

EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF JANUARY 23, 2019

REGULAR MEETING

TO: Shiva Frentzen, Chair, and
Members of the El Dorado County Local Agency Formation
Commission

FROM: José C. Henríquez, Executive Officer

**AGENDA ITEM #10: PUBLIC HEARING TO CONSIDER AND ADOPT THE
PROPOSED BUDGET FOR FISCAL YEAR 2019-20**

RECOMMENDATION

Staff recommends that the Commission:

1. Receive the information related to the draft Proposed Budget for Fiscal Year 2019-2020;
2. Open the Public Hearing on this matter; and
3. Adopt the Proposed Budget for Fiscal Year 2019-2020.

REASON FOR RECOMMENDED ACTION

The recommended LAFCO Budget provides adequate funding for the agency to meet the responsibilities under the Cortese-Knox-Hertzberg Act. El Dorado LAFCO adopts its own budget in a two-stage process with notice to all funding agencies.

BACKGROUND

Summary

This budget will accomplish all of the initiatives the Commission wanted to prioritize for the coming fiscal year. All operating costs are consistent with staff's forecasts. Any increases were due either to contractual obligations or by the consumer price index. The budget will also absorb the second of the three-phased approach to the salary increases, as described in Agenda Item 8. The budget also gets two "assists" on the revenue side: a larger-than-expected applicant fee revenue and a larger 2017-18 carryover as a result of the delay in hiring the Assistant Policy Analyst in 2018. Because the revenues are larger, it allows for the Commission to outsource the MSR/SOI study for the El Dorado Irrigation District without negatively impacting agency contributions.

How to Read the Attached Budget:

Budgetary items will be referred to by its description and General Ledger (GL) Account. The GL number reflects the Fund Number in the Commission's accounting system. The Fund Number corresponds to the monthly Profit & Loss report the Commission receives as part of its meeting packet.

The attachments to this report mirror the narrative from this point forward:

- Attachment A contains the calculated carryover from FY2017-18. This number is inputted into next year's budget as a source of revenue under GL 4100, consistent with both your direction from last year as well as with your policies.
- Attachment B contains the earned fee revenues accrued throughout calendar year 2018. This number is inputted into the budget as a source of revenue under GL 4000, consistent with both your direction from last year as well as with your policies.
- Attachment C contains the calculations for Operating Expenses.
- Attachment D contains the salary calculations and expenses. This attachment has been reformatted for simplicity and clarity.
- Attachment E contains the complete draft Proposed Budget for FY2019-20.

Overall Budget Highlights

In this budget, three of the four revenue sources are now known numbers. The agency contributions have always been known numbers since they bridge the gap between the total budget and the other revenue sources. This is the third year in which the carryover/fund balance is no longer a forecasted amount but a calculated number thanks to your Commission's policy change in 2016. Fee revenues are now a known number, roughly following the template laid out by the process for determining the carryover. Fee revenues collected in calendar year 2018 in excess of those budgeted for the current fiscal year were saved and will be used in 2019-20. From this point forward, revenues collected in a calendar year will be used for the budget that starts six months later.

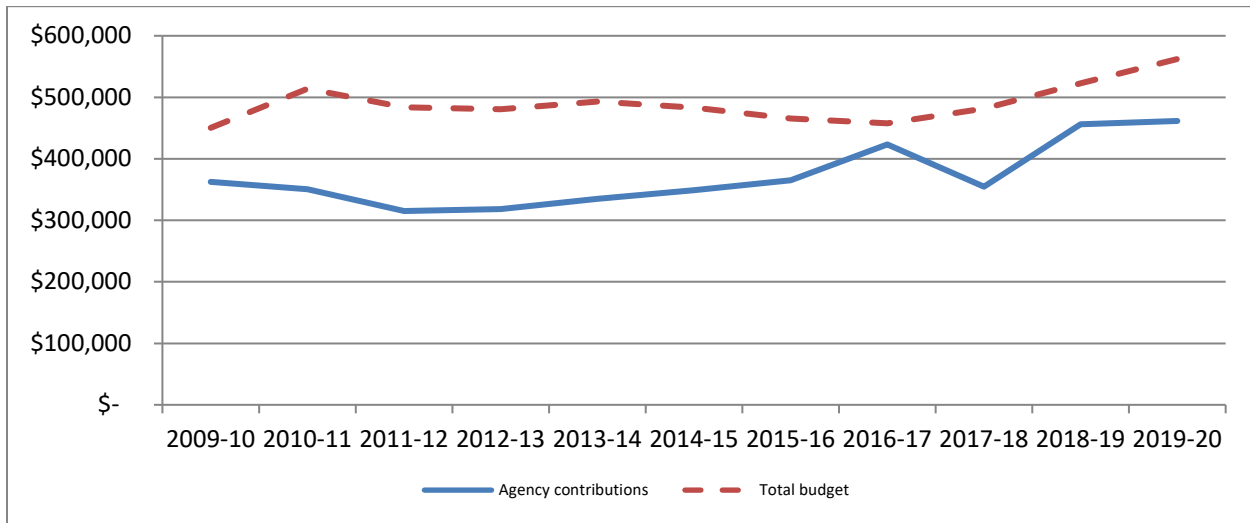
Because of the delay in hiring the Assistant Policy analyst position, the carryover from 2017-18 is larger than expected. Further, the applicant fee revenue in 2018 was unusually high. Applicant earned fee revenue came in \$13,000 on top of the estimate (\$6,777) for 2018-19. Combined, these additional revenues will allow for the Commission to fund the EID MSR/SOI study it authorized in August 2018 and allow for the Commission to start an IT infrastructure replacement fund. Both of these can be achieved without negatively impacting the agency contributions. All of these will be explained below.

Almost all operational expenses are expected to remain flat. The largest increases will be in Funds 5450 (Workers' Comp), 5460 (General Liability Insurance), 6080 (Legal Notices), 6090 (Legal Services) and 6750 [Staff Development (incl. Commissioner Development)] and 6770 (Transportation).

As explained last year, employee expenses will be lower because of the Administrative Assistant's retirement at the end of 2019. A pleasant surprise is that retirement and health insurance costs are lower than forecast in 2018.

The lump-sum payment to CalPERS for the unfunded liability in FY2019-20 will be \$2,933.

LAFCO 10-Year Budget History



As it can be seen, while the budget remains above the \$500,000-mark, agency contributions remain essentially flat. The budget is not expected to continue climbing at this rate in the long term.

Budget at a Glance

Budget	FY2018-19	FY2019-20
Employee Expense	\$387,283	\$357,316
Operating Expense	\$123,023	\$188,643
Operating Contingency	\$12,302	\$18,864
Expense Total	\$522,609	\$564,823
Non-Agency Revenues	\$7,277	\$14,251
Agency Contributions	\$456,033	\$464,121
Prior Year Fund Balance	\$59,299	\$86,451
Revenue Total	\$522,609	\$564,823

Expenditures

As the Commission knows, expenditures are usually broken down into three broad categories: Employee Expense, Operating Costs and Operating Contingency. For the sake of clarity in this staff memo, Operating Costs are further broken down into two subcategories, “recurring” and “non-recurring.”

Operating Costs - Recurring

Operating costs are all overhead costs to the agency that do not fall into expenses for employees. The costs under the “recurring” expenses are those that are budgeted annually. Looking at this category, regular operational costs are almost flat from previous year, with the net increase just over \$6,000. Most regular operational costs are locked in contractually or are slated to rise based on inflation (or in the case of the rent for the agency’s office, both). The largest percentage changes in expenses are:

- Workers Compensation (Fund 5450 at 75%);
- General Liability Insurance (Fund 6210 at 11%);
- GIS Maps (Fund 6060 at -50%);
- Legal Notices (Fund 6080 at 23%);
- Legal Services (Fund 6090 at 13%);
- CALAFCO Membership (Fund 6105 at 20%)
- Postage (Fund 6400 at -20%)
- Staff Development (incl. Commissioner Development) (Fund 6750 at 22%); and
- Transportation (Fund 6770 at -11%).

Operating Costs – Non-Recurring

Information Technology

At staff's request, LAFCO's IT vendor, GNT Solutions, submitted a multi-year equipment replacement project plan. While planning costs this far out is always a challenge because technologies and needs can change quickly, the project plan will help the agency plan for equipment replacement as a *mindset*, operationally and fiscally. Currently, staff relies on replacing equipment as it breaks down or until a piece of equipment or software is no longer supported by the manufacturer. The LAFCO budget then absorbs the hit when it is time to purchase the equipment and/or software. The danger of this practice is that this makes the agency increasingly vulnerable as technologies change and LAFCO fails to adapt. It also hurts the funding agencies because of a sudden spike in costs.

To cope with the operational need to keep up with technology, the project plan maximizes replacement based on age, warranty expiration, longevity (useful life) and proactivity. Some equipment will need to be replaced starting in 2019 and almost all will be replaced by 2022. After that, equipment will be replaced in a 5-year cycle (Attachment F). While we do not know the actual dollar amounts for the second project plan at this point, the annual allocations for this fund should be smaller than the first project plan because the costs are being spread out over more years.

To help with the financial impact, staff proposes to create a new fund to normalize costs across the lifespan of the project plan. For example, the equipment to be replaced in 2019-20 is only \$3,100 for parts and labor, but by 2021-22, these costs rise to \$15,000. Staff proposes a 3-year fund where replacement costs are budgeted at \$10,000 in each of the three years. This will absorb the cost for the first two fiscal years where the replacement costs are under this amount and rolls over the excess for the third, most expensive year. Should the Commission approve of this approach, staff will return in February with a proposed policy to formalize this fund.

Municipal Service Review/Sphere of Influence

In August, the Commission approved outsourcing the municipal service review/sphere of influence study for the El Dorado Irrigation District. As reported by staff in June, the last MSR/SOI for EID was in 2008. The combined additional revenues from the 2017-

18 carryover and the earned fees from 2018 give enough breathing room to budget \$45,000 for a study. While the 2008 Water, Wastewater and Power MSR was double that amount, the MSR for the two cities was contracted for less than this number. The budgeted amount represents the target staff hopes to hit for this study.

Employee Expense

The employee costs are expected to be roughly the same across all line items except for "Accrued Leave" (Fund 6800). Please recall that the Administrative Assistant will retire in December 2019. The budget reflects that by including only half-a-year expenses across all line items. As expected, the rise in salary costs from the second phase raise to the EO, AEO and APA were offset by the savings from budgeting the compensation for the AA for only six months. In addition, there are some savings from the APA choosing not to receive health benefits through LAFCO; as a result, LAFCO will budget for the in-lieu health stipend as specified in your Policies and Guidelines.

Finally, there is an increase in expenses for Accrued Leave (Fund 6800) because the APA was budgeted as if he was not taking any vacations or sick days. With other staff, the total days of compensated time off accrued over the course of the fiscal year is added to the average balance that is carried over from one year to the next. This amount is reduced by subtracting the average amount of days the staff has taken in prior years for each category. The APA is too new to the position at this time, so no discernable pattern has emerged for similar calculations to be conducted. In the absence of data, the prudent thing to do is to assume he will not take any time off to ensure sufficient monies are budgeted. It is expected that a better picture will emerge by the time the Commission considers the FY2020-21 budget.

CalPERS Outlook

As a reminder, the CalPERS rate is expected to increase steadily in the next few years because of the CalPERS Board of Directors' decision to cut the "discount rate" in January 2017. This is what the employer rate is forecast to be in the next few years, according to LAFCO's latest valuation report:

	Employer contribution	Projected future employer contributions*			
Fiscal Year	2019-20	2020-21	2021-22	2022-23	2023-24
Employer Rate	10.221%	10.9%	10.9%	10.9%	10.9%
UAL Payment	\$2,933	\$5,000	\$7,400	\$9,300	\$10,000

*From the August 2018 Valuation Report

While the employer rate is expected to be flat until 2025 (the Valuation Report has one more year of the projected rate than what is depicted here), the UAL payment continues to increase (by 2025 it is projected to be \$11,000). The funded ratio of LAFCO's plan has been consistently above 90% since LAFCO adopted its own contract with CalPERS in 2013. Hopefully, at some point LAFCO could see a drop in the UAL payment if the funded ratio continues to be at a high percentage.

Attachments

- Attachment A: Carryover/Fund Balance Calculations Fiscal Year 2017-2018
- Attachment B: Earned Project Revenue from Calendar Year 2018
- Attachment C: Operating Budget Calculations
- Attachment D: Employee Salary & Benefit Schedule
- Attachment E: Draft Proposed Budget FY 2019-2020
- Attachment F: Proposed IT Equipment Replacement Project Plan