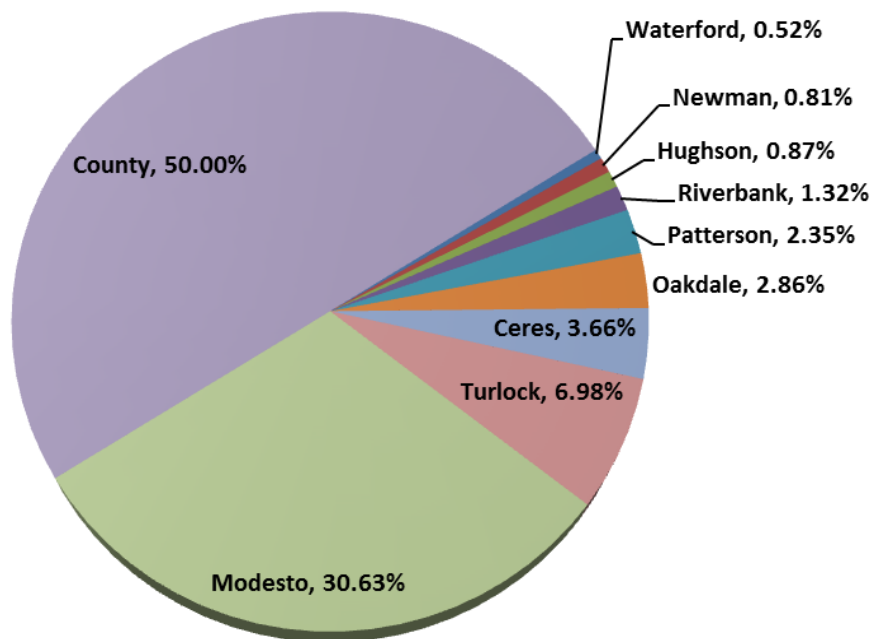
As reserve funds are re-visited and designated annually, the Commission may choose to increase or decrease reserves in future years. Similarly, the Commission has the ability to apply its General Fund Reserve (15%) for specific purposes as needs arise.

Impacts to Agency Contributions

LAFCO is funded by contributions from the County and nine cities. By statute, the County is apportioned a half-share of the Commission's operational costs. The cities share is calculated annually by the County Auditor and is relative to each city's total revenues, as published in the most recent State Controller reports.

Together, the County and City of Modesto contribute about 80% of the Commission's budget, with the remainder split amongst the smaller cities. Fluctuations occur year to year, as the city allocations are based proportionally on their total revenues. Below is an estimate of the current proportion of agency contributions.

Chart 1: City/County Proportional Allocations (Estimated FY 2017-18)*



* City allocations are based proportionally on total revenues, as reported by the most recent State Controller Annual Cities Revenue Report (FY 14/15).

Using the proportional amounts above, Staff has prepared estimates of how the two options for use of fund balance (existing reserve amounts vs. additional reserves) could affect individual agency's contributions. These are shown in the tables on the following page. The prior and current year's allocations are included for reference. Forecasts for future years are likely to fluctuate amongst the cities as their revenues change.

Option 1 – Existing Reserve Amounts:
Estimated Agency Contributions

	% of LAFCO Budget*	FY 15-16	FY 16-17	Estimated FY 17-18*	Forecasted FY 18-19*	Forecasted FY 19-20*
Ceres	3.66%	14,122	12,706	13,706	14,938	17,640
Hughson	0.87%	3,969	2,667	3,246	3,538	4,178
Modesto	30.63%	114,144	98,639	114,681	124,994	147,602
Newman	0.81%	3,439	2,693	3,042	3,315	3,915
Oakdale	2.86%	7,687	6,786	10,714	11,678	13,790
Patterson	2.35%	9,138	7,909	8,785	9,575	11,307
Riverbank	1.32%	5,708	5,894	4,924	5,367	6,338
Turlock	6.98%	29,002	26,610	26,148	28,499	33,654
Waterford	0.52%	1,396	1,566	1,942	2,117	2,500
Total Cities	50%	188,605	165,468	187,188	204,022	240,923
County	50%	188,605	165,468	187,188	204,022	240,923
Total Agency Contributions	100%	377,210	330,936	374,375	408,044	481,846

Option 2 – Additional Reserves:
Estimated Agency Contributions

	% of LAFCO Budget*	FY 15-16	FY 16-17	Estimated FY 17-18*	Forecasted FY 18-19*	Forecasted FY 19-20*
Ceres	3.66%	14,122	12,706	14,438	16,183	17,640
Hughson	0.87%	3,969	2,667	3,420	3,833	4,178
Modesto	30.63%	114,144	98,639	120,807	135,409	147,602
Newman	0.81%	3,439	2,693	3,204	3,591	3,915
Oakdale	2.86%	7,687	6,786	11,287	12,651	13,790
Patterson	2.35%	9,138	7,909	9,254	10,373	11,307
Riverbank	1.32%	5,708	5,894	5,187	5,814	6,338
Turlock	6.98%	29,002	26,610	27,545	30,874	33,654
Waterford	0.52%	1,396	1,566	2,046	2,293	2,500
Total Cities	50%	188,605	165,468	197,188	221,022	240,423
County	50%	188,605	165,468	197,188	221,022	240,423
Total Agency Contributions	100%	377,210	330,936	394,375	442,044	481,846

* Estimates based on most recent State Controller's Reports. Final amounts will be determined by the County Auditor following adoption of the Final Budget. Forecasts for FY 18-19 and FY 19-20 will fluctuate based on annual city revenues.

CONCLUSION

The Commission is required to adopt a Final Budget by June 15th annually. Following adoption of the Final Budget, a copy will be transmitted to the Board of Supervisors, each City, each Independent Special District, and to the County Auditor. The County Auditor will then allocate and charge LAFCO's net budget to all participating local agencies as outlined under Government Code Section 56381(b) and (c).

Approval of the Final Budget will enable the Commission to perform its core responsibilities effectively, and continue its work on MSR/SOI updates, policy development, and current projects.

Attachments: Final Budget Detail - Fiscal Year 2017-2018 (Options 1 & 2)
Draft LAFCO Resolution No. 2017-08

Stanislaus LAFCO
FINAL BUDGET - FISCAL YEAR 2017-2018 (Option 1)

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

Stanislaus LAFCO
FINAL BUDGET - FISCAL YEAR 2017-2018
Reserve Funds & Undesignated Fund Balance (Option 1)

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

Stanislaus LAFCO
FINAL BUDGET - FISCAL YEAR 2017-2018 (Option 2)

Account	FY 16-17 Legal Budget	FY 16-17 Estimated Year-End	FY 17-18 PROPOSED BUDGET	Increase or (Decrease)	% Change
Salaries and Benefits					
50000+ Salaries and wages	\$ 210,931	\$ 210,931	\$ 231,200	\$ 20,269	10%
52000 Retirement	53,350	49,500	61,360	8,010	15%
52010 FICA	18,483	16,375	18,310	(173)	-1%
52020 Deferred comp - part-time	-	(3)	-	-	-
53000 Group health insurance	39,731	41,500	53,195	13,464	34%
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53051 Benefits admin fee	190	175	190	-	0%
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54000 Workers compensation insurance	920	924	1,045	125	14%
55000 Auto allowance	2,400	2,400	2,400	-	0%
55080 Professional development	-	2,200	2,200	2,200	nb
55130 Deferred comp mgmt/conf	3,200	3,050	3,235	35	1%
55130 Cafeteria pln hlth cashout	-	1,200	-	-	nb
Total Salaries and Benefits	\$ 332,382	\$ 331,294	\$ 376,530	\$ 44,148	13%
Services and Supplies					
60400 Communications (SBT - Telecom)	\$ 1,055	\$ 1,055	\$ 1,120	\$ 65	6%
61000 Insurance (SDRMA)	2,900	2,809	3,240	340	12%
61030 Fiduciary liability insurance	30	36	40	10	33%
62200 Memberships (CSDA, CALAFCO)	5,290	5,321	5,670	380	7%
62400 Miscellaneous expense	3,000	2,250	3,000	-	0%
62410 Rebates & refunds	-	(26)	-	-	nb
62450 Indirect costs (A87 roll forward)	(423)	(1,847)	2,195	2,618	-619%
62600 Office supplies	1,500	1,500	1,500	-	0%
62730 Postage	1,200	1,200	1,200	-	0%
62750 Other mail room expense	325	325	400	75	23%
63000 Professional & special serv	10,923	11,708	13,065	2,142	20%
Building maint & supplies	2,340	3,250	3,420	1,080	46%
Office lease	3,683	3,683	3,950	267	7%
Utilities	1,440	1,250	1,400	(40)	-3%
Janitorial	460	550	575	115	25%
Purchasing	325	175	275	(50)	-15%
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63090 Auditing & accounting	2,048	2,120	2,765	717	35%
63400 Engineering services	2,000	2,000	2,000	-	0%
63640 Legal services	16,000	12,000	16,000	-	0%
63990 Outside data proc services (IT & GIS Lic)	6,600	6,500	8,900	2,300	35%
IT Services	5,400	5,300	5,500	100	2%
<i>New</i> Video Streaming		<i>prev billed from #62400</i>	1,000	1,000	nb
<i>New</i> Mtg Recording (Final Cut Media)		<i>prev billed from #62400</i>	1,200	1,200	nb
GIS License	1,200	1,200	1,200	-	0%
65000 Publications & legal notices	800	750	800	-	0%
65660 Special dept expense (Biennial Audit)	12,000	8,000	-	(12,000)	-
65780 Education & training	5,200	5,200	5,500	300	6%
65810 Other supportive services (messenger)	250	200	230	(20)	-8%
65890 Commission expense (stipends, training)	6,100	3,600	6,100	-	0%
67040 Other travel expenses (mileage)	500	400	500	-	0%
67201 Salvage disposal	75	115	120	45	60%
Total Services and Supplies	\$ 77,373	\$ 65,216	\$ 74,345	\$ (3,029)	-4%
Other Charges					
73024 Planning dept services	\$ 2,750	\$ 2,000	\$ 2,500	\$ (250)	-9%
Total Other Charges	\$ 2,750	\$ 2,000	\$ 2,500	\$ (250)	-9%
TOTAL EXPENSES	\$ 412,505	\$ 398,510	\$ 453,375	\$ 40,870	10%
TOTAL REVENUES					
40680+ Agency Contributions	330,936	330,936	394,375	63,439	19%
36414 Application & Other Revenues	6,000	30,051	9,000	3,000	50%
17000 Interest Earnings	-	2,661	-	-	-
Undesignated Fund Balance (Est.)	\$ 75,569	\$ 75,569	\$ 50,000	\$ (25,569)	-34%

Stanislaus LAFCO
FINAL BUDGET - FISCAL YEAR 2017-2018
Reserve Funds & Undesignated Fund Balance (Option 2)

Estimated Fund Balance June 30, 2017	\$	305,229
<i>General Reserve Fund (15%)</i>		(68,100)
<i>Long-Term Liability Reserve</i>		(25,000)
<i>Accrued Leave Fund (Cash-Out Liability)</i>		(82,700)
Undesignated Fund Balance (Est.)	\$	129,429

**STANISLAUS COUNTY LOCAL AGENCY
FORMATION COMMISSION**

RESOLUTION

DATE: May 24, 2017

NO. 2017-08

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

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

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

THE FOLLOWING RESOLUTION WAS ADOPTED:

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

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

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

WHEREAS, the Commission conducted a public hearing on April 26, 2017 and approved a Proposed Budget for Fiscal Year 2017-2018, as submitted by the Executive Officer;

WHEREAS, the Commission considered the Final Budget for Fiscal Year 2017-2018 at a duly noticed public hearing on May 24, 2017;

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

NOW, THEREFORE, BE IT RESOLVED that the Commission:

1. Finds that the Final Budget for Fiscal Year 2017-2018 will allow the Stanislaus Local Agency Formation Commission to fulfill the purposes and programs of the Cortese-Knox-Hertzberg Local Government Reorganization Act.
2. Adopts the Final Budget for Fiscal Year 2017-2018 as recommended by Staff, with total operating expenses of \$453,375, as outlined in Exhibit 1.

3. Directs Staff to transmit the adopted Final Budget for Fiscal Year 2017-2018 to the Board of Supervisors, each City, each Independent Special District, and the County Auditor, pursuant to Government Code Section 56381(a).
4. Requests that the County Auditor apportion and collect the net operating expenses of the Commission's Final Budget for Fiscal Year 2017-2018 from the County and each of the nine cities no later than July 1, 2017 for the amount each entity owes in accordance with Government Code Sections 56381(b)(2) and 56381(c).
5. Authorizes the Executive Officer and the County Auditor to determine the method of collection if a city or the County does not remit its required payment within 60 days, as outlined in 56381(c).

ATTEST:

Sara Lytle-Pinhey
Executive Officer