

EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF JANUARY 27, 2016

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 #10: PUBLIC HEARING TO CONSIDER AND ADOPT THE
PROPOSED BUDGET FOR FISCAL YEAR 2016-17**

RECOMMENDATION

Staff recommends that the Commission:

1. Receive the information related to the draft Proposed Budget for Fiscal Year 2016-2017;
2. Open the Public Hearing on this matter; and
3. Adopt the Proposed Budget for Fiscal Year 2016-2017.

REASON FOR RECOMMENDED ACTION

The recommended LAFCO Budget provides adequate funding for the agency to meet the responsibilities 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 is a severe budget. Because of a perfect storm of diminished revenues and increased employee costs, this budget is stripped down to bare bones. It is difficult to ascertain the number of applications staff can expect to receive. As a result, fee revenues are forecast very conservatively. More importantly, there is a decrease of fund balance revenue (monies carried over from the current fiscal year into next year) of over \$84,000. Unfortunately, despite cutting \$26,000 out of the budget, it still translates to increasing agency contributions by a total \$56,646.

The Ad Hoc Committee has met to discuss and draft a budget that covers the agency's employee and operating expenses for the coming fiscal year. They recommended cuts, all of which are incorporated into the draft budget before you for consideration.

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.

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

- Attachment A contains the cash forecast through the end of the *current* fiscal year. This number is inputted into *next* year's 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 calculations and expenses.
- Attachment E contains the complete draft Proposed Budget for FY2016-17.

Overall Budget Highlights

Staff does not believe anything associated with this budget can be described as a "highlight." As stated in the summary, this is a "perfect storm" budget for LAFCO in that:

- 1) There is a significant decrease in carryover monies from this fiscal into next year, by over \$84,000. In years past, carryover funds are the second largest source of revenue for LAFCO;
- 2) Because of a quirk in the calendar, there is an additional pay period in FY2016-17 that must be budgeted. This alone caused an increase of \$8,000 in salaries for LAFCO's three employees.
- 3) The amount that can be projected for fee revenue is difficult to ascertain simply because no one knows when they will be ready for LAFCO. Staff knows there are projects out there, but predicting when they will come in is proving to be difficult. As a result, a very conservative number has been projected. Incidentally, the amount budgeted is the same as what was predicted for the current fiscal year and staff does not anticipate that estimate to be met by June 30, 2016.
- 4) Several items related to employee benefits increased costs, as detailed below.

The carryover into FY2016-17 is significantly lower for three reasons:

- 1) The pension unfunded liability with CalPERS was paid off. This will translate to savings from here on out, but not in an amount large enough to offset a decrease of \$84,000 in a single year;
- 2) The reserve, authorized by the Commission three years ago, is fully funded; and

- 3) The \$38,000 cost to outsource the MSRs for Placerville and South Lake Tahoe is still ongoing. Commissioners will recall that this was an authorized expenditure in the budget for FY2014-15, but Quad Knopf was not contracted until the end of that fiscal year. As a result, the monies allocated to that contract were carried over into FY2015-16 and are occurring in this fiscal year.

As a result, while LAFCO put itself into a good financial position for the long term as a result of items 1 and 2 immediately above, these actions (combined with unknown fee and negligible interest revenues) translated into a painful situation in the short term. The only other revenue source LAFCO can turn to at this point is to agency contributions. As stated earlier, overall contributions will go up by over \$56,000, translating to an increase of over \$18,000 per category (category defined as the County's, cities' and special districts' share).

From a political standpoint, it should be noted that the carryover amount, regardless of where it is, is always controversial. If the carryover is of a significant amount, the complaint is that LAFCO is "padding" its budget. If it is too low, then it translates into agency contribution increases. In this budget, it is especially difficult because the low estimated carryover is coupled with lower estimates for the other non-agency revenue streams.

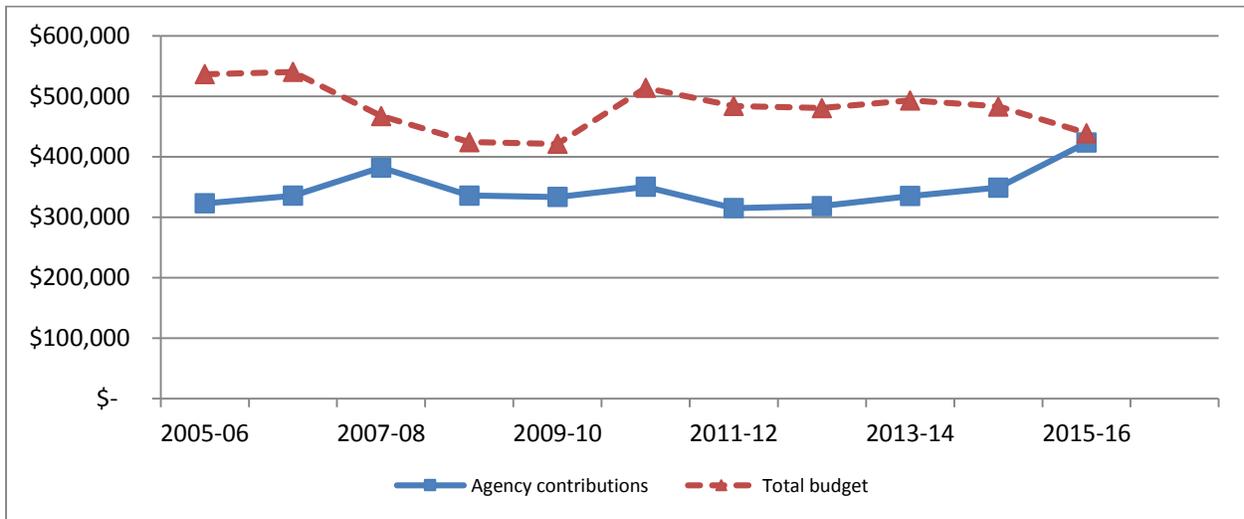
Interest rate revenues will continue to be depressed because of the deflated Federal savings rate. It is possible LAFCO will hit \$200 in revenues, but the amount from this source is kept low because it is unknown whether the Fed will increase the rate further. Nevertheless, the most this agency has ever generated from this sources is approximately \$1,000 in a fiscal year. As you can see, even if LAFCO collects more in interest, the amount would not be large enough to offset anything significantly.

On the cost side, operating costs are kept almost the same, with an overall slight decrease in expenditures. On the employee costs side, the position of the Commission Clerk will be kept open, with no funds to hire out this position. In addition to the three days of furloughs, staff will not see any raises or increases in compensation. There is a decrease in health care costs because a member of staff switched plans to a lower cost option.

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. No funds will be transferred to reserve as it is fully funded.

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.

LAFCO Budget History



Budget at a Glance

Budget	FY2015-16	FY2016-17
Employee Expense	\$344,466	\$318,719
Operating Expense	\$109,865	\$109,208
Operating Contingency	\$10,987	\$10,921
Expense Total	\$465,317	\$438,848
Non-Agency Revenues	\$6,977	\$6,977
Agency Contributions	\$365,075	\$423,501
Prior Year Fund Balance	\$93,265	\$8,370
Revenue Total	\$465,317	\$438,848

Expenditures

Operating Costs

As detailed in Attachment C, operating costs are overall flat. Any expenditure on a particular item is offset by a decrease in another. Basically all items are budgeted at current levels and no more. Staff is exploring other ways to save additional money, including:

- Exploring switching IT consultants;
- Deferring replacing any equipment;
- Minimizing travel and training opportunities;
- Capping the number of attendees to the CALAFCO Conference at four people.

The Commission may also have additional suggestions on keeping costs down.

Employee Expenses

Employee costs are also budgeted as needed and no more, with the following notables:

- Existing staff is budgeted the same as in the current year’s budget. There are no raises for anyone except a potential increase in pay should the Policy Analyst be

promoted to Assistant Executive Officer. Her work anniversary in January 2017 is the earliest that promotion can take place.

- As mentioned above, the position of Commission Clerk is kept open and will not be filled next fiscal year. This means that any increase in work would be absorbed by existing staff.
- Also as mentioned above, there is one additional pay period in FY2016-17 that must be accommodated. As a result, the cost of the 27th additional pay period is included in the budget. This also means that any savings achieved in keeping the Clerk position vacant have been minimized by the inclusion of the extra pay period.
- Per your policies on benefits, the 11th year of employment is a landmark year in that employees go up a tier for vacation accrual. In addition, the percentage of sick time that is paid out to employees upon his/her departure goes up from 20% to 40% of accrued sick hours. Those costs are incorporated into the budget.
- Because the unfunded liability (UAL) for pensions has been paid off, staff does not anticipate having to pay the typical “UAL lump sum fee” that CalPERS charges each member agency annually. Nevertheless, the projected charge that LAFCO would have to pay this year had it not paid off the UAL is included just in case.

Staff also offers the following options for the Commission to consider in its budget discussion:

- The Policy Analyst offers to defer any promotion in 2017.
- The Executive Officer could work at less than full time.
- The Commission could halve the UAL lump sum fee.
- All staff is open to increasing the number of furlough days from three to at least five days.
- All staff also offers to curtail the number of attendees to the CALAFCO Workshop.

Discussion

There is no doubt that this is a painful budget. As Executive Officer I bear sole responsibility for putting the Commission in this position. There is no doubt that having to absorb an additional \$58,000 in agency contributions will not go over well since most agencies are still recovering from the Great Recession. Having said that, it must be emphasized that LAFCO is actually in great financial shape. It has paid off its unfunded liability with CalPERS. Its modest reserve is fully funded. It is finishing work on the MSRs for two of its larger entities. This budget is a victim of an odd mix of circumstances that coalesced in FY2016-17, up to and including an additional pay period, which is the first time this has occurred in my career.

It is possible to take other steps to reduce some pain caused on the agencies. The Commission could choose to increase the fee revenue or to transfer some funds from the reserve back into the budget. I would caution against taking either of those steps, however. While you can take steps to reduce the pain, no single action or cost reduction – save laying off an employee – will completely eliminate the gap caused by having little carryover. It is more prudent to adopt the budget as presented, for the most part, and

hold the line in FY2017 and beyond, than to take a riskier step of assuming larger fee revenues, laying off staff or reduce your reserve.

Attachments

- Attachment A: Cash Forecast Fiscal Year 2014-2015
- Attachment B: Fiscal Year 2015-2016 Expected Project Revenue
- Attachment C: Operating Budget Calculations
- Attachment D: Employee Salary & Benefit Schedule for Option 1
- Attachment E: Draft Proposed Budget FY 2015-2016