

# EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

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## *AGENDA OF MARCH 22, 2006*

### *REGULAR MEETING*

**TO:** Ted Long, Chairman, and  
Members of the El Dorado County Local Agency Formation  
Commission

**FROM:** José C. Henríquez, Executive Officer

**AGENDA ITEM #7: PUBLIC HEARING TO CONSIDER AND ADOPT THE  
PROPOSED BUDGET FOR FISCAL YEAR 2006-07**

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#### **RECOMMENDATION**

Staff recommends that the Commission:

1. Receive the information related to the draft Proposed Budget for Fiscal Year 2006-2007
2. Adopt the Proposed Budget for 2006-2007

#### **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 with notice to all affected agencies.

#### **BACKGROUND**

The Budget Ad Hoc Committee has met and drafted a proposed budget. The Ad Hoc Committee submits the draft Proposed Budget to the Commission for its review, and consideration. This budget, in summary, holds the line in agency contributions from last year and is driven to maximize the effectiveness of the agency, utilizing existing resources to accomplish more in the next fiscal year.

#### *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. For any item that does not currently have a Fund Number, the item will be given a generic line number that reflects its location within the spreadsheet. A Fund Number will be assigned should the Commission ultimately adopt the budget in the proposed format.

This report will include summary tables for each subsection of the budget. Attachment A contains the cash forecast through the end of the current fiscal year. Attachment B contains the master Proposed Budget spreadsheet. Attachments C through F contain details on how their respective section's budget amounts were calculated. Some of the details will also be discussed in this report. Finally, Attachment G contains a synopsis of the concerns expressed on the draft budget as presented during the February meeting along with responses to those concerns.

### *Budget Highlights and Summary*

The goal of next year's budget is to achieve the most out of the allocated revenue while simultaneously introducing additional transparency in this agency's budgetary practices. The Budget Ad Hoc Committee was also mindful of retaining this Commission's past practice of budgeting individual expense items at minimum levels and adding a 10% contingency for any reasonable increase in operating expenses that may occur during the course of the fiscal year. A second priority was not to increase the budgetary burden on the funding agencies. Both of those goals will be achieved through utilizing existing resources in order to continue or enhance existing programs.

The budget for FY 2006-07 is \$9,000 lower than last year's budget. There will be a reduction in employee expenses, despite adding a permanent part-time administrative assistant. The reductions were achieved because of the turnover in staff last year. The Commission's new staff is compensated at the lower tiers of their respective classifications, as opposed to last year's staff's compensation which was set at the higher tiers. The part-time administrative assistant will be an integral part in implementing the Proposed Work Plan (refer to Agenda Item #6). Finally, overall expenses were adjusted to reflect estimated costs based upon reasonable projection of this year's expenses and any other contracted amounts.

Another highlight is that there is a budgeted line item to outsource municipal service reviews (MSRs) in order for this agency to meet the statutory deadline of January 1, 2008. The intent is to finance as many MSRs as the budgeted amount would allow. This effort will be supplemented by finishing other MSRs in-house. Assuming that the Commission allocates \$130,000 for funding Municipal Service Reviews, the funding agencies will not see an increase in their contributions from last year.

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

|                          |                  |
|--------------------------|------------------|
| Employee Expense         | \$276,712        |
| Operating Expense        | \$239,411        |
| Operating Contingency    | \$23,941         |
| <b>Expense Total</b>     | <b>\$540,064</b> |
| Non Agency Revenues      | \$37,825         |
| Agency Contributions     | \$335,670        |
| (FY2005-06) Fund Balance | \$166,569        |
| <b>Revenue Total</b>     | <b>\$540,064</b> |

### *Changes from the Budget Presented in the February Meeting*

In addition to reformatting the budget by rounding the amounts to the nearest dollar, this budget contains six items that are different from the draft budget presented to the Commission in February, three found on the "Revenues" portion of the budget and three on the "Operational Expenses" section:

- The carryover from FY2005-06 has been adjusted to \$166,569.
- This budget no longer assumes a \$0.00 for revenue to be collected in FY 2006-2007. The intent of that proposal was to budget more conservatively by having a known amount as a source of revenue. However, since then staff has been made aware that this approach was not in compliance with known and accepted accounting standards. Consequently, this budget has the entire estimated \$166,569 allocated as carryover balance (line item 4100, also known as carry forward balance).
- This budget assumes a fee revenue estimate for the next fiscal year of \$35,000 (line item 3).
- The allocation for outsourcing MSRs is \$130,000.
- To enhance clarity, the expenses for "Accounting Services" and "Payroll" were consolidated into the "Accounting Services" Fund because both line items referred to payroll processing (professional services and automated services), currently performed by Terrie Prud'hon's CPA firm.
- This budget includes an additional \$250 expenditure for a subscription to the California Planning and Development Report.

### Revenues

|      |   |                  |
|------|---|------------------|
| (3)  | Fees Collected from FY 2006-07              | \$35,425         |
| 4100 | Fund Balance (Carry Forward from FY2005-06) | \$166,569        |
| 4120 | Revenue - Agency Payments                   | \$335,670        |
| 4700 | Revenue Interest                            | \$2,400          |
| (9)  | <b>Sub-Total - Revenues</b>                 | <b>\$540,064</b> |

The Ad Hoc Committee reviewed staff's projections for expenses for the remainder of FY 2005-06 and determining the difference between the estimated revenues and expenditures through June 30, 2006. The carryover amount at the end of FY 2005-06 is estimated to be \$166,569 (refer to Attachment A). The Ad Hoc Committee stressed the importance for minimizing or reducing the budgetary impact of the LAFCO budget on the funding agencies. Consequently, the budgeted revenues from the funding agencies will remain almost the same from last year. Staff estimated that revenue interest to increase slightly from last year, with the agency's accounts to earn a conservative amount of \$200.00 per month. Finally, the estimated earned fee revenue from applications were derived from ten applications staff believes has a more than reasonable chance to be submitted in the next fiscal year plus fees to be paid to LAFCO in the coming year for the eight currently active applications (refer to the staff report for Agenda Item #6 and to Attachment C).

The Proposed Budget also assumes that prior revenue sources will be \$0.00 as staff and Ad Hoc Committee could not find a reasonable source of these funds for the coming year (previously budgeted under "Reserves Fund Accrued Time" and "Miscellaneous Revenue").

In addition, as of March 1, 2006, LAFCO has \$10,748 in "unearned fees" (fees collected for applications but LAFCO staff has not worked the hours to earn those fees) that staff is currently tracking. That amount equates to approximately 80 hours of processing time (based upon the current \$135 hourly rate) that staff is reasonably confident will be worked by the end of this fiscal year; thus, resulting in a minimal amount of unearned fees that will be carried over into FY 2006-07. Consequently most of these fees will become earned by June 30<sup>th</sup> and part of the carry forward into the next fiscal year.

### Expenditures

Several expenditures are recommended to remain the same. Ad Hoc Committee noticed that staff's projections of these line items through June 30, 2006 were budgeted at an appropriate amount. Other line items increased or decreased slightly, also based on staff projections of these expenditures. This report will outline only the biggest changes in the budget from last year:

#### Employee Expense

|      |  |                  |
|------|--|------------------|
| 5200 | Employee Wage - Regular                | \$191,574        |
| 5210 | Employee Wage - Temporary              | \$1,000          |
| 5230 | Employee Wage - Overtime               | \$1,000          |
| 5300 | Deferred Comp Match                    | \$800            |
| 5310 | Flex Benefits                          | \$6,000          |
| 5320 | Health Insurance (Less In Lieu)        | \$19,869         |
| 5340 | Retirement - CALPERS                   | \$27,142         |
| 5350 | In-Lieu Health Insurance               | \$2,250          |
| 5400 | Payroll Tax - Medicare (1.45% of Base) | \$2,682          |
| 5440 | Disability Insurance (.53% of Base)    | \$1,115          |
| 6800 | Accrued Leave                          | \$22,808         |
| (24) | Employee Assistance                    | \$471            |
| 5100 | <b>Sub-Total Employee Expenses</b>     | <b>\$276,712</b> |

As expected with new staff, overall expenses are lower. The allocated amounts also reflect the Commission paying a portion of the PERS employee contribution (as outlined in the County Memorandum of Understanding or MOU) and any future increases in salary during FY 2006-07, pending positive evaluations, as indicated in the employee's contracts (refer to Attachments D and E). Other highlights in this section include:

- The amounts for health insurance and benefits were calculated based upon advice from the County Human Resources Department. The costs included in the Proposed Budget include any anticipated increase in costs.
- The Proposed Budget also includes a budgeted line item for any accrued leave from the current fiscal year that may carry over into the next fiscal year (for the calculations and methodologies, please refer to Attachments D and E). This appropriation reflects the Commission's preference and past practice of protecting the budget by fully funding any leave time liability for all employees.

- The allocated amount for Employee Assistance (line item 24) reflects the costs of personal counseling services outlined in the County's MOU. In prior years this amount was not delineated in the budget and instead deducted from Employee Wages. It is given a separate line item in this budget to increase the visibility of expenditures.

The LAFCO office currently has a part-time administrative assistant contracted through June, 2006. The Ad Hoc Committee considered the making this position permanent. As the Commission is aware from the discussion in Agenda Item #6, the Proposed Work Plan entailed several high-visibility, high value projects to enhance customer service and agency efficiency. These initiatives are in addition to an increase of ten applications in the number of petitions this agency will process during FY 2006-07. Because the petitions and the process improvement initiatives will consume a substantial amount of the Executive Officer's and Policy Analyst's time, it becomes necessary for the Clerk to perform at a higher level within her classification. The goal is for the Clerk to take a more active role in the completion of some these special projects as well as assist in the completion of the MSRs that will be conducted in-house. In order to do this, the Clerk will have to be relieved from some of the routine, administrative duties of her position. Retaining the current administrative assistant will result in savings on training costs because she is now knowledgeable of the LAFCO processes, timelines and deadlines, designed the office's digital and physical file system and is fully aware of the LAFCO office's operations and administrative functions. Even with the costs of this position added to the budget, the staff expenses are still lower than last year's staff costs and fully absorbable by the salary savings. Consequently, the addition of a permanent part-time administrative assistant will ensure that the clerical and administrative duties of the agency are completed and thereby enabling the full-time staff to concentrate on more complex projects.

### Operating Expenses

Operating expenses were calculated based on actual expenses plus any anticipated adjustments (refer to Attachment F). Some of the highlights include:

- General Liability Insurance (line item 5460): This amount is determined by SDRMA. In previous years, the premium was higher based upon the estimated risk of damage or lawsuits to this agency. SDRMA concluded that the Commission's actions on the Bass Lake Specific Plan and the El Dorado Hills Incorporation effort made LAFCO a high potential risk. SDRMA has concluded that the risk for 2006-07 is smaller since the Commission will not be considering a controversial project in the near future.
- Accounting Services (line item 6020): LAFCO currently outsources its payroll service to an independent, private firm in order to minimize the potential of conflict of interest or fraud. LAFCO currently uses the services of Terrie Prud'hon's CPA firm. The budgeted amount was calculated using reasonable estimates of the number of hours that the CPA firm will spend on payroll multiplied by the contracted rate. The Ad Hoc Committee has directed staff to explore the contracted rates of other payroll services to ensure the Commission is receiving the lowest rates. In addition, this line item also budgets the expense of using payroll-related software that allows LAFCO to submit electronic direct deposit of paychecks.

Please note that in the past, the professional accounting services for payroll were budgeted under "Accounting Services" and the automated service budgeted under "Payroll Service" (line item 6350). This approach was found to be confusing and will no longer be used.

- Copies (line item 6050) and Postage (line item 6400): The budgeted amounts from prior years were insufficient based on historical use. These amounts were increased to reflect both the estimated use and the higher costs.
- Professional Services (line items 6500, 46 and 47): Historically, this line item contained the estimated costs for various services the Commission might outsource or contract with another firm. The FY 2006-07 draft budget increases the visibility of expenditures by outlining which services the Commission may want to outsource. Given the Legislative deadline for the completion of Municipal Service Reviews (MSRs) is January 1, 2008 and that El Dorado LAFCO that is behind in completing these reviews, the Ad Hoc Committee allocated \$130,000 to contract with consulting firms to complete as many MSRs as possible (plus an additional \$10,000 for any necessary environmental reviews that will be necessary for these reports). Staff will be instructed to ensure that it finds the most cost-effective, reputable consultants to conduct these studies.
- Staff Development (line item 6750) and Transportation (line item 6770): Both the CALAFCO Annual Conference and Staff Workshop will be in Southern California during FY 2006-07. The allocated expenditures reflect the estimated costs of registration, air travel and accommodations. In addition, there is money in the budget for additional training sessions or classes for staff at the UC Extension and Los Rios Community College District.

#### Attachments

- Attachment A: Cash Forecast FY2005-06 (Projected Year End Balances)
- Attachment B: Proposed LAFCO Budget FY 2006-07
- Attachment C: Estimated Fee Revenue Calculations
- Attachment D: Employee Salary Benefit Schedule FY 2006-07
- Attachment E: Salary Expense Calculation Methodologies
- Attachment F: Proposed FY 2006-07 Operating Budget
- Attachment G: Concerns on the Draft Budget as Presented in February