
**FRESNO LOCAL AGENCY FORMATION COMMISSION (LAFCo)
EXECUTIVE OFFICER'S REPORT**

AGENDA ITEM NO. 13

Date: March 5, 2008
To: Fresno Local Agency Formation Commission
From: Rick Ballantyne, Executive Officer
Subject: Preliminary 2008-2009 Fresno LAFCo Budget

Summary

Both (FY) 2007-2008 LAFCo Budget revenues and expenditures have generally been less than budgeted resulting in a fund balance amount approximating last year's. Savings were realized from several budget categories, but were most significant in personnel and contingency areas. Personnel expenditures were less than anticipated due to actual salaries being less than budgeted. Also, \$43,000 in contingency funding was not expended. However, expenses for consulting services were greater than experienced since consultant bills for a majority of the Municipal Service Reviews and Spheres of Influence Updates were processed during this year (although adequate funding had been budgeted during the last two years to cover these costs).

LAFCo's Special Fund balance in the amount of \$184,821 is again proposed to be used to lower City and County contributions. The percentage of the budgeted amount remaining within the fund balance will be reduced from 23% to 20%. While the Special Fund balance may be slightly reduced to help off-set City and County contributions, the anticipated amount of revenues resulting from fees charged for application processing is expected to be reduced; therefore, resulting in an increase in the contribution of Cities and the County over last year.

While LAFCo had estimated annual income derived from fees at \$250,000 during FY 2007-2008 based upon the prior two years of activity, the actual amount of fees collected has been substantially less than estimated. Based upon the level of application activity experienced during the first eight months of the fiscal year, we would expect the amount of annual income received from fees to approximate \$156,500—although we have seen an increase in activity during the last two months.

While, the Cities and County saw a 15.8% (\$173,972 opposed to \$206,679) reduction in their contributions this last year due to a larger Special Fund transfer amount (\$200,000); we would expect that the Cities and the County contribution to be the same amount as experienced in FY 2006-2007 (\$206,679).

In light of severe budgetary constraints faced by local governments (the State, County and Cities), Fresno LAFCo has also set forth an alternative (See Exhibits 2-A and 3-A Alternatives) for Commission consideration. This alternative holds City and County contributions at the same level as experienced last year (\$176,589 each). Such alternative would further reduce LAFCo's Special Fund balance by an additional \$60,180 to \$92,845—or 12% of the proposed budget level. LAFCo's desire is not to reduce its staffing level or other budgeted items given its current work program.

Discussion

California Government Code, Sections 56000 *et seq.*, requires the Commission to adopt a proposed budget by May 1st and a final budget by June 15th annually at a noticed public hearing. At today's hearing the Commission will consider a Preliminary Budget for Fiscal Year 2008-2009, for approval and recommendations by the Commission to be proposed for adoption at the April 9, 2008, LAFCo hearing.

At a minimum, State law requires the budget must be equal to the previous fiscal year's budget unless reduced staffing or workload costs indicate that a reduction would be appropriate. This year's budget is less than last years (\$754,679 as opposed to \$803,178). Costs for some line items are projected to increase to reflect recent experience; however, as a result of a significant carryover of funds from previous years and recovery of operating expenses for applicant-initiated proposals from fees, mandatory County and City contributions are reduced to an amount comparable to that experienced two years ago. A prudent reserve fund balance is also recommended.

Special Considerations

Fresno LAFCo is expected to continue addressing the "independence" issue as supported by state law. LAFCo's decision to become totally independent could result in changes to personnel and personnel benefits (i.e. health insurance and other employee benefits) as well as other contractual services provided by the County. These costs have yet to be fully determined. Counsel is scheduled to provide an update on the LAFCo "independence" issue under a later item.

Consulting Services

Fresno LAFCo has contracted with Mike Noland to provide Special LAFCo Counsel services for issues related to the Consolidated Irrigation District (CID). Mr. Noland's services exceeded the amount budgeted in FY 2007-08 due to unexpected issues related to several City of Sanger Reorganizations, CID, and potential legal challenges requiring additional legal counsel. Staff is recommending that Mr. Noland continue to serve as Special Counsel and has budgeted \$5,000 similar to last year for any services required.

Summary of Budget Accounts and Recommendations

The discussion below presents an account by account analysis of the recommended Budget compared to the FY 2007-2008 Budget. The total recommended appropriation for FY 2008-2009 is \$754,679 which is a 6.0% decrease from the approved FY 2007-2008 Budget.

Account Number 7040 - Telephone/Communications Recommended Appropriation - \$6,122

This estimate was provided by the County based on current usage and is \$396 less than last year's recommended budget appropriation.

Account Number 7101 - Liability Insurance Recommended Appropriation - \$15,777

This amount is based on last year's County recommended amount. This estimate remains constant since the County has yet to provide a new estimate. The current insurance coverage runs from September, 2007 through September, 2008, at a cost of \$11,831.

Account Number 7175 – Insurance-Other
Recommended Appropriation – \$30

This budgeted amount was provided by the County and reflects past experience.

Account Number 7205 - Maintenance – Equipment
Recommended Appropriation - \$1,200

This annual estimate is based upon actual copier maintenance costs. This is the same amount that was requested last year.

Account Number 7250 - Professional Memberships
Recommended Appropriation - \$6,185

The increased amount reflects an increase in CALAFCO membership dues.

Account Number 7265 - Office Operational Expenses
Recommended Appropriation - \$7,750

This amounts to an increase of \$250 to reflect inflation.

Account Number 7268 - Postage
Recommended Appropriation - \$5,000

This amount reflects anticipated activity.

Account Number 7286 & 7287 - PeopleSoft Human Resources and PeopleSoft Financial
Recommended Appropriation - \$2,712

This estimate was provided by the County and reflects a \$120 increase from last year's estimate.

Account Number 7294 - Special Projects
Recommended Appropriation - \$10,000

This account is recommended by LAFCo Counsel to fund the special assessment required by the County Retirement Association in relationship to LAFCo "Independence" efforts that will result in staff (currently County personnel) becoming Fresno LAFCo personnel.

Account Number 7295 - Professional and Specialized Services
Recommended Appropriation - \$577,967

This account includes LAFCo staff salaries and benefits; LAFCo Counsel expenses; and County Assessor, County Health Department, County Elections Department, County Personnel Department, and County Auditor Office contractual services. This account anticipates an increase of \$9,068 over last year's estimate. We have increased legal counsel expenses an additional \$5,000 to reflect a slight increase in activity. We have also provided annual step increases (5%) for our Administrative Services Assistant and Program Tech I positions as well as expected cost of living increases for all staff (3.0%). We expect to hire a full-time Office Assistant II position to serve as LAFCo receptionist and file clerk (currently being filled by a part-time employee—Susan Pool).

Account Number 7296 – Data Processing Services

Recommended Appropriation - \$22,306

This estimate has been provided by the County. The estimate has decreased \$6,417 over last year's estimate, and is due in part because of added expenses last year to create LAFCo's Website.

Account Number 7325 - Publications & Legal Notices

Recommended Appropriation - \$8,000

This figure is based on current year notification expenses. This estimated amount is similar to last year's

Account Number 7340 - Rents & Leases-Buildings

Recommended Appropriation - \$37,230

This amount reflects the annual cost to lease LAFCo's office space for twelve months. The increase of \$1,541 reflects a programmed 4% increase over the current rent as provided for in the lease agreement.

Account Number 7412 - Mileage

Recommended Appropriation - \$2,400

LAFCo does not maintain its own company vehicle due to limited necessity. Mileage is reimbursed to employees utilizing their own private vehicles at the standard government rate. LAFCo maintains annual records of proof of insurance and valid driver licenses for their employees.

Account Number 7415 - Transportation, Travel & Education - LAFCo Staff

Recommended Appropriation - \$6,000

The budgeted amount has been increased by \$1,000. This reflects a desire to provide adequate training for staff and LAFCo Counsel at CALAFCO's annual staff workshop, annual Conference, and CALAFCO training courses. It also provides educational opportunities for LAFCo's technician to allow her increased GIS and internet website training to assist LAFCo operations.

Account Number 7417 - Transportation & Travel - Commissions & Advisory Boards

Recommended Appropriation - \$4,500

This account pays the \$75.00 per diem to Commissioners for attending meetings. Twelve regular and two special meetings were anticipated last year due to the MSR program. The budgeted amount has been decreased by \$750 based on twelve regular meetings. LAFCo did take action to raise the per diem amount paid to its Commissioners from \$50.00 to \$75.00 at a meeting last year to create parity with other LAFCOs based upon a review of other agencies.

Account Number 8300 - New Equipment

Recommended Appropriation - \$1,500

No new equipment needs have been identified for this year. However, \$1,500 has been reserved to cover any needed equipment replacement due to obsolescence.

Account Number 8991 - Contingencies Fund
Recommended Appropriation - \$40,000

This account sets aside money for unexpected costs and emergencies and is slightly less than last year's budgeted amount. No funds were expended under this account this last year.

REVENUES

Revenues to support LAFCo come from three sources: Fresno County, the 15 Cities in the County, and LAFCo's application processing fees. Based on the adopted 2007-2008 Budget, \$176,589 was contributed by the County and Cities (50% each) to offset LAFCo's net operating costs as required by State law. Application fees deposited during the year to date amount to **\$105,831**. This amount is substantially less than that necessary to meet the projected \$250,000 revenue estimates by June 30th of this fiscal year.

LAFCo Special Account

As revenues are received from the various sources, they are deposited in a Special Account created exclusively for LAFCo's use which is administered by the County Auditor-Controller's Office. Funds are drawn from this account as needed to meet our expenses. Funding not utilized during a given year remains available for use in future years.

Due to LAFCo's application activity, balanced budgets, a modest yearly surplus over the last several years, accrued interest, and a budgeted position that had remained unfilled for a time, LAFCo currently has a Special Account fund balance of approximately \$573,016, which we estimate will be drawn down to about \$337,846 by the end of the fiscal year. This balance will increase again when the City and County contributions are paid shortly after the budget is adopted.

Prudent budget management dictates that we should maintain a reasonable balance in the account to carry us until the City and County contributions are received, and as a cushion against a significant reduction in application revenue. However, the fund balance should not be allowed to grow indefinitely. Excess funds should be allocated as revenue to pay for a portion of operating expenses when they reach a certain point.

Based on a recent review of our account balance, we are recommending that \$153,025 be maintained in this account, with the remainder, to be allocated as revenue in this year's budget. If this is approved we recommend that the Executive Officer be authorized to request the County Auditor to transfer \$184,821 from LAFCo's Special Account to its fund balance.

With revenues (*fees and contribution from LAFCo's reserve*) accounting for \$341,321 of the **\$754,679** total recommended appropriations, the "net operating cost" is **\$413,358**. Accordingly, the County and Cities would be required to contribute **\$206,679** each toward LAFCo support in accordance with State law. This would result in the County and Cities each contributing **\$30,090** more than last year's contribution requirement, but the same as FY 2006-2007. A summary of estimated revenues for the proposed budget indicating a balanced budget is shown in Exhibit 2.

Staff has also provided an **alternative level of City and County contributions** as set forth in Exhibits 2-A and 2-B. This alternative would hold the City and County contributions at the same level as experienced last year (**\$176,589**) by reducing the Special Account by an additional \$60,180 to a expected balance of \$92,845—or 12% of this year's budgeted amount. If this alternative is desired, we recommend that the Executive Officer be authorized to request the County Auditor to transfer \$245,001 from LAFCo's Special Account to the fund balance.

Recommended Action

The recommended 2008-2009 budget would balance anticipated costs with projected revenues, while maintaining a prudent reserve fund (Special Fund) of 20% of the estimated annual budget amount. The alternative budget would hold City and County contributions constant with last year's contribution, but would reduce the LAFCo Special Fund balance.

Staff recommends approval of the Preliminary FY 2008-2009 LAFCo Budget estimates as shown on Exhibits 1 through 5. Staff also seeks direction with respect to any recommended changes the Commission may desire.

EXHIBIT 1
FISCAL YEAR 2008-2009 PRELIMINARY BUDGET
Total Services, Supplies and Capital Facilities - Appropriations

Fund No.: 4825 Special Fund
Subclass No.: 10000
Org No.: 9690 LAFCo Contract

BUDGET ITEM	Approp. 2007-08	Est. Expense 2007-08	Year End 2007-08	Recomm. 2008-09
7040 Telephone Charges	\$6,518	\$5,685	\$833	\$6,122
7101 Liability Insurance	\$15,777	\$11,831	\$3,946	\$15,777
7175 Insurance-Other	\$30	\$0	\$30	\$30
7205 Maintenance-Equipment	\$1,200	\$1,200	\$0	\$1,200
7250 Professional Memberships	\$5,500	\$5,500	\$0	\$6,185
7265 Office Operations Expense	\$7,500	\$7,382	\$118	\$7,750
7268 Postage	\$8,000	\$5,120	\$2,880	\$5,000
7286 PeopleSoft Human Resources Charge	\$0	\$0	\$0	\$0
7287 PeopleSoft Financials Charge	\$2,592	\$2,963	(\$371)	\$2,712
7294 Professional & Special Serv. Contract	\$60,000	\$126,516	(\$66,516)	\$10,000
7295 Profess. & Special Serv. (w/ benefits & salaries)	\$568,899	\$537,871	\$31,028	\$577,967
7296 Data Processing Services	\$28,723	\$28,538	\$185	\$22,306
7325 Publication & Legal Notices	\$8,000	\$6,860	\$1,140	\$8,000
7340 Office Leases	\$35,689	\$36,292	(\$603)	\$37,230
7400 Special Departmental Expense	\$0	\$0	\$0	\$0
7412 Mileage	\$0	\$0		\$2,400
7415 Trans, Travel & Education (Staff)	\$5,000	\$6,000	(\$1,000)	\$6,000
7417 Trans & Travel - Comm & Adv Bds	\$5,250	\$4,500	\$750	\$4,500
8300 Furniture/Equipment/Previous Move	\$1,500	\$0	\$1,500	\$1,500
8991 Contingencies	\$43,000	\$0	\$43,000	\$40,000
Total	\$803,178	\$786,258	\$16,920	\$754,679

Total Recommended Appropriations for 2008-2009

\$754,679

EXHIBIT 2
FISCAL YEAR 2008-2009 PRELIMINARY BUDGET
Net Operating Cost and City/County Contribution Calculation 2008-2009

Total Budget	\$754,679.00
Net Operating Cost (Total Budget Minus Fees and Reserve Balance Transfer)	\$413,358.00
Estimated Revenue	
Fees	\$156,500.00
Special Fund Transfer To Revenue Account	\$184,821.00
Fee and Reserve Fund Revenue Transfer Subtotal	\$341,321.00
Cities' Contribution (The actual apportionment will be determined by the County Auditor)	\$206,679.00
County Contribution (The actual apportionment will be determined by the County Auditor)	\$206,679.00
City/County Contribution	\$413,358.00
Total Revenue	\$754,679.00

EXHIBIT 3
FISCAL YEAR 2008-2009 PRELIMINARY BUDGET
Special Fund Balance

Estimated Special Fund Balance as of June 30, 2008 *	\$337,846.00
Recommended Amount To Be Transferred to Revenue Account	\$184,821.00
Estimated Special Fund Balance After Transfer	\$153,025.00
Percentage of Budget Remaining In Special Fund After Transfer	20%

* Fund Estimate Prepared by Fresno County Auditor's Office

EXHIBIT 2-A (Alternative Action)
FISCAL YEAR 2008-2009 PRELIMINARY BUDGET
Net Operating Cost and City/County Contribution Calculation 2008-2009

Total Budget	\$754,679.00
Net Operating Cost (Total Budget Minus Fees and Reserve Balance Transfer)	\$353,178.00
Estimated Revenue	
Fees	\$156,500.00
Special Fund Transfer To Revenue Account	\$245,001.00
Fee and Reserve Fund Revenue Transfer Subtotal	\$401,501.00
Cities' Contribution (The actual apportionment will be determined by the County Auditor)	\$176,589.00
County Contribution (The actual apportionment will be determined by the County Auditor)	\$176,589.00
City/County Contribution	\$353,178.00
Total Revenue	\$754,679.00

EXHIBIT 3-A (Alternative Action)
FISCAL YEAR 2008-2009 PRELIMINARY BUDGET
Special Fund Balance

Estimated Special Fund Balance as of June 30, 2008 *	\$337,846.00
Recommended Amount To Be Transferred to Revenue Account	\$245,001.00
Estimated Special Fund Balance After Transfer	\$92,845.00
Percentage of Budget Remaining In Special Fund After Transfer	12%

* Fund Estimate Prepared by Fresno County Auditor's Office

EXHIBIT 4
FISCAL YEAR 2008-2009 PRELIMINARY BUDGET
ACCOUNT #7295 - PROFESSIONAL AND SPECIALIZED SERVICES
 General Administrative, Auditor-Controller, Professional and Specialized, Salaries/Benefits

BUDGET ITEM	Appro. 2007-08	Est. Exp. 2007-08	Est. Year End 2007-08	Recom. 2008-09
GENERAL COUNTY				
Administrator, Personnel, Employee Relations,	\$5,722	\$7,900	(\$2,178)	\$8,494
SUB-TOTAL	\$5,722	\$7,900	(\$2,178)	\$8,494
AUDITOR-CONTROLLER TREASURER-TAX COLLECTOR				
Financial Statements and General Accounting	\$1,719	\$1,500	\$219	\$6,000
SUB-TOTAL	\$1,719	\$1,500	\$219	\$6,000
PROFESSIONAL & SPECIALIZED SERVICES				
Fresno Co. Assessor	\$24,750	\$20,250	\$4,500	\$10,200
LAFCo Counsel	\$75,000	\$84,500	(\$9,500)	\$80,000
Fresno Co. Elections	\$5,000	\$5,000	\$0	\$5,000
Fresno Co. Health	\$6,875	\$5,625	\$1,250	\$3,360
Special Counsel (Mike Noland)	\$5,000	\$11,000	(\$6,000)	\$5,000
SUB-TOTAL	\$116,625	\$126,375	(\$9,750)	\$103,560
SALARIES AND BENEFITS				
6100 - Regular Salaries	\$277,172	\$214,212	\$62,960	\$296,899
6200 - Extra Help	\$20,046	\$23,857	(\$3,811)	\$0
6300 - Overtime	\$0	\$2,500	(\$2,500)	\$0
6350 - Unemployment Insurance	\$138	\$0	\$138	\$448
6400 - Retirement Contribution	\$76,612	\$62,647	\$13,965	\$104,808
6500 - Oasdi Contribution	\$22,737	\$17,768	\$4,969	\$22,583
6550 - Workers Comp Contribution	\$560	\$560	\$0	\$701
6600 - Health Insurance Contribution	\$35,375	\$25,492	\$9,883	\$33,035
6650 - Life & Disability Insurance	\$606	\$742	(\$136)	\$909
6670 - Benefit Administration	\$340	\$340	\$0	\$530
SUB-TOTAL	\$433,586	\$348,118	\$85,468	\$459,913 *
GRAND TOTAL	\$557,652	\$483,893	\$73,759	\$577,967

* Portion of County Support - Total Contribution of Salaries and Benefits

EXHIBIT 5

FISCAL YEAR 2008-2009 PRELIMINARY BUDGET

Salaries and Benefits

Fund No.: 0001 General Fund
Subclass No.: 10000
Org No.: Fresno Local Agency Formation Commission Contract

Account Number & Description	FY 2008-2009
6100 - Regular Salaries	\$296,899
6200 - Extra Help	\$0
6300 - Overtime	\$0
6350 - Unemployment Insurance	\$448
6400 - Retirement Contribution	\$104,808
6500 - Oasdi Contribution	\$22,583
6550 - Workers Comp Contribution	\$701
6600 - Health Insurance Contribution	\$33,035
6650 - Life & Disability Insurance	\$909
6670 - Benefit Administration	\$530
Total Salaries and Benefits	\$459,913