

**EXECUTIVE OFFICER'S AGENDA REPORT
APRIL 28, 2021**

TO: LAFCO Commissioners

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

SUBJECT: PROPOSED LAFCO BUDGET FOR FISCAL YEAR 2021-2022

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. 2021-05, approving the Proposed LAFCO Budget for Fiscal Year 2021-2022.
3. Schedule a public hearing for May 26, 2021, to consider adoption of the Final LAFCO Budget for Fiscal Year 2021-2022.

EXECUTIVE SUMMARY

The Proposed Fiscal Year (FY) 2021-2022 Budget includes operating expenses totaling \$555,560 and reflects a 4% increase as compared to the 2020-2021 budget. The increase is attributable to increases to retirement costs and the costs for the biennial audit (delayed during adoption of the current year's budget). Table 1, below, summarizes the Proposed Budget and includes a comparison to the current year's budget.

Table 1: LAFCO Proposed Budget Summary

Expenses	Current Budget FY 2020-2021	Proposed Budget FY 2021-22	% Change (Proposed v. Current)
Salaries & Benefits	\$456,320	\$467,380	2%
Services & Supplies	74,970	86,980	16%
Other Charges	1,200	1,200	0%
Total Expenses	\$532,490	\$555,560	4%
Revenues			
Undesignated Fund Balance	(\$59,315)	(\$42,402)	-29%
Application & Other Revenues	(20,000)	(20,000)	0%
Agency Contributions	\$453,175	\$493,158	9%

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 \$42,402 in undesignated fund balance to offset the FY 2021-2022 budget. A chart depicting individual accounts for the Proposed Fiscal Year 2021-2022 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 2% overall during Fiscal Year 2021-2022. 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 these accounts are typically provided by the County during each budget cycle and are incorporated into the LAFCO Budget. Health insurance costs are anticipated to have a slight decrease.

SERVICES AND SUPPLIES (Accounts 60000+)

The proposed expenditures in the Services and Supplies category have increased by 16% as compared to the FY 2020-2021 budget. This is primarily due to the inclusion of the Special Department Expense item (Account #65660) for the Commission's biennial audit which was delayed during approval of the current year's budget. This category also includes 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, legal services and overhead charges. The following are highlights for various line items in the Services and Supplies category.

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Insurance – SDRMA (Account #61000)

Like many other LAFCOs, the Commission uses the Special District Risk Management Authority (SDRMA) for its general liability insurance. SDRMA's rates had remained relatively stable over the last decade, with the exception of an increase in the current year based on overall rate increases in the insurance market. The overall increase was less than anticipated and combined with longevity credits, Staff expects a slight decrease in the rate for Fiscal Year 2021-2022.

CALAFCO Membership (Account #62200)

The California Association of Local Agency Formation Commissions (CALAFCO) serves as an organization that assists LAFCOs with educational, technical, and legislative resources that would otherwise not be available. In 2019, CALAFCO approved a restructuring of its membership dues. An additional adjustment this year based on population in each County resulted in a slight reduction in membership rate for Stanislaus LAFCO.

Professional & Special Services (Account #63000)

This account includes costs for office space, utilities, as well as overhead charges from the County for human resources, risk management, and purchasing. Estimates from most of these charges typically come from the County's CAP charges issued annually in March. As the County is now using a 2-year budget cycle, accurate estimates for these charges will not be received until after LAFCO's budget is adopted. The current estimate is that most of these charges will have an approximately 3% increase. Staff will continue to monitor these throughout the year.

Special Department Expense - Audit (Account #65660)

Preparation of the current year's budget occurred during the onset of the pandemic with many unknowns regarding the ability for in-person office work. Due to this concern as well as the Commission's desire to reduce agency allocations, in FY 20-21 the Commission chose to defer the biennial audit. The audit line item, which will now cover three years, has been returned to the budget and is estimated at \$12,000.

Education and Training (Account #65780)

The Education and Training account is typically budgeted at \$5,500, allowing for at least two Staff to participate in the CALAFCO Annual Conference and Staff Workshop held during the year. The item was reduced during the current year, in anticipation of cancellations of in-person events, and is currently proposed at \$2,500, which would allow for one Staffperson's attendance. It is anticipated that this item will be restored during the following Fiscal Year's budget (FY 2022-2023) with minimal impact to the overall budget.

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. While copy costs trended lower in the current fiscal year, it is recommended to maintain the item at \$1,200.

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.

Application revenues, although charged at actual cost, represent a small percentage of LAFCO revenues (typically 4-6%). The majority of Staff's duties are considered unfunded State mandates, including preparation of municipal service review updates, informational reports, responses to inquiries, and coordination with local and state agencies. For FY 2021-22, Staff proposes budgeting fee revenues at an estimate of \$20,000. 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 factored in 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."

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 fund balance will be calculated at year's 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 \$318,752.

Table 2: LAFCO Fund Balance

Fund Balance July 1, 2020		\$ 341,964	
Revenues	Estimated Year-End	Budgeted FY 20-21	<i>Variance with Budget Over / (Under)</i>
City/County Contribution	\$ 453,175	\$ 453,175	\$ -
Application Revenue	32,700	20,000	12,700
Interest	6,020	-	6,020
Total Revenues	\$ 491,895	\$ 473,175	\$ 18,720
Expenses	Estimated Year-End	Budgeted FY 20-21	<i>Difference</i>
Salaries and Benefits	\$ 455,150	\$ 456,320	\$ (1,170)
Services and Supplies	59,457	74,970	(15,513)
Other Charges (Copier)	500	1,200	(700)
Total Expenses	\$ 515,107	\$ 532,490	\$ (17,383)
Net Gain (Loss)	\$ (23,212)	\$ (59,315)	\$ 36,103
Estimated Fund Balance June 30, 2021		\$ 318,752	

Reserve 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). The Commission also requested reverse fund be included to represent long-term liabilities. Proposed reserve funds are shown below:

Table 3: Proposed Reserve Funds

General Fund Reserve (15%)	\$ 83,350
Accrued Leave Fund (Cash-Out Liability)	93,000
Long-Term Liability Reserve	100,000
<i>Total Reserves</i>	<i>\$ 276,350</i>

The Commission's addition of a Long-Term Liability Reserve was in response to an 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.

Long-term pension liability was previously reported on the Commission's balance sheet in the amount of \$503,091, a reduction from a prior reported amount of \$554,866. It is important to also note that the estimate of unfunded pension liability is based on LAFCO's proportion of the StanCERA system's overall unfunded pension liability and not actual amounts for LAFCO employees based on their years of service, retirement date, etc. 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.

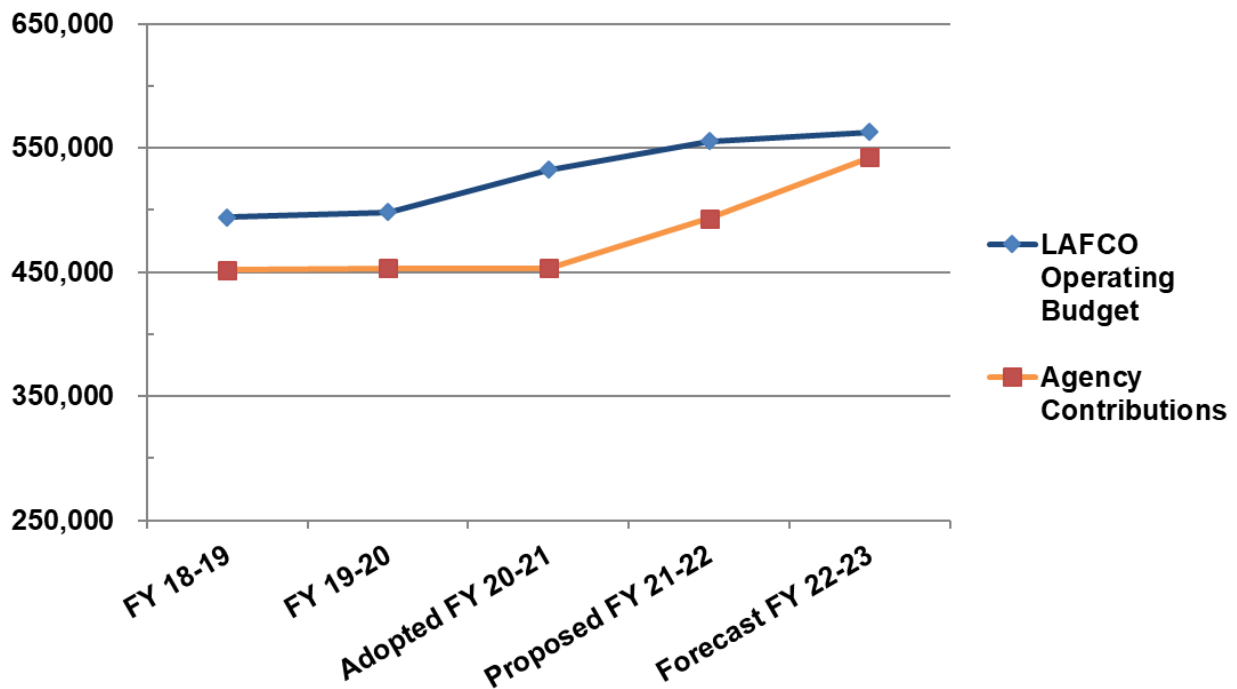
Fund Balance Status – Use of Undesignated Funds

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's budget, the Commission directed Staff to keep agency contributions the same as the prior year. For the Proposed Budget, an estimated \$42,402 in undesignated fund balance is available to offset agency contributions. This amount, in addition to \$20,000 in estimated application revenues will help to offset contributions; however, as anticipated, agency contributions are now gradually rising to meet the Commission's actual operating expenses. 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 Figure 1 on the next page).

Table 4: Total Budget & Agency Contributions

	FY 20-21	Proposed FY 21-22	Forecasted FY 22-23
Total Budget	\$ 532,490	\$ 555,560	\$ 562,572
Agency Contributions	453,175	493,158	542,572
Fund Balance Beg.	341,964	318,752	276,350
Drawdown (Projected Use of Fund Balance to Reduce Agency Contributions)	(23,212)	(42,402)	(0)
Fund Balance End (Est.)	318,752	276,350	276,350
Designated Reserves: 15% Reserve	77,928	83,350	84,386
<i>Accrued Leave (Cash-Out Liability)</i>	87,000	93,000	93,000
<i>Long-Term Liability Reserve</i>	100,000	100,000	100,000
<i>Total Reserves</i>	264,928	276,350	\$ 277,386
Estimated Undesignated Fund Balance for Use in <u>Following</u> Year	\$ 53,824	\$ 0	\$ (1,036)

Figure 1: Forecast of Agency Contributions

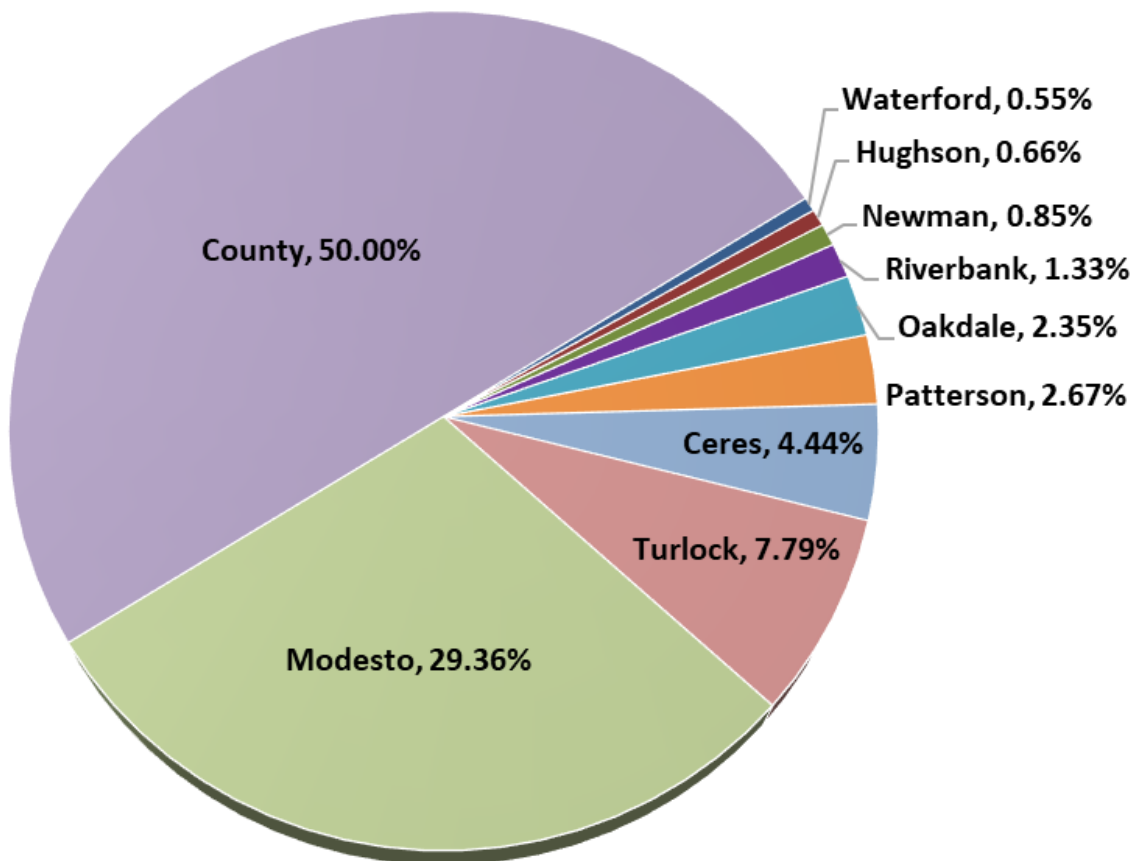


Agency Contributions

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.

Combined, the County and City of Modesto contribute about 79% of the Commission's budget, with the remainder split amongst the smaller cities (see Chart 1 below). Contribution amounts fluctuate from year to year amongst the cities, as their revenues increase or decrease relative to each other. Cities with larger increases in reported revenues may see their LAFCO contribution increase higher than other cities. Likewise, if a city has very low reported revenues, they may see their contribution amount decrease, even with an increase in LAFCO's budget. Table 5 on the next page outlines the County and Cities' contributions to the LAFCO budget for the current year and an estimate of the contributions for FY 2021-2022 based on the proposed budget.

*Chart 1: City/County Allocations (Estimated FY 2020-2021)**



* City allocations are based proportionally on total revenues, as reported by the most recent State Controller Annual Cities Revenue Report.

Table 5: Estimated Agency Contributions FY 2021-2022*

	State Controller Reported Revenues (FY 18-19)	% of LAFCO Budget	Current FY 20-21 Contribution	Estimated FY 21-22 Contribution	Total Change	% Increase (Decrease)
Ceres	68,168,892	4.44%	18,355	21,874	3,519	18.97%
Hughson	10,140,639	0.66%	3,410	3,254	(156)	(4.58%)
Modesto	451,188,274	29.36%	135,010	144,774	9,764	7.23%
Newman	13,038,899	0.85%	3,882	4,184	302	7.77%
Oakdale	36,142,038	2.35%	10,598	11,597	999	9.43%
Patterson	41,060,009	2.67%	12,733	13,175	442	3.47%
Riverbank	20,470,620	1.33%	5,759	6,568	809	14.05%
Turlock	119,783,598	7.79%	34,457	38,435	3,978	11.54%
Waterford	8,471,420	0.55%	2,383	2,718	335	14.06%
All Cities	768,464,389	50%	226,588	246,579	19,992	8.82%
County Contribution		50%	226,588	246,579	19,992	8.82%
Total Agency Contributions		100%	\$ 453,175	\$ 493,158	\$ 39,983	8.82%

* Estimates are based on the most recent State Controller's Reports. Final amounts will be determined by the County Auditor following adoption by the Commission.

WORK PROGRAM & APPLICATION ACTIVITY

Despite the unique challenges of the current fiscal year, LAFCO Staff was able to complete the Commission's 2020 work program and has begun work on updates scheduled for 2021. During this time, Staff has continued to process applications, including the large-scale Salida proposal, district and city annexations, and out-of-boundary service extensions. City and district application activity has remained steady, and we continue to receive inquiries regarding upcoming applications and potential annexations.

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 municipal service review updates, policy development, and current projects.

Attachments: LAFCO Resolution No. 2021-05
 Proposed Fiscal Year 2021-2022 Budget Detail

**STANISLAUS COUNTY LOCAL AGENCY
FORMATION COMMISSION**

RESOLUTION

DATE: April 28, 2021

NO. 2021-05

SUBJECT: Adoption of the Proposed LAFCO Budget for Fiscal Year 2021-2022

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 28, 2021, to consider the Proposed Budget for Fiscal Year 2021-2022, as submitted by the Executive Officer.

NOW, THEREFORE, BE IT RESOLVED that the Commission:

1. Finds that the Proposed Budget for Fiscal Year 2021-2022 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 2021-2022 as outlined in Exhibit 1, in accordance with Government Code Section 56381(a).

3. Hereby schedules the public hearing to consider the adoption of the Final Budget for Fiscal Year 2021-2022, for the Commission's May 26, 2021 meeting.

ATTEST:

Sara Lytle-Pinhey
Executive Officer

Attachment: Proposed Fiscal Year 2021-2022 Budget

Stanislaus LAFCO
PROPOSED FISCAL YEAR 2021-2022 BUDGET

Account	FY 20-21 Adopted Budget	FY 20-21 Estimated Year-End	FY 21-22 PROPOSED BUDGET	Increase or (Decrease)	% Change
Salaries and Benefits					
50000+ Salaries and wages	\$ 279,800	\$ 279,500	\$ 285,000	\$ 5,200	2%
52000 Retirement	83,100	83,600	89,990	6,890	8%
52010 FICA	22,100	20,800	22,500	400	2%
53000 Group health insurance	60,800	60,800	59,300	(1,500)	-2%
53020 Unemployment insurance	360	360	360	-	0%
53051 Benefits admin fee	190	160	190	-	0%
53081 Long term disability	425	385	425	-	0%
54000 Workers compensation insurance	995	995	1,035	40	4%
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	3,950	3,950	3,980	30	1%
Total Salaries and Benefits	\$ 456,320	\$ 455,150	\$ 467,380	\$ 11,060	2%
Services and Supplies					
60400 Communications (ITC - Telecom)	\$ 1,145	\$ 1,177	\$ 1,290	\$ 145	13%
61000 Insurance (SDRMA)	5,230	5,092	4,800	(430)	-8%
61030 Fiduciary liability insurance	40	60	70	30	75%
62200 Memberships (CSDA, CALAFCO)	10,800	10,377	10,560	(240)	-2%
62400 Miscellaneous expense	3,000	3,000	3,000	-	0%
62450 Indirect costs (A87 roll forward)	(460)	(460)	(460)	-	0%
62600 Office supplies	1,500	1,200	1,500	-	0%
62730 Postage	1,200	500	1,200	-	0%
62750 Other mail room expense	445	445	470	25	6%
63000 Professional & special serv	12,360	11,891	12,515	155	1%
Building maint & supplies	3,430	3,200	3,540	110	3%
Office lease	4,100	3,861	4,000	(100)	-2%
Utilities	1,515	1,515	1,560	45	3%
Janitorial	830	830	855	25	3%
Purchasing	285	285	295	10	4%
HR/Risk Mgt overhead	2,200	2,200	2,265	65	3%
63090 Auditing & accounting	2,430	2,430	2,505	75	3%
63400 Engineering services	2,000	2,000	2,000	-	0%
63640 Legal services	12,000	6,000	12,000	-	0%
63990 Outside data proc services (IT & GIS Lic)	12,200	11,875	12,950	750	6%
IT Services (ITC)	8,500	8,475	9,250	-	9%
Video Streaming (ITC)	1,000	1,000	1,000	-	0%
Mtg Recording (Final Cut Media)	1,500	1,200	1,500	-	0%
GIS License (ITC)	1,200	1,200	1,200	-	0%
65000 Publications & legal notices	1,000	900	1,000	-	0%
65780 Education & training	3,000	150	2,500	(500)	-17%
65660 Special dept. expense (3yr audit)	-	-	12,000	12,000	new
65810 Other supportive services (messenger)	350	240	350	-	0%
65890 Commission expense (stipends, training)	6,100	2,400	6,100	-	0%
67040 Other travel expenses (mileage)	500	50	500	-	0%
67201 Salvage disposal	130	130	130	-	0%
Total Services and Supplies	\$ 74,970	\$ 59,457	\$ 86,980	\$ 12,010	16%
Other Charges					
73024 Planning dept services	\$ 1,200	\$ 500	\$ 1,200	\$ -	0%
Total Other Charges	\$ 1,200	\$ 500	\$ 1,200	\$ -	0%
TOTAL EXPENSES	\$ 532,490	\$ 515,107	\$ 555,560	\$ 23,070	4%
TOTAL REVENUES					
40680+ Agency Contributions	453,175	453,175	493,158	39,983	9%
36414 Application & Other Revenues	20,000	32,700	20,000	-	0%
17000+ Interest Earnings & Refunds	-	6,020	-	-	-
Use of Undesig. Fund Balance	\$ 59,315	\$ -	\$ 42,402	\$ (16,913)	-29%

Stanislaus LAFCO
PROPOSED FISCAL YEAR 2021-2022 BUDGET
Reserve Funds & Undesignated Fund Balance

Estimated Fund Balance June 30, 2021	\$	318,752
<i>General Fund Reserve (15%)</i>		(83,350)
<i>Accrued Leave Fund (Cash-Out Liability)</i>		(93,000)
<i>Long-Term Liability Reserve</i>		(100,000)
Undesignated Fund Balance (Est.)	\$	42,402