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**FRESNO LOCAL AGENCY FORMATION COMMISSION (LAFCo)  
INDEPENDENCE SUBCOMMITTEE REPORT**

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**AGENDA ITEM NO. 9-A**

**DATE:** June 10, 2009

**TO:** Fresno Local Agency Formation Commission

**FROM:** Rick Ballantyne, Executive Officer  
Ken Price, LAFCo Counsel

**SUBJECT:** **LAFCo Independence –Consider LAFCo Independence Subcommittee Report and Recommended Actions**

**Background**

Over the last few years, a plurality of LAFCo Commissioners have expressed their desire that LAFCo terminate its personnel services agreement with the County, in which, among other things, the County provides LAFCo with all personnel. As you know, the Cortese-Knox-Hertzberg Local Government Act of 2000 contains provisions providing for Local Agency Formation Commissions to become independent from other local governmental agencies. Commissioners have expressed concern that they did not have the authority to establish staff compensation or hire, discipline, or terminate staff. Furthermore, County officials have stated that it is against the County's Charter for LAFCo's Executive Officer to be hired directly by LAFCo while managing County employees. For this reason, the Commission directed staff and its Counsel to meet with County representatives to discuss how to best to address the independence issue. The Commission also delegated Chairman Victor Lopez and Commissioner Larry Fortune to serve on its "Independence" Subcommittee.

Attached to this staff report, as Exhibit "A," are all of the current services being provided to LAFCo by the County. The first table includes the services/benefits provided by the County's Personnel Department and Auditor/Controller's Office. The County has indicated that these services would no longer be available should LAFCo terminate its service agreement with the County. County officials did state that the County may contract with LAFCo for certain services, which include services provided by various Fresno County Departments including the Assessor's Office; Elections Department; General Services; Health Department; Information Technology Services Department (ITSD); and Public Works/Planning Department. For this last fiscal year (thru June 7, 2009), LAFCo has paid the County a total of \$159,165. for the services described in Exhibit "A."

Upon reviewing this information, the LAFCo Subcommittee directed staff to seek cost information from outside vendors for providing all personnel and financial services, especially those that would no longer be available from the County if LAFCo personnel were to leave County employment.

## **Subcommittee Report**

On June 5, 2009, the Subcommittee reconvened to review preliminary cost estimates that had been prepared by staff in response to the Subcommittee's directive. LAFCo staff worked with the County to break down how much it is being charged for various services presently provided by the County. Exhibit "B" sets forth a comparison of the costs presently charged by Fresno County for personnel benefits, agency insurance coverage, employee vacation/layoff costs; payroll and accounting services, and other general accounting costs. The Cost Comparison Study resulted in a number of findings that the Subcommittee considered. The more significant areas of cost differentials include the following:

### **Health Insurance Coverage**

The total amount that LAFCo pays annually for the four full-time staff that enroll in County Health Insurance Program is \$34,032 (including employee contributions). This amount includes medical, dental, optical, and mental health services. A comparable level of service provided via a local broker/representative (Shew & Company) would cost approximately \$49,760 per year. However this estimate does take into account any pre-existing health conditions and the age of LAFCo staff. Because the County has such a large pool of subscribers, it does not assign such factors to LAFCo in extending its health insurance coverage.

Another identified health coverage provider is the Special Districts Risk Management Authority (SDRMA). This organization currently provides medical coverage for many LAFCos. The cost for the four LAFCo staff to be covered by SDRMA would be approximately \$34,665 per year. However, this total does not include dental and vision plans. A secondary provider would have to provide such a benefit. Staff has found that comparable dental and vision insurance could be provided for approximately \$4,800 per year. Additionally, mental health counseling would not be included. Such services are provided through the County at no charge to County employees. Current providers could extend counseling services to LAFCo for a set charge of \$1,440 annually.

### **Insurance Coverage**

A comparison study revealed that most of the insurances provided to LAFCo would be relatively comparable to what the County charges LAFCo. In several instances the insurance companies currently providing coverage (Allstate and Alliance) indicated that the current charges could be rolled over directly to the agency. Workers Comp Insurance seemed to be higher than what is presently obtained from the County; however, staff will continue to seek other estimates for comparable insurance coverage.

### **One-Time Expenses**

Staff has identified several one-time transfer costs. These include an actuarial study required by the Fresno County Employees Retirement Association (\$8,000); the County administered lay-off process (\$2,967); payment of unused accrued vacation leave of LAFCo employees (\$38,424); and start-up costs including preparation of an "Employee Manual" and other miscellaneous start-up expenses (\$6,500)—for a total of \$55,891. Please note that this year's budget already includes a \$20,000 payment for the Executive Officer's unpaid leave expense that has been accounted for in this year's adopted budget.

### **Payroll and Accounting Services**

It appears that the costs of outsourcing these services (or even bringing them "in-house") can be substantially reduced in comparison to what the County is charging LAFCo.

### **Relationship to Adopted Budget**

On May 13, 2009, the Commission approved its *2009/2010 Budget*. The budget reflected a 7.5% reduction from last year's budget, while maintaining an estimated \$140,875 Fund Balance Account—or 21.32% of this year's budgeted amount. The move to transition to Independence will result in a reduction of next year's Fund Balance since it is estimated that \$55,891 in one-time transfer costs will be required. This amount is reduced by \$19,635 since funds were budgeted this year for the Executive Officer's vacation leave pay-off resulting in a net reduction of approximately \$36,346. Additionally, health insurance cost increases for a half-year period would be approximately \$3,436 to include comparable coverage as provided by the County. The total increased cost to LAFCo to provide the transition of its employees would approximate \$40,000—thus reducing LAFCo's Fund Balance to \$100,875—or 15.2% of this year's budgeted amount. If the Commission desires to draw additional funds from its adopted 2009/2010 Budget, it will be required to take action to amend the currently approved budget and transfer additional funds from the Fund Balance account to fund the additional expenses.

### **Recommended Actions:**

If the Commission decides to terminate the Personnel Services Agreement with the County of Fresno, and hire its own staff, we recommend that:

1. The Commission approves the transitioning of its staff from County to LAFCo employment to take effect on January 10, 2010 (end of payroll period) or as soon as LAFCo employees are eligible to received benefits from the Fresno County Retirement Association.
2. LAFCo Counsel shall notify the County of Fresno of the Commission's intent to transition its employees from County employment that shall take effect on January 10, 2010 or as soon as LAFCo employees are eligible to received benefits from the Fresno County Retirement Association.
3. The Executive Officer and LAFCo Counsel shall work with the *Fresno County Employees Retirement Association* in applying for continued retirement benefits for LAFCo's employees. Staff is directed to negotiate/authorize payment of an actuarial study required by the Association as a pre-condition for LAFCo membership as permitted by State law.
4. LAFCo Counsel shall work with County officials to amend the Fresno LAFCo/County of Fresno Contract for Services to delete provisions for employees and employee benefits as well as payroll and accounting services, including financial statements and general accounting services. The Contract is to be executed by both the County and LAFCo prior to January 10, 2010 or as soon as LAFCo employees are eligible to received benefits from the Fresno County Retirement Association. All other County related services as set forth within the current contract shall be maintained in full force.

Staff recommends if the Commission desires to approve the above recommendations, that it direct its staff to prepare a Budget Amendment that sets forth anticipated additional expenses resulting from the transfer of County employees to LAFCo.

**Exhibit "A"**  
**Fresno County Services/Benefits Comparisons to Support Employment Transfer**

<b>County Departments Requiring Adjustments</b>	<b>Identified Services/Benefits *</b>	<b>Future Service Yes/No</b>	<b>FY 2009/10 LAFCo Budget</b>	<b>Anticipated Increase Above County Costs</b>
Personnel	Employee Health Insurance	No	\$27,750	Yes
	Health Insurance Benefit Admin.	No	\$530	Not Applicable
	Life and Disability Insurance	No	\$769	No
	Unemployment Insurance	No	\$525	TBD
	Retirement Benefits	No	\$87,292	No
	Workers Comp Insurance	No	\$657	Yes
	Liability Insurance	No	\$13,319	No
	Deferred Compensation	No		TBD
	Employee Assistance Program (EAP)	No		Yes
	Employee Layoff Process	N/A		One-Time Cost
	Employee Vacation Payoff	N/A		One-Time Cost
Auditor/Controller	Payroll and Accounting Services	No	\$2,986	No
	Financial Statements/Gen. Accounting	No	\$6,000	No

<b>County Departments With No Adjustments**</b>	<b>Identified Contracted Services</b>	<b>Future Service Yes/No</b>	<b>FY 2009/10 LAFCo Budget</b>	<b>Anticipated Increase In County Costs</b>
Assesor's Office	Review Legals/Record Documents	Yes	\$9,000	No Cost Increase
Elections	Provide Voter Information	Yes	\$5,000	No Cost Increase
General Services	Mailing Services	Yes	\$5,000	No Cost Increase
Health Department	Review/Comment Upon Applications	Yes	\$3,520	No Cost Increase
ITSD	Computers/Telephone/People Soft	Yes	\$27,754	No Cost Increase
Public Works/Planning	GIS Licensing for Map Layers	Yes	\$360	No Cost Increase

Notes: \* County has indicated that these services will not be available upon transfer of employees.

\*\* Contracted services are provided at County cost--No additiional costs will result from employee transfer to LAFCo.

## Exhibit "B"

### Comparison Between Current Fresno County Costs and Proposed Provider Costs

Identified Services/Benefits Not Available Through Fresno County	FY 2009/10 LAFCo Budget <sup>1</sup>	One-Time Transfer Cost
Health Insurance/County Contribution <sup>3</sup>	\$27,750	
Health Insurance Benefit Administration	\$530	
Life and Disability Insurance	\$769	
Unemployment Insurance	\$525	
Retirement Benefits	\$87,292	\$8,000
Workers Comp Insurance	\$657	
Liability Insurance	\$13,319	
Employee Assistance Program (EAP)	Included	
Employee Layoff Process		\$2,967
Employee Vacation Payoff <sup>6</sup>		\$38,424
Payroll and Accounting Services	\$4,231	
Prepare Start-Up Document (Manual)		\$1,500
Miscellaneous Fund		\$5,000
Statements and General Accounting	\$6,000	
Deferred Compensation Administration	Included	
<b>Totals:</b>	<b>\$141,073</b>	<b>\$55,891</b>

Proposed Provider	Estimated Annual Cost
Shew & Co. <sup>2</sup>	\$49,760
Shew & Co.	None
Allstate <sup>5</sup>	\$769
State of CA	TBD
FCERA	\$87,292
Paychex	\$2,129
Alliance <sup>5</sup>	\$13,319
Avante Options	\$1,440
Paychex	\$1,700
Paychex	TBD
Hartford	None
	\$156,409

Alternate Provider	Estimated Annual Cost
SDRMA <sup>4</sup>	\$34,665
SDRMA	None
Shew & Company	TBD
SDRMA	TBD
Staff	Not Applicable
ICMA	None

<sup>1</sup> Estimate of service costs charged by Fresno County to LAFCo.

<sup>2</sup> To include comparable medical, dental, and vision coverage (Health Net HMO and Kaiser medical).

<sup>3</sup> LAFCo employees contribute additional \$5,752. Total program costs are \$34,032

<sup>4</sup> Does not include dental and vision coverage estimated under other plans \$4,800

<sup>5</sup> We can continue to contract directly with Alliance and Allstate (rollover)

<sup>6</sup> Included within this amount is \$21,254 pay-off for EO in January, 2010