

EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF FEBRUARY 26, 2014

REGULAR MEETING

TO: Don Mette, Chair, 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 2014-2015**

RECOMMENDATION

Staff recommends that the Commission:

1. Receive the information related to the draft Proposed Budget for Fiscal Year 2014-2015;
2. Open the Public Hearing on this matter; and
3. Adopt one of the three Proposed Budgets for Fiscal Year 2014-2015 that best 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 next year's budget is expected to be lower than the current year's budget. Strict cost control measures already in place for many years have kept the majority of expenditures in line with the Commission's allocated amounts. While the carryover from this year into next year is expected to be lower and some operating costs are projected to be higher, their combined effect is more than offset by higher projected earned fee revenue and across-the-board employee expense reductions.

Based on a projection of recent activity, staff calculates an increase in workload for the coming fiscal year. The amount of the increase, its timing and LAFCO's response was the subject of considerable discussion for the Budget Ad Hoc Committee and the reason for the presentation of three different budget options to the Commission.

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.

As noted above, there are three proposed budgets presented to the Commission for its consideration, named Options 1, 2 and 3 (attachments E, F, and H, respectively). While the overall budget amounts differ, there are similarities across all three. In fact, Attachments A, B and C are the same for all three options. These contain the base numbers for the carryover, fee revenue and operating costs. In addition, this report will include summary tables for each subsection of the budget that is the same across all three proposed budgets. The section titled, "Employee Expense" in this report will explain the differences in the budgets and the implications of 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. This number is inputted into the budget as a source of revenue under GL 4100.
- Attachment B contains the estimated earned fee revenues from petitions and applications in the *next* fiscal year. This number is inputted into the budget as a source of revenue under GL 4000.
- Attachment C contains the calculations for Operating Expenses.
- Attachment D contains the salary expense and salary calculations for Option 1.
- Attachment E contains the master Proposed Budget spreadsheet for Option 1.
- Attachment F contains the master Proposed Budget spreadsheet for Option 2.
- Attachment G contains the salary expense and salary calculations for Option 3.
- Attachment H contains the master Proposed Budget spreadsheet for Option 3.

Overall Budget Highlights

As stated in the summary, on the revenue side, staff calculates a decrease in carryover. This is mostly due to the FY2013-14 budget being over \$10,000 smaller than the budget for FY2012-13.

As forecast in last year's budget memo, LAFCO staff is starting to experience a pick up in activity. Currently, staff is processing seven projects (six active, one relatively dormant), four of these were launched at the beginning of February, and finalizing two other projects already approved by the Commission. Staff expects the revenue for five active projects to be earned in the next fiscal year, accounting for the budgeted increase in fee revenue. There will be more discussion on workload later in this report. Not much is expected on revenues derived from interest due to the low savings rate. This is why the projected amount was halved for the next year.

In all three options, the contribution amount for the funding agencies is expected to be lower, with the size of the decrease varying from as low as \$2,500 total to as high as \$19,000 total. This translates to a decrease of between \$800 and \$6,000 per funding category (County, cities and special districts).

On the expenditure side, employee costs will decrease, with the size dependent on the budget option taken by the Commission. Regardless of the option taken by the Commission, the Commission is expected to save over 30% in retirement costs because of the new CalPERS contract. In addition, there are no raises for staff.

As in previous years, health benefit costs (GL 5320) are high, though staff forecasts a slightly lower overall amount. Aside from Overtime (GL 5230) and Payroll Tax (GL 5420), all other items were essentially flat.

The forecast for most operational expenses is flat or will see a modest increase. Three items, legal notices, legal services and staff development, will experience a substantial decrease. Four items are forecast for increases, mostly due to contract increases and periodic one-time expenditures.

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, 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	FY2013-14	1	2	3
Employee Expense	\$377,961	\$333,400	\$333,400	\$343,390
Operating Expense	\$104,690	\$106,096	\$121,096	\$106,096
Operating Contingency	\$10,469	\$10,610	\$12,110	\$10,610
Expense Total	\$493,120	\$450,106	\$466,606	\$460,095
Non-Agency Revenues	\$6,686	\$14,628	\$14,628	\$14,628
Agency Contributions	\$335,110	\$316,092	\$332,592	\$326,081
(FY2013-14) Fund Balance	\$151,324	\$119,386	\$119,386	\$119,386
Revenue Total	\$493,120	\$450,106	\$466,606	\$460,095

Expenditures

Operating Expenses

With the exception of one line item, all operating expenses are the same across all three budget options. The exception, GL 6500, will be discussed under "Employee Expense." The following discussion relates to the items common across the three options. The operating expenses were calculated based on actual expenses plus any anticipated adjustments because of contractual obligations (refer to Attachment C). Some of the highlights include:

- General Liability Insurance (GL 5460): LAFCO purchases general liability insurance from the nonprofit Special District Risk Management Association (SDRMA) and supplemental GLI insurance from the private Alliant Insurance Services. SDRMA recently announced that the FY2014-15 GLI premiums will remain the same as current. While Alliant has not disclosed any increase, historically their costs rise at an average of 15-20%. The budget includes a 15% increase in Alliant's premium.
- Information Services (GL 6000): LAFCO will experience an increase in costs for this item, mostly because of a confluence of two onetime costs. The server's backup generator needs to be replaced every other year, making its scheduled replacement this fall. The digital library relies on the Laserfiche system, and that software needs to be upgraded in the coming year. LAFCO has delayed upgrading for the past year and a half, but not any longer. In addition, the monthly contract costs for continued IT support are also up.
- Copies (GL 6050): This is derived from the average monthly costs over the past two years. The costs have steadily risen during this time.
- Legal Services (GL 6090): The amount was derived from the average costs in 2011-2012. Last year, 2013, was not included in the calculations because it was an outlier for legal expenses. As expected, the costs will go down.
- Staff Development (GL 6750) and Transportation (GL 6770): It was difficult to ascertain the costs for these two items because the locations of the 2015 staff workshops and conference are unknown at this time. The estimated costs of registration, transportation, accommodations and mileage and/or rental vehicles are significant components to these GLs and their estimated costs are primarily driven by the venue for the workshops and conferences. Staff nailed down as much as it could for expenses and did its best guess for others. As a result, the request is that the levels for these two items be left as budgeted and staff will do its best to stay within the allocated amounts. In addition, there is money in the budget for additional training sessions or classes for staff at the UC Extension, CSAC Institute for Leadership and Los Rios Community College District.

Workload

Last year's budget memo predicted an increase in workload for staff in 2014. As noted earlier, staff is processing seven projects (six active, one relatively dormant) and finalizing two other projects already approved by the Commission. Four of these projects were launched in the last two weeks. Among these is the high profile dissolution of Latrobe Fire Protection District (LTB) and its service area annexation by El Dorado Hills County Water District (EDH), which also necessitates an MSR/SOI update for both districts. But staff workload is not limited to processing applications. In any given week, staff:

- Assists the land use agencies by reviewing and commenting on proposed or pending projects in the planning queue. Most projects come into LAFCO with staff having already invested some time in them. For example, the project Diamante Estates Reorganization into the El Dorado Irrigation District and the El Dorado Hills County Water District (LAFCO Project No. 2014-01) came in with staff having spent 11.75 hours in pre-submittal review. The Marble Valley project, which is still in the

planning stages, has already taken up 21 hours of staff time. In general, most planning-driven projects have approximately 10 hours of already-accrued staff time by the time it is ready for processing. The primary drivers of this investment include the review of environmental and planning documents, background research requested by the planning departments and meeting with applicants to go over their proposal before submission to LAFCO.

- Works or gathers information for a municipal service review/sphere of influence study.
- Meets with potential applicants, from single parcel landowners to large developers, on their projects that may include some LAFCO action.
- Attends community meetings on large or controversial projects or attends routine monthly meetings of other governmental entities to keep abreast of developing events.
- Reviews technical journals on land use planning, the California Environmental Quality Act, case law or LAFCO Law or is in training on any of these subject matters.

The Executive Officer, in particular, gets pulled into special projects that must be accommodated in addition to his “normal” workload and agency administration. For example, in 2009-2010 he worked on administering the Citygate Study, for the past two years has been involved in the CalPERS contract and this year, as a member of the Fire Advisory Board, he will be devoting a good portion of his time in developing the “Phase 2” plan with the Commission of Collaborative Fire Districts (CCFD), the Fire Chiefs’ Association and the County of El Dorado.

When funding for the position of Commission Clerk was removed in 2008, LAFCO lost 33% of its “manpower.” While the recession mitigated the reduction in capacity, the impact was still felt in that staff was unable to complete the second year MSR/SOI project plan. Staff is already a little behind in the current eight-year project plan right out of the gate as explained immediately below.

The proper way to plan for an increase in workload does not necessarily depend on the *number* of projects but rather in the *quantity* of work currently being handled. For example, working on two MSR/SOIs may not sound impressive, but the agencies being studied, the Cities of Placerville and South Lake Tahoe, are the most complex agencies studied by staff to-date. This is why the eight-year MSR/SOI project plan spread the cities’ MSR/SOI over two fiscal years. The EO was able to do some work on Placerville in November but has had to set it aside for the past two months to work on the budget. The analyst has not started South Lake Tahoe because the Grizzly Flats CSD MSR/SOI took longer to complete than anticipated. With the increase in projects to be processed, plus the EO working on Phase 2 and the updated LTB and EDH MSR/SOIs because of their new proposals, work on the cities’ MSR/SOI is temporarily postponed.

Even if one were to subtract the big projects on the horizon (Marble Valley, Lime Rock, San Stino), there are two other types of projects that tend to come to LAFCO. Both of these are hard to forecast because only the trend is known. As the economy recovers, LAFCO starts to see the first type: Small developers who want to subdivide by right and annex into EID. The second type comes in after dry winters. Usually LAFCO sees about three to five projects as single parcel landowners request to be annexed into EID

because of declining well production and/or failure. From all standpoints, LAFCO staff believes it is near the bottom of an upward trend in workload across a broad spectrum of work.

Because of the forecasted increase in workload, refilling the Clerk position is justified. The ideal person would be a “junior analyst” who could project manage his/her own proposals and conduct a few small studies so that the Analyst and Executive Officer can concentrate on the larger, more complex projects and proposals.

The timing of the hiring is critical because it usually takes approximately six months to properly train someone in the nuances of LAFCO, at least, to the point where the person needs little supervision. As a result, the agency cannot wait until it is in the middle of a high volume of work to bring in a new person. By then it is too late; no one will have the time to train that person to the point where he/she will be productive enough to assist in handling the workload.

Employee Expenses

The Budget Ad Hoc Committee struggled with the issue of need and timing of a potential hire. This is why there are three options presented for the Commission’s consideration. The first two options were created by the Ad Hoc Committee. The third option is a staff alternative. The chart below summarizes the GL difference between the options, but each will be analyzed below.

Common to all three options is that employee expense (salaries and benefits) are projected to reduce in some capacity over the current year. In addition, no staff raises are included in any budget and the practice of utilizing 3-day furloughs will continue.

	Employee Expense Budget Option	1	2	3
5200	Employee Wage - Regular	\$199,152	\$199,152	\$205,693
5230	Employee Wage - Overtime	\$1,329	\$1,329	\$1,451
5310	Flex Benefits	\$6,000	\$6,000	\$6,000
5311	Employee Assistance	\$408	\$408	\$471
5320	Health Insurance (Less In Lieu)	\$64,806	\$64,806	\$67,001
5340	Retirement - CALPERS	\$31,549	\$31,549	\$32,174
5400	Payroll Tax - Medicare (1.45% of Base)	\$2,888	\$2,888	\$2,983
5420	Payroll Tax – SUI/ETT	\$1,300	\$1,300	\$1,300
5440	Disability Insurance (.53% of Base)	\$1,056	\$1,056	\$1,090
6800	Accrued Leave	\$24,913	\$24,913	\$25,227
5100	Sub-Total Employee Expenses	\$333,400	\$333,400	\$343,390
6500	Professional Services	\$0	\$15,000	\$0

Budget Option 1

In their discussion, members of the Budget Ad Hoc Committee discussed the possible effects of the ballot box. There are no fewer than four initiatives that affect land use in circulation that could end up in the November ballot. It was judged that two of these could significantly affect the LAFCO workload. In the estimation of some members, there is no sense in hiring someone anticipating an increase that quickly vanishes the day after Election Day. Option 1 is the Ad Hoc Committee’s first proposal, which is budgeting for 50% of the Clerk’s salary. Under this option, the funding for a Clerk does

not start until mid-January at the earliest. Employee expense calculations are found on Attachment D and this budget option in its totality is found in Attachment E.

Option 1 means that recruitment would begin soon after the Election Day, assuming all of the possible initiatives that affect LAFCO fail. The potential Clerk's start date would be mid-January 2015. Under this scenario, the person would be in training through June 2015.

From a fiscal standpoint, this is the lowest of the budget options. The total agency contribution levels are reduced by \$19,000 from the current year. While substantial salary savings are achieved in 2014-15, the Commission needs to be cognizant of the impact it will have on future budgets. The full repercussion of a Clerk being hired in 2015 will be felt in the 2015-16 budget year. Assuming all revenues and expenditures remain the same going into 2015-16, the potential agency contributions will have to increase by an estimated \$15,000. This will mean a year-over-year swing of at least \$34,000.

Budget Option 2

The second option is found in Attachment H and contains the second Ad Hoc Committee's recommendations. This option is essentially 50% of the costs of hiring a clerk and budgeting for a consultant who could help staff, in case there is a significant increase in workload during the first half of the budget year and LAFCO has not yet hired a clerk.

As indicated in Option 1, with 50% percent of the funding, LAFCO is unable to hire a clerk until the end of the calendar year. If there is an immediate spike in workload shortly at the start of the fiscal year, the services of a LAFCO-experienced consultant would be procured to help staff with any projects that would be categorized as "simple" (single parcel landowners annexing into EID, parcel built out to maximum land use designation in the applicable general plan and little to no environmental review). The amount was derived based on the number of hours it takes to process a "simple" project (approximately 30 hours) times the projected cost (\$100 per hour) times the worst-case-scenario number of "simple" projects we have received in a single year. At the last dry winter year, LAFCO received five projects almost at once because people's wells ran dry.

LAFCO should eventually recover most of the \$15,000 allocation since the cost would ultimately be borne by the applicant. The money needs to be budgeted regardless because there is a natural lag. A consultant will most likely bill monthly, whereas LAFCO does not collect most money until the end of the process. There would have to be some administrative changes that would have to occur to accommodate this option. LAFCO staff typically charges on a time and materials basis, but with a consultant handling their project, the applicants will have to agree to pay their charges. Otherwise, with the consultant's hourly and overhead charges being different LAFCO may have to absorb some of the consultant's costs.

Something else that can be considered within this option is not to tie the use of a consultant solely on projects but allow the hiring of a consultant to complete one or both of the city MSR/SOIs slated to be completed in 2015.

From a fiscal standpoint, this is the highest of the budget options. The total agency contribution levels are reduced by \$2,500 from the current year. In terms of the full repercussions of hiring a clerk, again assuming all things remain the same, the year-over-year swing is \$17,000.

Option 3

Option 3 is the “staff alternative.” The complete budget is found in Attachment H (with breakdown in employee expense documentation in Attachment G). It does not differ much from Option 1, except that the hiring of the Clerk would be pushed up by two months. The reason for this alternative is that the Executive Officer has serious concerns about tying workload issues to election results, since determining the size of staff needs to be a strategic administrative function based on long-term trends that are grounded on known information.

Please recall that it takes someone up to six months to be properly trained with LAFCO work. Under Option 1, that person would not be past training and be ready for full production until June 2015. Based on that timeline, it may or may not be too late for that person to be able to assist with handling the workload. Moving the timeline up by two months may make a substantial difference in the ability to balance it. Since the biggest concern the Ad Hoc Committee had during the discussion was the effect of the proposed ballot initiatives could have on LAFCO workload, under this proposal, the election results will be known during the recruitment period. If these initiatives pass, the recruitment can be cancelled and notify any applicants that the position has been withdrawn. If the initiatives fail, then the hiring can proceed.

From a fiscal standpoint, this is the middle-of-the-road option. Agency contributions are reduced by \$9,000 from current year. From a full repercussion, again assuming all things remain the same, the year-over-year swing would be approximately \$24,000.

Reserve

Due to workload, a Reserve Policy is not ready for the Commission’s consideration in February. A draft will be presented in March.

Attachments

- Attachment A: Cash Forecast Fiscal Year 2013-2014
- Attachment B: Fiscal Year 2014-2015 Expected Project Revenue
- Attachment C: Operating Budget Calculations
- Attachment D: Employee Salary & Benefit Schedule for Option 1
- Attachment E: Draft Proposed Budget FY 2014-2015 for Option 1
- Attachment F: Draft Proposed Budget FY 2014-2015 for Option 2
- Attachment G: Employee Salary & Benefit Schedule for Option 3
- Attachment H: Draft Proposed Budget FY 2014-2015 for Option 3