

**EXECUTIVE OFFICER'S AGENDA REPORT  
APRIL 25, 2018**

TO: LAFCO Commissioners

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

**SUBJECT: PROPOSED LAFCO BUDGET FOR FISCAL YEAR 2018-2019**

**RECOMMENDATION**

It is recommended that the Commission:

1. Receive the Executive Officer's report and accept public testimony regarding the Proposed LAFCO Budget.
2. Adopt Resolution No. 2018-06, approving the Proposed LAFCO Budget for Fiscal Year 2018-2019.
3. Schedule a public hearing for May 23, 2018, to consider and adopt the Final LAFCO Budget for Fiscal Year 2018-2019.

**EXECUTIVE SUMMARY**

The Proposed Fiscal Year (FY) 2018-2019 Budget includes operating expenses totaling \$493,919 and reflects a 9% increase as compared to the 2017-2018 budget. The increase is primarily attributable to costs associated with increases to retirement, health insurance, IT services (new Office 365 licenses and security upgrades), and funding for the Commission's biennial audit. Table 1, below, summarizes the Proposed Budget and includes a comparison to the current year's budget.

*Table 1: LAFCO Proposed Budget Summary*

<b>Expenses</b>	<b>Current Budget FY 2017-18</b>	<b>Proposed Budget FY 2018-19</b>	<b>% Change (Proposed v. Current)</b>
Salaries & Benefits	\$376,530	\$406,165	8%
Services & Supplies	74,345	85,754	15%
Other Charges	2,500	2,000	-20%
<b>Total Expenses</b>	<b>\$453,375</b>	<b>\$493,919</b>	<b>9%</b>
<b>Revenues</b>			
Undesignated Fund Balance	(\$50,000)	(\$30,000)	-40%
Application & Other Revenues	(9,000)	(12,000)	33%
<b>Agency Contributions</b>	<b>\$394,375</b>	<b>\$451,919</b>	<b>15%</b>

An analysis of the Commission's estimated year-end fund balance is also included in this report. Following allocations of reserve funds, Staff recommends the use of \$30,000 in undesignated fund balance to offset the FY 2018-2019 budget.

A chart depicting individual accounts for the Proposed Fiscal Year 2018-2019 Budget is attached to this report.

## **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 separate 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 to all participating local agencies as outlined under Government Code Section 56381(b).

## **EXPENSES**

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

### *SALARIES AND BENEFITS (Accounts 50000+)*

Expenses in the salaries and benefits category are projected to increase by 8% in Fiscal Year 2018-2019. LAFCO's employee benefits mirror the County's benefits, including health insurance and retirement (through StanCERA), pursuant to a Memorandum of Understanding between the County and the Commission. Estimates for increases in these accounts are provided by the County during each budget cycle and are incorporated into the LAFCO Budget. For FY 2018-2019, retirement costs are projected to increase by 15%. Additionally, at the start of the next calendar year, health insurance costs are anticipated to increase.

### *SERVICES AND SUPPLIES (Accounts 60000+)*

The proposed expenditures in the Services and Supplies category have increased by 15% as compared to the FY 2017-2018 budget. This is partly due to the addition of a line item for the biennial audit. Increases within this category include items associated with the County's Cost Allocation Plan (CAP) charges for various services provided to LAFCO, including County payroll, information technology, accounts payable/receivable, mailroom services, building services, and overhead charges. The following are highlights for various line items in the

Services and Supplies category.

Biennial Audit (Account #65660 – Special Department Expense)

Included in this year's budget is funding for the Commission's biennial audit to be conducted for Fiscal Years 2016-2017 and 2017-2018. If approved, Staff will initiate the process to contract with an independent auditor for this item. (A separate item for the selection of an independent auditor will be brought back to the Commission after the start of FY 2018-2019.)

Outside Data Processing (IT) Services (Account #63990)

LAFCO's information technology services are provided by the County's Strategic Business Technology Department (SBT). SBT also houses the County's Geographical Information Systems (GIS) division, which offers reduced pricing for GIS license fees to County departments and partner agencies (including LAFCO). The overall cost for IT services has increased based on SBT's implementation of new Office 365 licenses and enhanced IT security. Also included in this line item is the estimated annual cost for videotaping, televising, and live-streaming LAFCO meetings, totaling \$2,500. (This additional service was added in FY 2016-2017 at the Commission's request.)

Indirect Costs – "A-87 Roll-Forward" (Account #62450)

This account represents a two-year "true up" of estimated charges from the County's Cost Allocation Plan (CAP) charges for various services provided to LAFCO. These amounts tend to fluctuate annually and can result in a credit or debit depending on actual costs.

Commission Expense (Account #65890)

The estimated Commission Expense for FY 2018-2019 is proposed to remain at \$6,100. The majority of this is expended on monthly meeting attendance stipends, with remaining funds used for Commissioner travel expenses to training, as opportunities arise. During Fiscal Year 2017-2018, the Commission had a savings in this account due stipend savings from cancelled meetings. For the upcoming year, it is anticipated that two Commissioners will attend the CALAFCO Annual Conference, which may also be partially offset by stipend savings in the coming year.

*OTHER CHARGES (Accounts #70000+)*

This category includes one account (#73024) for copy costs and a shared portion of the copier lease with the County Planning Department. These costs are trending lower than projected in the current fiscal year, as Staff strives to eliminate paper copies. Therefore, it is recommended that this account be reduced slightly to \$2,000.

**REVENUES**

The primary revenue source for LAFCO is contributions from the 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. By statute, the cities share is apportioned by the County Auditor relative to each city's total revenues, as reported in the most recent edition of the Cities Annual Report published by the State Controller.

In addition to scheduled municipal service review updates and a steady receipt of out-of-boundary service applications, Staff is aware of at least four annexation proposals that are in various planning stages and may be received in FY 2018-2019. Annexation applications are processed at actual cost, with deposits for different types starting at \$3,000 and increasing based on estimated complexity or combined requests. For FY 2017-18, Staff proposes budgeting estimated fee revenues of \$12,000. Application fees that are received in any given year can vary widely, so this item is estimated conservatively. Any additional revenue received above this amount will be credited during the Commission's next budget cycle.

**FUND BALANCE & RESERVES**

Government Code Section 56381(c) provides that "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."

In 2015, an analysis of the fund balance was completed and the Commission reimbursed the majority of its undesignated fund balance back to the County and the nine cities. A remaining portion of the fund balance was used to maintain reserve funds.

Table 2 outlines the changes to the fund balance based on projected operating revenues and expenses in the current fiscal year. The actual amount of the FY 2017-18 fund balance will be calculated at year end (typically by September). However, based on the beginning year fund balance and projected revenues and expenses, Staff has estimated a year-end fund balance of \$338,726. This is due to projected FY 2017-18 revenues exceeding estimates and expenses trending lower than anticipated.

*Table 2: LAFCO Fund Balance*

<b>Fund Balance July 1, 2017</b>		<b>\$ 348,953</b>	
<b>Revenues</b>	<b>Estimated Year-End</b>	<b>Budgeted FY 17-18</b>	<b>Difference</b>
City/County Contribution	\$ 394,375	\$ 394,375	\$ -
Application Revenue	27,555	9,000	(18,555)
Interest	4,400	-	(4,400)
<b>Total Revenues</b>	<b>\$ 426,330</b>	<b>\$ 403,375</b>	<b>\$ (22,955)</b>
<b>Expenses</b>	<b>Estimated Year-End</b>	<b>Budgeted FY 17-18</b>	<b>Difference</b>
Salaries and Benefits	\$ 371,625	\$ 376,530	\$ 4,905
Services And Supplies	63,132	74,345	11,213
Other Charges (Copier)	1,800	2,500	700
<b>Total Expenses</b>	<b>\$ 436,557</b>	<b>\$ 453,375</b>	<b>\$ 16,818</b>
<b>Estimated Fund Balance June 30, 2018</b>		<b>\$ 338,726</b>	

Reserves Funds & Long-Term Pension Liability

The Commission's Reserve Fund Policy identifies two reserve categories to be calculated annually and allocated during the annual budget process: an Accrued Leave Fund (based on accumulated cash-out liability) and a General Fund Reserve (15% of operating expenses). Last year, the Commission requested an additional reserve fund be included to represent long-term liabilities. Proposed reserve funds are shown below:

*Table 3: Proposed Reserves Funds*

<b>General Fund Reserve (15%)</b>	<b>\$ 74,100</b>
<b>Long-Term Liability Reserve</b>	<b>75,000</b>
<b>Accrued Leave Fund (Cash-Out Liability)</b>	<b>82,700</b>
<i>Total Reserves</i>	<i>\$ 231,800</i>

The Commission's addition of a Long-Term Liability Reserve was in response to a recent accounting requirement known as GASB 68. GASB 68 requires employers to report long-term unfunded pension liabilities on their balance sheets. The estimated unfunded portion of the pension can vary significantly each year based on investment returns and contribution rates. It can be viewed as an indicator of the overall health of the StanCERA retirement system from year to year.

Accounting and budgeting for retirement costs are based on retirement contribution rates that are updated annually using actuarial analysis and adopted by the StanCERA Board. The rates are subsequently approved by the County Board of Supervisors, and participating departments and agencies are charged for their respective employees throughout the year for the current liability due for retirement contributions to the retirement system.

Long-term pension liability is currently reported on the Commission's balance sheet in the amount of \$554,866. This varies greatly from the previously reported amount of \$168,764 and was due to a lower than estimated rate of return. Pension liability is expected to improve and the corresponding liability will be reduced when we see our next estimate at the close of this Fiscal Year. It is important to also note that the estimate of unfunded pension liability is based on LAFCO's proportion of the StanCERA system's total unfunded pension liability and not actual amounts for LAFCO employees based on their years of service, retirement date, etc.

For the current year's budget, the Commission set aside \$25,000 for its Long-Term Liability Reserve. For the proposed budget, this reserve item has been increased to \$75,000. Staff from the County Auditor's office identified that there are many uncertainties with regards to the exact amount and timing of the long-term pension liability.

Fund Balance Status – Use of Undesignated Funds

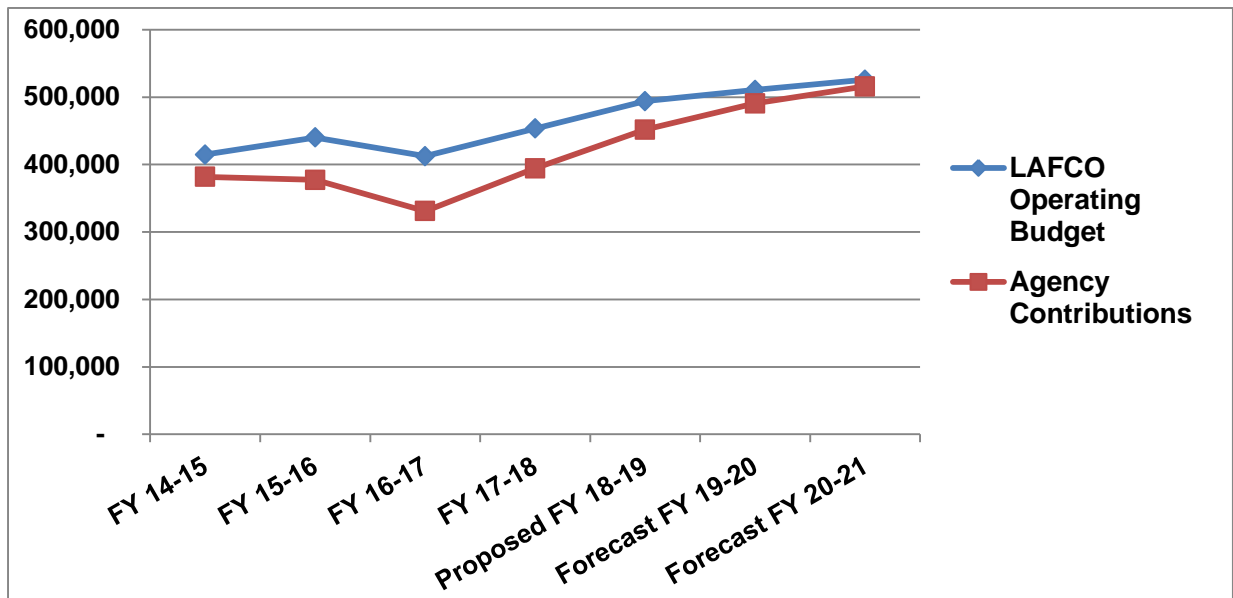
As the Commission has been depleting the remainder of its undesignated fund balance, agency contributions will continue to see a corresponding increase in their allocation amounts. For the current year, the Commission received higher than anticipated application revenues, as well as savings from lower than expected expenses. Therefore, Staff recommends using \$30,000 of the undesignated fund balance to offset the proposed FY 2018-2019 Budget. This, in conjunction with estimated application revenues (\$12,000) will help to offset agency

contributions. A forecast of the following year's budget shows that agency contributions will soon be closer to matching the Commission's operating expenses (see Table 4 and the figure below).

Table 4: Total Budget & Agency Contributions

	FY 17-18	Proposed FY 18-19	Forecasted FY 19-20
<b>Total Budget</b>	\$ 453,375	\$ 493,919	\$ 510,615
<b>Agency Contributions</b>	394,375	451,919	490,615
<b>Fund Balance Beg.</b>	348,953	338,726	296,726
<b>Drawdown</b> (Use of Fund Balance to Reduce Agency Contributions)	(50,000)	(30,000)	(10,000)
<b>Fund Balance End</b>	338,726	296,726	276,726
<b>Designated Reserves: 15% Reserve</b>	68,100	74,100	76,592
<i>Long-Term Liability Reserve</i>	25,000	75,000	100,000
<i>Accrued Leave</i>	82,700	82,700	85,000
<i>Total Reserves</i>	175,800	231,800	\$ 261,592
<b>Available Fund Balance to Offset Next FY Budget</b>	<b>\$ 162,926</b>	<b>\$ 64,926</b>	<b>\$ 15,134</b>

Figure 1: Forecast of Agency Contributions



**WORK PROGRAM & APPLICATION ACTIVITY**

During the current fiscal year, LAFCO Staff completed the Commission's 2017 municipal service review work program and has begun work on the updates scheduled for 2018. Staff also processed six out-of-boundary service extension applications, three district annexations, and a city annexation. Staff has seen a steady increase in both city and district pre-application activity, as well as inquiries regarding future applications.

For the upcoming fiscal year, Staff expects to complete the Commission's 2018 adopted work program, including efforts with two of the cities on their next municipal service updates. Staff will also be introducing a new feature to the Commission's website that integrates city and district data, maps, and contact information into one location.

**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 MSR/SOI updates, policy development, and current projects.

Attachments: LAFCO Resolution No. 2018-06  
Proposed Fiscal Year 2018-2019 Budget Detail

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**STANISLAUS COUNTY LOCAL AGENCY  
FORMATION COMMISSION**

**RESOLUTION**

**DATE:** April 25, 2018

**NO.** 2018-06

**SUBJECT: Adoption of the Proposed LAFCO Budget for Fiscal Year 2018-2019**

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**, 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 and Sphere of Influence Updates;

**WHEREAS**, the Commission mailed notices of the Proposed Budget to the County Board of Supervisors, the nine cities and the independent special districts; published a notice in Modesto Bee, and posted said notice on its website; and

**WHEREAS**, the Commission has conducted a public hearing on April 25, 2018, to consider the Proposed Budget for Fiscal Year 2018-2019, as submitted by the Executive Officer.

**NOW, THEREFORE, BE IT RESOLVED** that the Commission:

1. Finds that the Proposed Budget for Fiscal Year 2018-19 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 Proposed Budget for Fiscal Year 2018-19 as outlined in Exhibit 1, in accordance with Government Code Section 56381(a) and directs Staff to incorporate a strategy for use of undesignated fund balance as a reserve for long-term pension liabilities in the Final Budget.

3. Hereby schedules the public hearing to consider the adoption of the Final Budget for Fiscal Year 2018-19, for the Commission's May 23, 2018 meeting.

**ATTEST:**

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Sara Lytle-Pinhey  
Executive Officer

Attachment: Proposed Fiscal Year 2018-2019 Budget

**Stanislaus LAFCO**  
**PROPOSED FISCAL YEAR 2018-2019 BUDGET**

Account	FY 17-18 Legal Budget	FY 17-18 Estimated Year-End	FY 18-19 PROPOSED BUDGET	Increase or (Decrease)	% Change
<b>Salaries and Benefits</b>					
50000+ Salaries and wages	\$ 231,200	\$ 227,000	\$ 243,710	\$ 12,510	5%
52000 Retirement	61,360	60,200	70,695	9,335	15%
52010 FICA	18,310	17,000	19,210	900	5%
53000 Group health insurance	53,195	55,000	59,550	6,355	12%
53009 OPEB health insurance liability	2,735	2,735	2,820	85	3%
53020 Unemployment insurance	300	300	450	150	50%
53051 Benefits admin fee	190	160	190	-	0%
53081 Long term disability	360	350	380	20	6%
54000 Workers compensation insurance	1,045	1,045	1,165	120	11%
55000 Auto allowance	2,400	2,400	2,400	-	0%
55080 Professional development	2,200	2,200	2,200	-	0%
55130 Deferred comp mgmt/conf	3,235	3,235	3,395	160	5%
<b>Total Salaries and Benefits</b>	<b>\$ 376,530</b>	<b>\$ 371,625</b>	<b>\$ 406,165</b>	<b>\$ 29,635</b>	<b>8%</b>
<b>Services and Supplies</b>					
60400 Communications (SBT - Telecom)	\$ 1,120	\$ 1,110	\$ 900	\$ (220)	-20%
61000 Insurance (SDRMA)	3,240	3,276	3,475	235	7%
61030 Fiduciary liability insurance	40	40	40	-	0%
62200 Memberships (CSDA, CALAFCO)	5,670	5,675	6,065	395	7%
62400 Miscellaneous expense	3,000	2,750	3,000	-	0%
62450 Indirect costs (A87 roll forward)	2,195	2,256	5,875	3,680	168%
62600 Office supplies	1,500	1,500	1,500	-	0%
62730 Postage	1,200	900	1,200	-	0%
62750 Other mail room expense	400	400	420	20	5%
63000 Professional & special serv	13,065	12,845	14,214	1,149	9%
Building maint & supplies	3,420	2,781	3,600	180	5%
Office lease	3,950	3,774	3,975	25	1%
Utilities	1,400	1,350	1,460	60	4%
Janitorial	575	570	605	30	5%
Purchasing	275	170	275	-	0%
CEO/Risk Mgt overhead	3,445	4,200	4,300	855	25%
63090 Auditing & accounting	2,765	2,805	2,800	35	1%
63400 Engineering services	2,000	2,000	2,000	-	0%
63640 Legal services	16,000	8,000	12,000	(4,000)	-25%
63990 Outside data proc services (IT & GIS Lic)	8,900	8,925	11,015	2,115	24%
IT Services (SBT)	5,500	5,300	7,315	1,815	33%
Video Streaming (SBT)	1,000	1,000	1,000	-	0%
Mtg Recording (Final Cut Media)	1,200	1,425	1,500	300	25%
GIS License (SBT)	1,200	1,200	1,200	-	0%
65000 Publications & legal notices	800	800	800	-	0%
65660 Special dept expense (Biennial Audit)	-	-	8,000	8,000	new
65780 Education & training	5,500	4,500	5,500	-	0%
65810 Other supportive services (messenger)	230	230	230	-	0%
65890 Commission expense (stipends, training)	6,100	4,500	6,100	-	0%
67040 Other travel expenses (mileage)	500	500	500	-	0%
67201 Salvage disposal	120	120	120	-	0%
<b>Total Services and Supplies</b>	<b>\$ 74,345</b>	<b>\$ 63,132</b>	<b>\$ 85,754</b>	<b>\$ 11,409</b>	<b>15%</b>
<b>Other Charges</b>					
73024 Planning dept services	\$ 2,500	\$ 1,800	\$ 2,000	\$ (500)	-20%
<b>Total Other Charges</b>	<b>\$ 2,500</b>	<b>\$ 1,800</b>	<b>\$ 2,000</b>	<b>\$ (500)</b>	<b>-20%</b>
<b>TOTAL EXPENSES</b>	<b>\$ 453,375</b>	<b>\$ 436,557</b>	<b>\$ 493,919</b>	<b>\$ 40,544</b>	<b>9%</b>
<b>TOTAL REVENUES</b>					
40680+ Agency Contributions	394,375	394,375	451,919	57,544	15%
36414 Application & Other Revenues	9,000	27,555	12,000	3,000	33%
17000 Interest Earnings	-	4,400	-	-	-
<b>Use of Undesig. Fund Balance</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>	<b>\$ 30,000</b>	<b>\$ (20,000)</b>	<b>-40%</b>

**Stanislaus LAFCO**  
**PROPOSED FISCAL YEAR 2018-2019 BUDGET**  
**Reserve Funds & Undesignated Fund Balance**

Estimated Fund Balance June 30, 2018	\$ 338,726
<i>General Fund Reserve (15%)</i>	<i>(74,100)</i>
<i>Accrued Leave Fund (Cash-Out Liability)</i>	<i>(82,700)</i>
<i>Long-Term Liability Reserve</i>	<i>(75,000)</i>