EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF FEBRUARY 28, 2007

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 2007-08**

RECOMMENDATION

Staff recommends that the Commission:

1. Receive the information related to the draft Proposed Budget for Fiscal Year 2007-2008;
2. Open the Public Hearing on this Matter; and
3. Adopt the appropriate Proposed Budget for 2007-2008 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, at the very least, covered the agency's employee and operating expenses. Overall, the size of the budget is expected to be lower than last year's budget. Strict cost control measures were instituted during this fiscal year and are currently in place, keeping a majority of expenditures in line with the Commission's allocated amounts. However, due to a significant decrease in applications, earned fee revenues are lower than budgeted, affecting the estimated size of the projected carryover balance into the next fiscal year (please refer to Attachment A). Staff anticipates that the slow application trend will continue into next year (please refer to Attachment B). In addition, the cost of certain expenditures has increased, most unexpectedly the cost of General Liability Insurance (line item 5460). Consequently, despite an awareness of the LAFCO budget impacts on the contributing agencies, there may be an increase in the agency contributions for Fiscal Year 2007-08. Whether there is an increase and its size will depend on the priorities the Commission wishes to fund.

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, there are similarities across all three. This report will include summary tables for each subsection of the budget that is the same across all three proposed budgets. A final section in this report will explain the differences in the budgets and the implications should the Commission adopt or reject each option. The attachments to this report mirror this report's structure:

- 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
- Attachment G contains the master Proposed Budget spreadsheet for Option C

Overall Budget Highlights

As with the effort began with the current fiscal year, next year's budget seeks to achieve the most out of the allocated revenue and maintain a 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.

Revenues from non-agency sources are projected to be lower across the board. A slowdown in the local economy and in the housing market is the most likely reason why the number of applications was down and affecting the projected revenues, which were lower than expected in FY 2006-07. The current budget projected the receipt of ten new applications; instead only one new project was received. Fee revenues would have been significantly lower (down 70%) had the agency not processed the very complex Marble Valley project this year. The lower earned fees collected also had an impact on the estimated carry forward fund balance into the next fiscal year. The slowdown in applications will most likely continue; consequently fee revenues were estimated extremely conservatively. The budget does not assume the receipt of a very complex project such as Marble Valley. Interest revenue is expected to remain the same.

Most salary expenditures remain at last year's funding levels or experienced a modest increase. Several operating expenditures will be lower or budgeted at the same level as the current fiscal year. The budget for FY 2006-07 is expected to be between $68,278 to $117,877 lower than the current levels, depending upon the Commission's priorities and on the budget option it adopts. The largest impacts upon the proposed budget are the aforementioned increase in the agency's General Liability Insurance and whether there should be a budgeted line item to outsource municipal service reviews (MSRs) in order for this agency to meet the statutory deadline of January 1, 2008.

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.

Budget Option	**A**	**B**	**C**
Employee Expense	$294,459	$294,459	$294,459
Operating Expense	$116,116	$131,206	$161,206
Operating Contingency	$11,612	$13,121	$16,121
Expense Total	**422,187**	**438,786**	**471,786**
Non Agency Revenues	$14,141	$14,141	$14,141
Agency Contributions	$337,058	$353,657	$386,657
(FY2006-07) Fund Balance	$70,988	$70,988	$70,988
Revenue Total	**$422,187**	**$438,786**	**$471,786**

Expenditures

Several expenditures are recommended to be budgeted at either the same levels as the current year and others are at a lower amount. This report will outline only the biggest changes in the budget from last year:

<u>Employee Expense</u>

5200	Employee Wage - Regular	$195,419.00
5210	Employee Wage - Temporary	$ 1,000.00
5230	Employee Wage - Overtime	$ 1,000.00
5300	Deferred Comp Match	$ 800.00
5310	Flex Benefits	$ 6,000.00
5311	Employee Assistance	$ 471.00
5320	Health Insurance (Less In Lieu)	$ 25,195.00
5340	Retirement - CALPERS	$ 33,528.00
5350	In-Lieu Health Insurance	$ 2,250.00
5400	Payroll Tax - Medicare (1.45% of Base)	$ 2,736.00
5440	Disability Insurance (.53% of Base)	$ 1,038.00
6800	Accrued Leave	$ 25,022.00
5100	***Sub-Total Employee Expenses***	**$294,459.00**

The total salary expenditures are projected to increase by a modest 6% from the current year; however, some individual line items will experience a higher increase (such as health insurance and PERS retirement). The allocated amounts 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 2007-08, pending positive evaluations, as indicated in the employee's contracts (please refer to Attachment C). As can be noted, these expenditures are the same throughout the three budget options. 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 Attachment C). This appropriation reflects the Commission's preference and past practice of protecting the budget by fully funding any leave time liability for all employees.

<u>Operating Expenses</u>

Across all three budget options, the all but one operating expense are the same. The following discussion relates to these items. The operating expenses were calculated based on actual expenses plus any anticipated adjustments (refer to Attachment D). Some of the highlights include:

- General Liability Insurance (line item 5460): This amount is determined by the County's Risk Management. A change in the State methodology for allocating costs to pool participants and a higher overall premium for the County pool drove a 500% increase in LAFCO's cost.
- Accounting Services (line item 6020): LAFCO is realizing some costs savings with Terrie Prud'hon's accounting firm.
- Annual Audit (line item 6030): LAFCO's contract with Bartig, Basler & Ray expired with the audit for FY 2005-06; consequently the agency can no longer count on a contractual rate of $3,000 as the previous three budgets. The amount budgeted is staff's estimate for a new audit agreement, to be contracted jointly with three other LAFCOs. The estimate is based on the average cost of audits for other LAFCOs.
- GIS Maps (line item 6060): Additional costs are expected as LAFCO updates its spheres of influence.
- Lease Payment – Building (line item 6070): The LAFCO office is nearing storage capacity for its files and office supplies. An adjacent office (8.3'x11.3' or slightly less than 94 square feet) is being vacated and was offered to this agency for no more than $130 per month in addition to its current lease payment. This additional space would be sufficient to meet the agency's needs and is a less expensive option than offsite storage.
- Rental Vehicles (line item 6700), Staff Development (line item 6750) and Transportation (line item 6770): The CALAFCO Annual Conference will be in Sacramento and the Staff Workshop will be in the Bay Area during FY 2007-08. The allocated expenditures reflect the estimated costs of registration, transportation,

rental vehicles and accommodations. As a result, the budgeted costs are expected to be lower than the current year. 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.

Budget Options – Professional Services

Three budget options are presented to the Commission. The only differences between the budgets are the level of funding for Professional Services (line items 6501 and 6502). For the current budget, these items covered the cost of outsourcing municipal service reviews (MSRs). The discussion below covers the repercussions on all three budgets. The Commission has the discretion to adopt either of these options as its Proposed Budget as presented or as modified.

As the Commission is aware, State law indirectly requires that LAFCO update all of its spheres of influence (SOIs) by January 1, 2008, but before it can do so it must complete MSRs. Currently, governmental services within El Dorado County are provided by approximately 56 agencies. Some of these agencies are single-purpose districts, while others are multi-purpose; however, collectively there are 25 different types of services provided by public entities. Prior to the current staff, only one MSR was completed and a second was in process. The completed MSR, titled *West County Parks, Open Space & Recreation MSR*, covered a limited geographic area; consequently it reviewed only five of the 21 agencies that provide these services. The second MSR, *Countywide Fire Suppression and Emergency Services MSR*, was completed in August 2006; it covered 16 agencies. Based on these two MSRs, the Commission can update a total of 13 SOIs. Staff hopes to schedule these items in late Spring/early Summer.

For the current fiscal year, the Commission allocated $130,000 for outsourcing MSRs, of which $111,000 has been allocated for the completion of the *Water, Wastewater & Power MSR* ($85,000) and the *Roads & Road Maintenance MSR* ($26,000). Combined with a third MSR, *Public Cemetery Services MSR* which is being conducted in-house, the Commission can update an additional 19 SOIs for a cumulative total of 32 SOIs. Staff will schedule these SOIs as the respective MSRs are completed.

Approximately $19,000 remains in this year's Professional Services – MSR Outsourcing. This money could be utilized to outsource a third MSR or it could be carried over into the next fiscal year. In December staff circulated an RFP for the study of seven services (*General Government Services I MSR*) and asked for two quotes. This is because the RFP separated the seven services into two categories: Parks, recreation, open space maintenance, drainage and lighting and landscaping ("Component 1") and law enforcement, solid waste and mosquito and weed abatement services ("Component 2"). The first quote was for "Component 1" and the second for "Components 1 and 2". The intent behind the two quotes was to determine that, if the remaining $19,000 was insufficient to study all seven services, it may be sufficient to contract a consultant to complete "Component 1." An additional 12 agency SOIs could be prepared after the completion of "Component 1" and a total of 14 SOIs for "Components 1 and 2." Two of the four responding consultants gave a quote to LAFCO of just over $19,000 for "Component 1."

Budget Option A

Monies for the $130,000 came from two sources: To a small extent, from salary savings but primarily from a large carry forward balance from the FY 2005-06 budget. These two sources of funds will not occur again. As noted earlier, fee revenues were lower in FY 2006-07 ($33,652 to date, of which $5,500 are unearned fees) than projected ($35,000). Consequently there will only be a modest carry forward balance (less than $50,000 not including earned fees) from FY 2006-07 into FY 2007-08.

Budget Option A (please refer to Attachment E) assumes funding for salary and operational expenses without funding for Professional Services – MSR Outsourcing. It also assumes the remaining $19,000 from this current fiscal year would be utilized to fund *General Government Services I MSR* - Component 1. This option would maintain the agency contributions nearly at the same level for the third fiscal year in a row. The agency contributions would increase by less than $1,400.

No additional funding for MSRs will mean that any outstanding study will be completed by staff in-house. The remaining study would review nine different services among 14 agencies, including:

- Cameron Park Community Services District
- City of South Lake Tahoe
- County Service Areas 3 and 10
- El Dorado Hills Community Services District

While this is achievable, it is very likely that this MSR will not be completed in time for the January 1, 2008 deadline. While this deadline was extended in 2005 to give LAFCOs two more years to complete the studies, sources within the Legislature indicate no additional extensions would be granted. The consequences of missing the deadline are unknown, but they would most likely fall into two categories: Legislatively-imposed penalties or legal challenges.

Sources within the State Senate indicate to staff that the Legislature is not currently contemplating any penalties; however, if true, this scenario would leave LAFCO in a more precarious situation than it would be otherwise. Legislatively-imposed penalties would specify the consequences of missing the deadline, not only clarifying them to all parties but also allowing for a LAFCO to weigh the costs of conducting the MSRs against complying with the mandate. If the penalties are specified, no one could seek a redress beyond what the law requires should a LAFCO miss the deadline.

With an unspecified Legislative penalty, starting January 1, 2008, if a LAFCO approves an annexation without first revising the underlying spheres of influence, the most likely outcome would be a successful lawsuit against LAFCO based on case law. In *Resource Defense Fund v. Local Agency Formation Com.* (1983) 138 Cal.App. 3d 987, the courts decided LAFCO can't approve a boundary decision if there is no sphere. In addition, the Legislature has made the connection between LAFCOs' spheres of influence and a local agency's general plan. LAFCOs' boundary decisions are similar to zoning and subdivision decisions (Government Code §§ 65860 & 66473.5). Since the courts have decided that local officials cannot approve subdivisions if the general plan is inadequate (*Camp v. Board of Supervisors* (1981) 123 Cal.App.3d 334) and that local officials have an implied duty to keep their general plans up-to-date (*De Vita v. County of Napa* (1995) 9 Cal.4th 763), it would not be difficult for a claimant to achieve a favorable court ruling against LAFCO: An outdated sphere of influence is like an outdated general plan --- it's not an adequate basis for making the required finding of vertical consistency.

If an annexation to an agency is needed to make a development feasible, opponents could attack the project by suing the LAFCO for approving the boundary change without having an adequate sphere of influence. In addition to the cost of defending itself, LAFCO could face one of three possible scenarios:

- Denial of the annexation into an agency only for the services not studied
- Denial of an annexation into an agency for all services provided because its SOI has not been determined
- Suspension of LAFCO powers countywide until it completes all of its SOIs (similar to the writ of mandate against the County for its 2004 General Plan)

Because this LAFCO has demonstrated a good-faith effort at completing its MSRs in time, the third scenario is unlikely. However, the first two scenarios have a high possibility of occurring.

Budget Option B

Budget Option B (please refer to Attachment F) assumes funding for salary and operational expenses and an additional $15,000 funding for Professional Services – MSR Outsourcing. These funds would be combined with the remaining $19,000 from this current fiscal year to fully fund *General Government Services I MSR* (Components 1 and 2). This option would leave ten agencies without MSRs but only six services to study, again including:

- Cameron Park Community Services District
- City of South Lake Tahoe
- County Service Areas 3 and 10
- El Dorado Hills Community Services District

While this is achievable, it is likely that this MSR will not be completed in time for the January 1, 2008 deadline. The same discussion on the consequences listed above would apply. However, this option would also increase the agency contributions by $17,987.

As the Commission is aware, the agency contributions for LAFCO are divided as a third by the County, a third between the two cities and a third shared by the special districts. With the exception of the County, each agency's apportionment is determined by the County Auditor-Controller according to the formula specified in Government Code §56381. Among the agencies that split the cost of their LAFCO contributions (such as the Cities of Placerville and South Lake Tahoe or among the special districts), their apportionment is determined by total revenues as reported to the State. Consequently, it is not possible to determine the actual FY 2007-08 impact to the agencies at this time; however, it is possible to use an *estimate* based upon FY2006-07 data:

	Contribution Level*		
Agency	**FY2006-07 Actual**	**FY2007-08 Estimate**	**Increase**
County	$111,912	$117,853	$5,940
Cities	*$111,879*	*$117,853*	*$5,974*
o Placerville	$31,697	$33,386	$1,689
o South Lake Tahoe	$80,182	$84,455	$4,272
Special Districts	*$111,879*	*$117,853*	*$5,974*
o EID	$44,731	$47,115	$2,384
o South Tahoe PUD	$22,886	$24,105	$1,220
o EDH Fire	$10,172	$10,714	$542
o EDC FPD	$6,411	$6,752	$342
o El Dorado Hills CSD	$7,132	$7,512	$380
o Cameron Park CSD	$4,067	$4,284	$217
o Georgetown Divide PUD	$2,823	$2,974	$150
o Lake Valley FPD	$2,886	$3,040	$154
o Diamond Springs FPD	$2,219	$2,337	$118
o Remaining 39 Agencies	$8,563	$9,020	$1,701

* There may be small discrepancies due to rounding

Budget Option C

Budget Option C (please refer to Attachment G) assumes funding for salary and operational expenses and an additional $45,000 funding for Professional Services – MSR Outsourcing. These funds would be combined with the remaining $19,000 from this current fiscal year to fully fund *General Government Services I MSR* (Components 1 and 2) and *General Government Services II MSR*. This option, coupled with an in-house completion of the *Resource Conservation Districts MSR*, would ensure the completion of all studies by the January 1, 2008 deadline. However, this option means an increase in agency contributions of approximately $50,987. Again, utilizing FY2006-07 data, the *estimated* agency impacts would be:

	Contribution Level*		
Agency	**FY2006-07 Actual**	**FY2007-08 Estimate**	**Increase**
County	$111,912	$128,853	$16,940

	Contribution Level*		
Agency	**FY2006-07 Actual**	**FY2007-08 Estimate**	**Increase**
Cities	*$111,879*	*$128,853*	*$16,974*
o Placerville	$31,697	$36,502	$4,805
o South Lake Tahoe	$80,182	$92,338	$12,156
Special Districts	*$111,879*	*$128,853*	*$16,974*
o EID	$44,731	$51,512	$6,781
o South Tahoe PUD	$22,886	$26,355	$3,469
o EDH Fire	$10,172	$11,713	$1,542
o EDC FPD	$6,411	$7,382	$972
o El Dorado Hills CSD	$7,132	$8,214	$1,081
o Cameron Park CSD	$4,067	$4,684	$617
o Georgetown Divide PUD	$2,823	$3,252	$428
o Lake Valley FPD	$2,886	$3,324	$438
o Diamond Springs FPD	$2,219	$2,556	$336
o Remaining 39 Agencies	$8,563	$9,862	$2,543

* There may be small discrepancies due to rounding

Budget Options – General Liability Insurance

Currently LAFCO's general liability insurance is through the County. As part of a pool of agencies, LAFCO's share is determined by its share of cost on the total of all its program claim estimates of the cost. When that estimate goes down, the program reserves are reduced. Costs of the claim include the cost of defense as well as any anticipated payout. The estimates are totaled for each program, a percentage of the entire program is calculated and the departments' share of cost is calculated. Eighty percent (80%) of the program share-of-cost is experience (losses) and twenty percent (20%) is exposure. As noted above, a change in the State methodology for allocating costs to pool participants and a higher overall premium for the County pool drove a 500% increase in LAFCO's cost.

An option for the Commission to consider is to change GL insurance carrier. At the direction of the Ad Hoc Committee, staff requested quoted 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. Given this Commission's mandate, the most likely coverage of importance is E&O. Consequently for purposes of discussion the following is a comparison of quotes for the total insurance with E&O limits:

Insurance Limit	County Quote*	Alliant Quote	SDRMA Quote
$2.5 Million	N/A	$5,619	$4,663
$5 Million	N/A	$6,208	$6,238
$10 Million	$17,264	$6,409	N/A
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 GL Insurance through these entities:

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

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

Depending on the insurance limits the Commission wishes to buy, it is possible to buy comparable insurance coverage for a lesser cost. There is also the possibility of purchasing various insurance policies from multiple entities. For example, Alliant Insurance offers a property insurance program that offers property damage coverage of up to $10 million for $650 should the Commission choose to purchase E&O insurance through another vendor. Any reduced price in GL Insurance would give the Commission more flexibility as it considers the Budget Options A through C described above. By the time of the hearing, staff will also submit an analysis of this coverage from County Risk Manager Sherril Jodar as well as an in-depth comparison matrix of these three options.

Budget Options – Health Insurance

Currently LAFCO receives its health insurance benefits through the County. Last year CALAFCO researched the possibility of creating a health insurance pool for LAFCOs, either by itself or joining an existing pool. It partnered with SDRMA as a possible candidate, identifying a plan that, while limited, would provide large cost savings to El Dorado LAFCO. However, CALAFCO abandoned the effort due to a lack of interest. The Commission could direct staff to determine if there is another insurance pool for local agencies that El Dorado LAFCO may join if cost savings could be achieved and if the choice of health plans is comparable to the current employee benefits.

<u>*Revenues*</u>

	Budget Option	**A**	**B**	**C**
4000	Fees Collected from FY 2007-08	$11,741	$11,741	$11,741
4100	Fund Balance (Carry Forward from FY2006-07)	$70,988	$70,988	$70,988
4120	Revenue - Agency Payments	$337,058	$353,558	$386,558
4700	Revenue Interest	$2,400	$2,400	$2,400
(5)	***Sub-Total - Revenues***	**$422,187**	**$438,786**	**$471,786**

The Ad Hoc Committee reviewed staff's projections for expenses for the remainder of FY 2006-07 and determining the difference between the estimated revenues and expenditures through June 30, 2007. The carryover amount at the end of FY 2006-07 is estimated to be $70,638 (refer to Attachment A). Staff estimated that revenue interest to remain the same as last year, with the agency's accounts to earn a conservative $200.00 per month.

The estimated earned fee revenue from applications were derived from four 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 two active applications that will be carried over into the next fiscal year (Attachment B). As noted earlier, LAFCO experienced a downturn in the number of applications submitted. Only two applications have been received this fiscal year and earned revenue was at $4,000 before the completion of the Bell Woods II Reorganization ($5,651 in earned fees beyond the initial deposit) and the Marble Valley Reorganization ($18,920 in earned fees beyond the initial deposit). Staff anticipates the slowdown to continue, with the majority number of applications ranging from "simple" petitions (such as single-parcel annexations to EID) to complex projects. No "very complex" projects are expected next year.

The budgetary impact on the funding agencies will depend on the Commission's determining the priorities for next year and/or determining whether it will pursue other cost saving measures.

In addition, as of January 30, 2007, LAFCO has $8,042 in "unearned fees" (fees collected for applications but LAFCO staff has not worked the hours to earn those fees) that staff is currently tracking. Staff is reasonably confident that most of this balance will be earned by the end of this fiscal year; thus, resulting in a minimal amount of unearned fees that will be carried over into FY 2007-08. Consequently most of these fees will become earned by June 30th and part of the carry forward into the next fiscal year.

<u>Attachments</u>

Attachment A: Cash Forecast Fiscal Year 2007-08
Attachment B: Fiscal Year 2007-08 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
Attachment G: Proposed Draft Budget - Option C