EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF JANUARY 28, 2015

REGULAR MEETING

TO:	**Ken Humphreys, Chair, and Members of the El Dorado County Local Agency Formation Commission**
FROM:	**José C. Henríquez, Executive Officer**
AGENDA ITEM #9:	**SELECTION OF THE BUDGET AD HOC COMMITTEE AND PROVIDE DIRECTION ON VARIOUS BUDGETARY MATTERS**

<u>RECOMMENDATION</u>

Staff recommends that the Commission select the membership of an ad hoc committee who will assist staff with the creation of the Fiscal Year 2015-16 budget. Also provided in this report is information that the Commission can use to provide direction to this ad hoc committee and staff on several budget-related matters

<u>REASON FOR RECOMMENDED ACTION AND BACKGROUND</u>

Staff requests the creation of an ad hoc committee, composed of no more than three Commissioners, to assist it with the budget for next fiscal year. Among the items to refine will be the creation of the Work Plan, which will list the priorities for the agency next year. Membership in this ad hoc may include Regular and Alternate Commissioners.

The Commission should also review the information below and provide direction to the ad hoc committee and staff on the following budgetary matters.

Executive Officer's Salary

At the October 2014 commission meeting, the Commission directed staff to place an item on the January Agenda to discuss a percentage increase to the Executive Officer's salary, from a range of 1% to 5%, and its policy and financial implications, both to the current and next fiscal year's budget. The direction included presenting the Commission with options so that the Commission can either make a decision or provide direction to the budget ad hoc committee on how to proceed.

Currently, employee salaries are specified in LAFCO Resolution L-2012-11 (please refer to Attachment A). The Executive Officer is already at Step 5, as specified in the

Fourth and Sixth Amendments to his contract, effective in January 2010 and January 2013, respectively (refer to Attachment B). As a result, if the Commission was still inclined to provide a raise, it is not a matter of “bumping” the EO to the next step.

From a policy standpoint, there are three options available to the Commission:

1) Adjusting the salary resolution to increase the amounts within each step
    a. A variant of this option is to retain the existing schedule but adding more steps
2) Adopting a “longevity pay” allowance
3) Adopting a cost of living increase (COLA)

Adjusting the salary schedule would mean shifting the hourly rates for all or some of the steps by a certain percentage point. The difference between salary steps is about 5%. Consequently, staff recommends against shifting only one step while leaving the others intact. Otherwise, there will be a discrepancy that will be difficult to justify or correct later on. In order to implement this, the Commission would adopt a new resolution.

A “longevity” pay” allowance would be a new benefit that rewards long-term employees of the agency and encourages them to stay. Other entities have this benefit because employee turnover is costly to an employer when factors such as recruitment, training time and loss of institutional memory are included in the calculation. Longevity pay allowances are a certain percentage increase above base pay based on continuous service. Typically, they are automatically applied on the first pay period after an employee’s tenure passes a specified landmark, such as 5, 10, 15 and/or 20 years of continuous service. In addition, the percentage tends to increase with each successive landmark but is not cumulative. For example, the County’s longevity pay structure is set up so that an employee’s pay increases by 5% above base pay after 10 years, by 7.5% above base pay after 15 years and by 10% above base pay after 20 years. In order to implement this, the Commission would introduce a new benefit section into the Commission’s Employee Policies and Procedures.

A cost of living adjustment would leave the steps Resolution L-2012-11 intact, but would, by Commission action, increase the rate currently paid to an employee by a certain percentage above that which is specified in Resolution L-2012-11. This is not unprecedented. Before adjusting its salary resolution, the Commission gave staff a COLA increase in 2007. In order to implement this, the Commission would take action at a meeting but would not need to adjust its resolution or amend its policies.

In terms of budgetary impact, the following charts summarize the cost of an increase in the Executive Officer’s salary based on different percentages. First, total annual impact on salary alone:

Total cost, salary alone over an entire fiscal year

Current salary	$102,544.00		
+1%	$103,569.44	Difference between current & 1%	$1,025.44
+2%	$104,594.88	Difference between current & 2%	$2,050.88
+3%	$105,620.32	Difference between current & 3%	$3,076.32
+4%	$106,645.76	Difference between current & 4%	$4,101.76
+5%	$107,671.20	Difference between current & 5%	$5,127.20

Because salary also drives the costs of other benefits – mainly retirement, paid time off and Medicare – the Commission should know how those costs would also be affected by an increase:

Increase in total cost, salary and benefits over an entire fiscal year

Current salary plus benefits	$133,664.65
+1%	+ $1,391.62
+2%	+ $2,783.24
+3%	+ $4,174.86
+4%	+ $5,566.48
+5%	+ $6,958.10

The Commission also asked for options on a start date so that it can gauge the impact to its Fiscal Year 2014-15 budget. Two start dates are given, one retroactive to January 1 (to match the start date of the latest amendment to the Executive Officer's contract and to be effective the first full pay period after that date) and the other at a date of April 1, 2015 (also to be effective the first full pay period after that date):

Impact to current budget in total cost, salary and benefits from start date to end of fiscal year 2014-15

	"Start" on 1/1/15		**"Start" on 4/1/15**	
	Total	**Difference**	Total	**Difference**
Current salary and benefit cost	$61,691.38	--	$30,845.69	--
+1%	$62,308.18	**$616.80**	$31,154.09	**$308.40**
+2%	$62,924.98	**$1,233.60**	$31,462.49	**$616.80**
+3%	$63,541.78	**$1,850.41**	$31,770.89	**$925.20**
+4%	$64,158.58	**$2,467.21**	$32,079.29	**$1,233.60**
+5%	$64,775.39	**$3,084.01**	$32,387.69	**$1,542.01**

As of December 31, 2014, halfway through the fiscal year, employee expenses were running at 40% of budgeted amounts. As a result, there are funds in the current budget to absorb an increase in the EO's salary at any percentage level.

2015 CALAFCO Conference

This year's CALAFCO Conference will be in Sacramento at the Hyatt Regency on September 2-4. Because of the relative proximity of the Conference, there may be a higher than normal interest in attendance. Since 2007, the Commission has budgeted sufficient funds to send four people, usually some combination of commissioners and staff. The ad hoc committee may find it useful to know how many commissioners were interested in attending so that it can budget appropriately.

LAFCO Reserve

Last year the Commission adopted a policy on establishing a reserve. The only funding mechanism for this reserve would be any funds carried over from one year to the next above the budgeted amount (refer to Attachment C). It is important to note that the carry over (aka "Fund Balance") is not money set aside in this year's budget to be carried over into the next fiscal year as an expense. Rather, it was the estimated savings from last year's budget that would be carried into the current year as a revenue stream. These savings are important because the carry over helps to lower the agency contribution from the funding agencies.

Last year the Commission estimated it would carry over $119,386 into Fiscal Year 2014-15. Staff at Terrie Prod'hon's firm, LAFCO's accounting consultant, estimated the budget savings from last year carried over into this year was closer to $138,746. This means that per Policies and Guidelines Section 2.10, a reserve with an initial deposit of up to $19,358 can be made.

Per Policies and Guidelines Section 2.6 (refer to Attachment D) and Governmental Accounting Standards Board regulations, investments are prioritized as "safety of principal" first, "liquidity" second and "return on investment" third. There are two funds that meet these objectives: The Local Agency Investment Fund (LAIF), overseen by the California State Treasurer, and CalTRUST, an alternative fund started by the League of California Cities and the California State Association of Counties' Finance Corporation. As you can see in Attachments E and F, respectively, the funds are similar in that they provide a way for local agencies to pool their resources into safe investments that meet the GASB requirements. LAFCO's current auditor firm, Matson & Isom, concurs with staff's analysis that both funds have proven track records as being safe, conservative investment funds. They are also expected to gain higher returns than the current Umpqua money market account that LAFCO uses as a savings account (although CalTRUST has slightly higher returns than LAIF). This information is provided to the Commission so that direction can be given if there is a strong preference towards one fund over the other.

LAFCO Lease

The agency is currently in the fourth extension (out of a total of five lease extensions) of its current lease with the Caso Trust. If so instructed by the rest of the Commission, the ad hoc committee could also review the rental and lease information gathered by staff and advise the entire Commission on how to proceed: Whether to start negotiating a new lease with a current or new landlord or whether to postpone a decision until after the execution of the fifth lease extension. No recommendation is requested at this time since staff will not have all of the information by the January 28 meeting.