EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF FEBRUARY 25, 2009

REGULAR MEETING

TO:	**Francesca Loftis, Chair, and** **Members of the El Dorado County Local Agency Formation Commission**
FROM:	**José C. Henríquez, Executive Officer**
AGENDA ITEM #5:	**PUBLIC HEARING TO CONSIDER AND ADOPT THE PROPOSED BUDGET FOR FISCAL YEAR 2009-10**

RECOMMENDATION

Staff recommends that the Commission:

1. Receive the information related to the draft Proposed Budget for Fiscal Year 2009-2010;
2. Open the Public Hearing on this matter; and
3. Adopt the appropriate Proposed Budget for Fiscal Year 2009-2010 that reflects the Commission's priorities for the coming fiscal year.

REASON FOR RECOMMENDED ACTION

The recommended LAFCO Budget provides adequate funding for the El Dorado LAFCO to meet the responsibilities of 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

The Ad Hoc Committee has met to discuss and draft a budget that covered the agency's employee and operating expenses. There is the potential for the size of the budget to be lower than last year's budget, the fourth budget reduction in a row. Strict cost control measures instituted since 2006 are helping this agency keep the majority of expenditures in line with the Commission's allocated amounts. However, the biggest budgetary decision the Commission faces going into Fiscal Year 2009-2010 is whether to retain the County as the general liability insurance carrier or to contract with another entity.

How to Read the Attached Budget:

Budgetary items will be referred to by its description and line item. The line item number reflects the Fund Number (or G/L Account) in the Commission's accounting system. The Fund Number corresponds to the monthly Profit & Loss report the Commission receives as part of its hearing packet.

Three proposed budgets are presented to the Commission for its consideration, named as Option A, B or C (attachments E, F, G, respectively). While the overall budget amounts differ, the cost allocation for all but one item are the same in all three options. The attachments to this report are:

- Attachment A contains the cash forecast through the end of the current fiscal year
- Attachment B contains the estimated fee revenues from petitions and applications
- Attachment C contains the salary expense and salary calculations
- Attachment D contains the operating expense calculations for most expenditures
- Attachment E contains the master Proposed Budget spreadsheet for Option A
- Attachment F contains the master Proposed Budget spreadsheet for Option B ***(Alliant quote is not yet available)***
- Attachment G contains the master Proposed Budget spreadsheet for Option C

Budget Summary

Despite the weak economy, application (fee) revenues are projected to nearly double next year than current. There appears to be interest by some landowners to pursue annexations. Staff forecasts processing at least three projects simultaneously next fiscal year, with revenues coming from four projects total. Because of the forecasted drought, there is also a possibility of single parcel applications to EID; however, those projects are fairly small, unpredictable in number and do not generate a significant amount of revenue. Consequently they were not included in the revenue estimates despite the likelihood of increasing LAFCO's workload.

Revenues from interest rates are projected to be significantly lower because of the deflated Federal rate. Staff forecasts revenues from this source to be accrued at less than 1% a month.

Staff recommends freezing salary expenditures at current year's funding levels. Taking into account a potential $3,000 increase in health care costs, salary and benefits expenses would be $700 higher over the current year. Not taking general liability insurance (GLI) into account, approximately half of the operating expenditures will be budgeted at the same level or lower than the current fiscal year. Those expenditures that increased over current did so at a modest rate. Overall, the operating expenses are $400 higher excluding any expenditure for GLI.

The Budget Ad Hoc Committee also budgeted a 10% contingency for any reasonable increase in operating expenses that may occur during the course of the fiscal year per your Policies and Guidelines.

Since State Law requires that, at a minimum, the proposed and final budgets be equal to the approved budget from the previous fiscal year, if either Option B or C is adopted the Commission may have to find that this lower budget will nevertheless allow LAFCO to fulfill the purposes and programs specified in Cortese-Knox-Hertzberg.

Budget Option	***Current FY***	**A**	**B**	**C**
Employee Expense	*$313,010*	$313,707	$313,707	$313,707
Operating Expense	*$101,100*	$123,426	$	$97,426
Contingency	*$10,110*	$12,343	$	$9,743
Expense Total	***$424,220***	**$449,476**	**$**	**$420,876**
Non-Agency Revenues	*$7,344*	$8,881	$8,881	$8,881
Agency Contributions	*$335,749*	$362,087	$	$333,587
Previous FY Fund Balance	*$81,127*	$78,408	$78,408	$78,408
Revenue Total	***$424,220***	**$449,476**	**$**	**$420,876**

Operating Expenses

As noted above, several expenditures are recommended to be budgeted at either the same levels or at a lower amount as the current year. The largest budgetary issue before the Commission is whether to retain the County as LAFCO's general liability insurance (GLI) carrier. That is the only difference across the three options. As it can be seen on Attachments E and G, all other operating cost expenditures remain the same.

Currently, LAFCO is part of the County's general liability insurance pool. As discussed in January's meeting, LAFCO was notified in mid-January that its costs for GLI skyrocketed in the current year, from an estimated $7,000 to $29,952. The GLI premium for next fiscal year is projected to be approximately $30,000. The unexpected increase in the GLI premium in the current fiscal year impacts next year's budget in two ways. First, because this year's GLI premium will have to be covered by other funds, it decreases the carryover into FY2009-10 by $22,000. Second, the Commission would have to budget $30,000 for GL insurance. That the Commission is seeing a substantial change in this year is not new, since the cost of GLI has fluctuated for the past six years:

FY	**Total LAFCO Budget**	**GLI Premium**	
2004-05	$ 482,509.71	$ 4,200.00	
2005-06	$ 550,003.48	$ 12,982.00	
2006-07	$ 540,064.40	$ 2,856.00	
2007-08	$ 471,687.00	$ 17,264.00	
2008-09	$ 424,220.00	$ 29,952.00	(originally estimated at $7,000)
2009-10 (est)	$ 449,476.00	$ 30,000.00	

An option for the Commission to consider is to change the GL insurance carrier. At the direction of the Commission, the Ad Hoc Committee requested quotes from two entities, the Special District Risk Management Association (SDRMA) and Alliant Insurance [the California State Association of Counties (CSAC) uses Alliant for excess insurance]. The coverage would include, among other things, property and errors and omission (E&O) coverage. Consequently for purposes of discussion the following is a comparison of quotes for a total insurance package in FY2008-09. ***Please note that an updated quote from Alliant is not yet available, but the numbers below reflect a quote given to this agency two years ago***:

Insurance Limit	**County Quote***	**Alliant Quote**	**SDRMA Quote**
$2.5 Million	N/A	$5,000	$3,680
$5 Million	N/A	$5,600	$5,255
$10 Million	$29,952	$5,800	$9,195
Deductible	*None*	*$10,000*	*Various, none higher than $2,000*

* The County of El Dorado has a self-insurance retention of $1M and purchases excess insurance from CSAC to achieve the $10M limit

The following LAFCOs purchase their GLI coverage through the two carriers listed above:

Alliant – Del Norte, Fresno, Imperial, Los Angeles, Orange, Placer, Riverside, Sacramento

SDRMA – Marin, Mendocino, Monterey, Nevada, Plumas, San Luis Obispo, Santa Barbara, Shasta, Stanislaus

While the FY2009-10 rates have not been set by any carrier, the numbers above should approximate the Commission's cost for GLI insurance. For example, in Budget Option A, staff allocated $30,000 should the Commission retain the County as its GLI carrier. Should the rate increase by 10%, the $3,000 difference between the allocated and actual amounts would be covered by the contingency. The same logic applies to Options B and C.

Another consideration is the insurance limit, since Alliant and SDRMA give the Commission that flexibility. For budgeting purposes, staff assumed the insurance limit would be set at $2.5 million under either alternative carrier. This is because the insurance limit is per occurrence and there are no aggregate on liability claims. For comparative purposes, the larger of the two lawsuits filed against LAFCO had expenses under $90,000. Consequently, it is very likely that the $2.5 million limit is more than sufficient to cover this agency. In addition, the representative from SDRMA indicated that her group's preference would be for LAFCO to start at the $2.5 million level on its first year and increase coverage in subsequent years if the Commission is more comfortable with a higher limit.

The Commission's decision on GLI coverage will have an impact on the agency contributions. The other sources of LAFCO revenue are either set (carryover: $78,408) or beyond LAFCO's control (interest: $600 and fees: $8,821). Assuming the estimated revenue sources and other expenditures remain the same, the impact to the agency contributions in FY2009-10 are as follows:

Budget Option	Insurance Carrier	Estimated Premium	Total Budget	Agency Contributions
A	County	$30,000	$449,476	$361,087
B	Alliant	***Not yet available***	***Not yet available***	***Not yet available***
C	SDRMA	$4,000	$420,876	$333,587

Employee Expenses

Employee expenses are the same across all three budget options. As noted above, employee salaries have been frozen for FY2009-10. In addition, the salary costs include a proposed 3-day furlough. This furlough would be structured so that staff may take the three days at any time during the fiscal year. However, because of the MSRs and an increase in applications, the agency will have to bring in a temporary employee to assist the LAFCO office with the workload while the Policy Analyst is out on maternity leave. Those costs have been included in the cost estimates.

Other Considerations

- At the Commission's direction, staff wrote to the CAO and County Auditor-Controller requesting the lowering of the current fiscal year's GLI premium to the estimate given last March (please refer to Attachment H). No response has been given at the time of this writing. In the case that the GLI premium is lowered, the carryover into next year increases by $22,000, an amount that would significantly lower the agency contributions by a similar amount.
- Staff recommends a 3-day furlough because it seems to be the amount of unpaid days that have the most optimum effect to both the budget and relief to the funding agencies. The Commission could increase the number of unpaid days, but staff cautions against a furlough longer than 5 days. Anything higher than that amount is financially detrimental to the employees without improving the overall budget situation or lowering the individual agency contributions by a significant amount.

<u>Attachments</u>

Attachment A: Cash Forecast Fiscal Year 2008-09
Attachment B: Fiscal Year 2009-10 Expected Project Revenue
Attachment C: Employee Salary & Benefit Schedule
Attachment D: Operating Budget Calculations
Attachment E: Proposed Draft Budget - Option A
Attachment F: Proposed Draft Budget - Option B **(Not yet available)**
Attachment G: Proposed Draft Budget - Option C
Attachment H: Letter to CAO Gayle Erbe-Hamlin and Auditor Joe Harn, dated February 6, 2009