EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF APRIL 22, 2020

REGULAR MEETING

TO:	**Shiva Frentzen, Chair, and Members of the El Dorado County Local Agency Formation Commission**
FROM:	**José C. Henríquez, Executive Officer**
AGENDA ITEM #9:	**PUBLIC HEARING TO CONSIDER AND ADOPT THE PROPOSED BUDGET FOR FISCAL YEAR 2020-21**

RECOMMENDATION

Staff recommends that the Commission:

1. Receive the information related to the draft Proposed Budget for Fiscal Year 2020-21;
2. Open the Public Hearing on this matter; and
3. Adopt the Proposed Budget for Fiscal Year 2020-21.

REASON FOR RECOMMENDED ACTION

The enclosed LAFCO Budget reflects the financial priorities for the agency for next year under 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

This budget contains the initiatives the Commission wants to prioritize for the coming fiscal year. The twin goals from the Budget Ad Hoc Committee were to fund the Fire MSR and to have an increase of only CPI on the funding agencies. Because of a lower carryover amount, cuts had to be made in order to accommodate the cost of the Fire MSR; however, the second goal was still not achieved. As a result, all budgetary line items save for 4 (General Liability, Lease and the two membership categories) either have no increases or will have a reduction in funding for next year. This includes salaries and benefits. While the overall total budget is $26,000 lower in FY2020-21, there will still be a $32,000 increase in agency contributions because of the aforementioned lower revenues (budget carryover) and the cost of the MSR.

How to Read the Attached Budget:

Budgetary items will be referred to by its description and either General Ledger (GL) Account or by the term "fund." 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.

The attachments to this report mirror the narrative from this point forward:

- Attachment A contains the calculated carryover from FY2018-19. This number is inputted into next year's budget as a source of revenue under GL 4100, consistent with both your direction from last year as well as with your policies.
- Attachment B contains the earned fee revenues accrued throughout calendar year 2019. This number is inputted into the budget as a source of revenue under GL 4000, consistent with both your direction from last year as well as with your policies.
- Attachment C contains the calculations for Operating Expenses.
- Attachment D contains the salary calculations and expenses.
- Attachment E contains the complete draft Proposed Budget for FY2020-21.

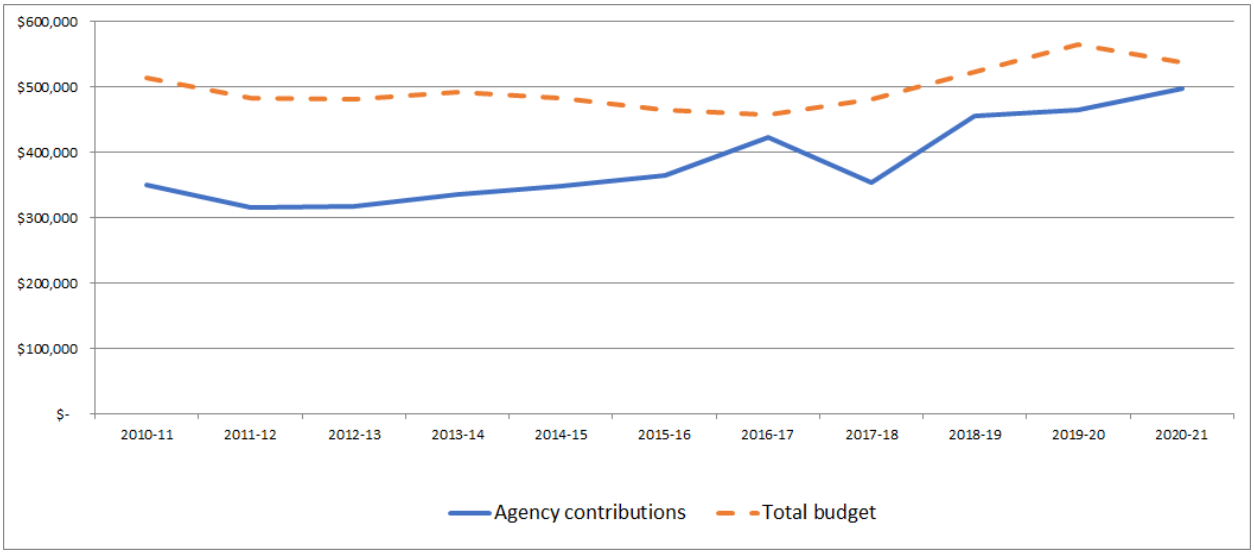
Overall Budget Highlights

In this budget, three of the four revenue sources are now known numbers. The fund balance is the carryover from FY2018-19 and is found in Attachment A. The applicant fees are the earned fees collected by LAFCO in calendar year 2019. The agency contributions have always been known numbers since they bridge the gap between the total budget and the other revenue sources. While LAFCO collected a larger amount in fees, the budget carryover is over $63,000 lower. Even with the near across the board cuts in spending, the agency contributions still increase by 7% over the current year in order to accommodate the outsourcing Fire MSR.

As outlined above, the Ad Hoc Committee's goal was to keep agency contributions as low as possible in order to minimize the impact of fitting the cost of the Fire MSR into the FY2020-21 budget. To that end, almost all expenses are expected to remain flat. Salaries and benefits are 9% lower, mostly due to 1) replacing the Assistant Policy Analyst position with a part time Administrative Assistant and 2) budgetary corrective measures detailed in the section titled "Budgetary Quandary," that appears later in this memo. Most of the increases in operating costs are due to contractual agreements. The largest increases will be in Funds 5450 (General Liability Insurance) and 6070 (Lease Payments – Building), with nominal increases in memberships (Funds 6100 and 6105).

The lump-sum payment to CalPERS for the unfunded liability in FY2020-11 will be $5,000.

LAFCO 10-Year Budget History



The chart above just reinforces the importance of agency contributions as a revenue source and as a percentage of the overall budget.

Budget at a Glance

Budget	**FY2019-20**	**FY2020-21**
Employee Expense	$334,041	$305,579
Operating Expense	$211918	$220,455
Operating Contingency	$18,864	$12,546
Expense Total	**$564,823**	**$538,580**
Non-Agency Revenues	$14,251	$18,350
Agency Contributions	$464,121	$496,808
Prior Year Fund Balance	$86,451	$23,422
Revenue Total	**$564,823**	**$538,580**

Expenditures

As the Commission knows, expenditures are usually broken down into three broad categories: Employee Expense, Operating Costs and Operating Contingency.

<u>Operating Costs</u>

Operating costs are all overhead costs to the agency that do not fall into expenses for employees. Most operating costs are budget at the same levels as the current year. Some saw decreases. The only categories that saw increases are contractual in nature. The lease goes up by no more than 3% annually. SDRMA notified its participating agencies that general liability premiums will go up next year by double digit percentages. The costs of memberships will go up nominally for Funds 6100 and 6105.

By far the biggest expense in the budget is the Fire MSR. Staff circulated a request for proposals (RFP) earlier this year. There were only two respondents, Citygate with a price tag of nearly $120,000 and South Fork Consulting at $95,000 (the principal of South Fork is Amanda Ross, the lead writer of the EID MSR/SOI study). Because the

Commission has strongly indicated it wants the Fire MSR completed as soon as feasible, this cost had to be accommodated into the budget.

Employee Expense

Overall employee costs are down by a total of 9%. The costs reflect the last of the three-year phase in of salary increases to bring compensation up to market levels. There are also some savings as a result of exchanging a full-time Assistant Policy Analyst with a part-time Administrative Assistant who will not be eligible for health benefits under your policies. Other than the matters discussed in the "Budget Quandary" section below, there is nothing out of the ordinary with these expenditures.

CalPERS Outlook

Because of the CalPERS Board of Directors' decision to cut the "discount rate" in January 2017, the unfunded annual payments UAL) are expected to increase dramatically before levelling off. This is what the employer rate is forecast to be in the next few years, according to LAFCO's latest valuation report. While the employer rate is forecasted to remain flat, it is unknown whether that will change because of the recent stock market volatility (assuming that the volatility continues for many more months):

	Employer contribution	**Projected future employer contributions***			
Fiscal Year	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Employer Rate	10.9%	10.9%	10.9%	10.9%	10.9%
UAL Payment	$5,000	$7,400	$9,300	$10,000	$11,000

*From the August 2019 Valuation Report

The funded ratio of LAFCO's plan has been consistently above 90% since LAFCO adopted its own contract with CalPERS in 2013.

Operating Contingency

Staff recommends suspending your policy requiring that the Operating Contingency be funded at 10% of operating costs. Not suspending this policy would mean the Contingency would also include a $9,500 for the cost of the MSR. Since the $95,000 price tag is a "not to exceed" amount, theoretically LAFCO will not need contingency funds for this contract. While this is risky, suspending the policy helps to keep costs down.

Budget Quandary

As outlined above, the Budget Ad Hoc Committee had two primary goals: fund the Fire MSR and keep the agency contributions to the current level + inflation (CPI or 4%). The current year's contributions are a total of $464,121. This meant that the target contribution amount should be a total of $482,686. An obstacle to achieving this goal was that the carryover fund balance from FY2018-19 was $63,000 lower than current year.

First, a ”base budget” was created. This contained the normal operating costs for this agency, taking into account past spending patterns. The base budget would have been the budget that would have been presented to you absent funding the Fire MSR. That base budget would have been $468,536 with agency contributions at $426,764. It is important to note that even under the base budget, the agency contributions would not have been reduced by the same amount (-$37,35) as the overall budget (-$92,287) because of the lower carryover amount going into FY2020-21.

With the Fire MSR cost of $95,000, the base budget goes to $573,036 and agency contributions go to $531,264, or $67,143 above the current year’s levels. In order to achieve both goals, the Ad Hoc Committee had to cut approximately $49,000 out of the base budget. These cuts included the use of one time savings, deferred expenditures in IT, cuts to transportation (including Commissioner mileage to meetings), sending only one Commissioner to the CALAFCO Conference in the Fall, instituting an additional day of furlough for all staff (to 4 days total) and reducing the Executive Officer’s paid time off balance (essentially your EO will be away from the office for 2.5 months next fiscal year). These cuts are detailed below:

Fund	Description	Savings
5200	Salary	$ 792
5340	CalPERS	$ 130
5400	Medicare	$ 12
6000	IT Support	$ 6,388
6030	Audit Services	$ 790
6090	Legal Services	$ 500
6210	Office Expense	$ 68
6300	Contingency	$ 9,500
6600	Publications (Geo Gazette & CP&DR)	$ 284
6750	Development	$ 5,345
6770	Transportation	$ 4,169
6800	Accrued Leave	$ 5,861
	Total	**$ 33,838**

Please make no mistake: only small amount of these cuts was “fluff.” The budget presented to you is a shoestring budget with very frayed edges. The agency will have no flexibility under this budget next year and this level of threadbare spending will not be sustainable beyond one year. **In addition, none of these cuts will be available after FY2020-21.**

While almost $34,000 in cuts were achieved, but it was not enough to reduce agency contributions down to current level + CPI. The contribution amounts presented in this budget are $496,808, or $14,000 over the Ad Hoc’s goal amount.

Attachments

Attachment A: Carryover/Fund Balance Calculations Fiscal Year 2018-2019

Attachment B: Earned Project Revenue from Calendar Year 2019

Attachment C: Operating Budget Calculations

Attachment D: Employee Salary & Benefit Schedule

Attachment E: Draft Proposed Budget FY 2019-2020

Attachment F: Proposed IT Equipment Replacement Project Plan