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

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**AGENDA ITEM No. 9**

**Date: March 10, 2010**  
**To: Fresno Local Agency Formation Commission**  
**From: Jeff Witte, Executive Officer**  
**Subject: Preliminary 2010-2011 Fresno LAFCo Budget**

**Summary**

Both revenues and expenditures for Fiscal Year (FY) 2009-2010 have been considerably less than anticipated due to decreased application activity resulting from economic downturn; however, we will be able to stay within our budget partly because of salary savings. To date, our fund balance is \$353,565. Anticipated expenditures through the end of the Fiscal Year will draw that balance down to \$172,541. We anticipate receiving \$13,000 for the formation of CSA \$51 that was deferred, which will bring the fund balance back up to \$185,541. At the April 14<sup>th</sup> hearing, we should be able to present a more accurate "Proposed Budget" for the Commission to consider.

This year's budget proposes a reduction from \$660,699 to \$487,749 — or \$172,950 less. This reduction is the result reduced costs due to lower application activities and a reduction in staff and an employment agreement with the new Executive Officer that does not include benefits, i.e. retirement, health insurance, etc.

**Discussion**

California Government Code, Sections 56000 *et seq.*, requires the Commission to adopt a proposed budget by May 1<sup>st</sup> and a final budget by June 15<sup>th</sup> annually at a noticed public hearing. At today's hearing the Commission will consider and approve a Preliminary Budget for Fiscal Year 2010-2011. All Commission recommendations will be incorporated in the Proposed Budget scheduled to be heard by the Commission at its regular hearing on April 14, 2010.

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 year's (\$487,748 as opposed to \$660,699).

While LAFCo originally contemplated covering approximately one-third of its annual operating expense through application fees, due to decreased activity, LAFCo has had to transfer money from its fund balance account to make up the difference. Last year, LAFCo funded 46.8% (which included anticipated fees of \$100,000) of its own operations, and this year's budget proposes that LAFCo fund 26.65% (\$115,000 reserve transfer and \$15,000 anticipated fees) of its own budget. A prudent reserve fund balance in the amount of 15% to 20% of the total operating budget was previously recommended by Vicki Crow, Fresno County Auditor/Controller-Tax Collector also recommended.

Costs associated with State Mandates (i.e. MSR Update Program) have greatly impacted LAFCo's operating costs. In the past, fees have not been charged for MSR Updates The last comprehensive fee update for LAFCO was in 1995. Given the additional costs associated with State mandates that require LAFCO to perform MSR Updates every 5 years for the 15 cities and

121 special districts, staff is requesting direction on establishing a fee that would adequately provide for cost recovery. Direction on the fee revision would result in a separate report on fees and recommendation that would be considered at later date.

Presently LAFCO staff is updating the cemetery districts. Other special districts beyond the cemetery districts range from very small districts with extremely small budgets to much larger districts and respective budgets. Because of the way LAFCo is funded the cities, county and application fees have funded the MSR costs for the special districts. At the Commission's direction staff can return with a fee update that would include a charge for updating MSRs for the remaining special districts. This change is proposed to start after the next budget year to give the special districts an opportunity to include this fee in their budget. Recognizing that many of the special districts are small with very limited budgets, staff could look at some type of sliding fee that is indicative of the special district's budget.

### **Special Considerations**

Within the next month or two, LAFCo should have completed its transition to independence and we should know what additional expenses we will incur at that time. The proposed budget will reflect those additional expenses.

## **Summary of Budget Accounts and Recommendations**

The discussion below presents an account by account analysis of the recommended Budget compared to the FY 2009-2010 Budget. The total recommended appropriation for FY 2010-2011 is \$472,633 which is a 13.98% decrease from the approved FY 2009-2010 Budget.

### **Account Number 7040 - Telephone/Communications Recommended Appropriation - \$4,470**

This estimate was provided by the County based on current usage and is \$257 less than last year's recommended budget appropriation.

### **Account Number 7101 - Liability Insurance Recommended Appropriation - \$13,319**

The above amount was the cost for Liability Insurance, provided by Alliant Insurance Services for September, 2009 through September, 2010. We are in the process of getting quotes from other insurance carriers to try to reduce this cost.

### **Account Number 7205 - Maintenance – Equipment Recommended Appropriation - \$400**

This estimate is based upon actual copier maintenance costs and on current usage.

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

This estimated amount is the same as last year and CALAFCO does not anticipate any increase in membership dues.

**Account Number 7265 - Office Operational Expenses**  
**Recommended Appropriation - \$5,000**

This is the same amount budgeted for 2009-2010.

**Account Number 7268 - Postage**  
**Recommended Appropriation - \$4,000**

This amount reflects anticipated postage costs that include the rental of a postage meter.

**Account Number 7286 - PeopleSoft Human Resources Charge**  
**Recommended Appropriation - \$320**

This account reflects the County's cost for payroll for the two contract employees,

**Account Number 7294 - Special Projects (Accounting and Payroll Services)**  
**Recommended Appropriation - \$4,800**

This appropriation reflects anticipated expenses that would include accounting and payroll services. These services will replace services previously provided by the County at a cost of \$4,231.

**Account Number 7295 - Professional and Specialized Services**  
**Recommended Appropriation - \$371,105**

This account includes LAFCo staff salaries and benefits and LAFCo Counsel expenses. This account also includes any expenses for contractual services incurred from the County Assessor's Office, Health Department, Elections Department, Personnel Department, and Auditor's Office.

We have budgeted legal counsel expenses at the same level as last year's. We have also provided an annual step increase (5%) for our Program Tech II position. No cost of living adjustments (COLAs) are proposed.

**Account Number 7296 - Data Processing Services**  
**Recommended Appropriation - \$20,169**

This estimate has been provided by the County and reflects an increase of \$1,613 over last year's estimate.

**Account Number 7325 - Publications & Legal Notices**  
**Recommended Appropriation - \$1,000**

This figure is based on current year notification expenses and has been decreased by \$2,000.

**Account Number 7340 - Rents & Leases-Buildings**  
**Recommended Appropriation - \$38,587**

This amount reflects the annual cost to lease LAFCo's office space for twelve months and includes an anticipated 3% adjustment in December 2010.

**Account Number 7412 – Mileage/Auto Allowance  
Recommended Appropriation - \$4,825**

This appropriation reflects a \$400 per month auto allowance for the Executive Officer and reimbursement to staff and Commissioners who utilize their own private vehicles for Commission business at the standard government rate. This is an increase of \$2,425 over last year's appropriation.

**Account Number 7415 - Transportation, Travel & Education - LAFCo Staff/Commissioners  
Recommended Appropriation - \$6,000**

The budgeted amount is the same as last year's. 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 Commissioners an opportunity to attend the CALAFCO State Conference.

**Account Number 7417 - Transportation & Travel - Commissions & Advisory Boards  
Recommended Appropriation - \$4,875**

This account pays the \$75.00 per diem to Commissioners for attending meetings. Twelve regular meetings and one special meeting has been budgeted for.

**Account Number 8300 - New Equipment  
Recommended Appropriation - \$0**

There are no new equipment needs identified for this year; however, the Commission should consider replacing the office's copier within the next couple of years.

**Account Number 8991 - Contingencies Fund  
Recommended Appropriation - \$3,000**

This account sets aside money for unexpected costs and emergencies and is the same amount as last year's budgeted amount.

**REVENUES**

In the past, revenues to support LAFCo have come from three sources: Fresno County, the 15 Cities in the County, and LAFCo's application processing fees. Based on the adopted 2009-2010 Budget, \$175,787 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 first six months of this year amounted to \$11,725. This amount is substantially less than that necessary to meet the projected \$100,000 revenue estimates by June 30th of this fiscal year. Because of discussions with each of the cities, staff is recommending a very conservative guess of about \$15,000 in fees that will be collected in the next fiscal year.

**LAFCo Special Account**

As revenues are received from the various sources, they will be deposited into an account which will be set up when LAFCo's transition from the County to an independent agency is completed, and will be drawn from as needed to meet our expenses. Funding not utilized during a given year remains available for use in future years.

Due to balanced budgets, a modest yearly surplus over the last several years, accrued interest, and decrease in salaries and benefits, LAFCo as of March 1<sup>st</sup> had a Special Account fund balance of \$353,565, which we estimate will be drawn down to about \$172,541 by the end of the fiscal year. We do anticipate collecting at last \$13,000 in fees that were previously deferred. 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 \$ 72,541 (14.87% of the 2010/2011 recommended budget of \$487,748) be maintained in this account, with the remainder (\$115,000), to be allocated towards next year's budget to help offset the City/County share.

With *contribution from LAFCo's reserve* accounting for **\$115,000** and contribution of **\$15,000** in fees of the **\$487,748** total recommended appropriations, the "net operating cost" is **\$357,749**. Accordingly, the County and Cities would be required to contribute **\$178,745** each toward LAFCo support in accordance with State law. This would result in the County and Cities each contributing **\$2,958** more than last year's contribution requirement. A summary of estimated revenues for the proposed budget indicating a balanced budget is shown in Exhibit 2.

### **Recommended Action**

The recommended 2010-2011 budget would balance anticipated costs, while maintaining a prudent reserve fund (Special Fund) of 14.46% of the estimated annual budget amount.

Staff recommends approval of the Preliminary FY 2010-2011 LAFCo Budget estimates as shown on Exhibits 1 through 5. Staff also seeks direction with respect to any recommended changes the Commission may desire to incorporate within the Proposed Budget that will be presented at the April 1, 2010 hearing.

**EXHIBIT 1**  
**FISCAL YEAR 2010-2011 BUDGET**  
**Total Services, Supplies and Capital Facilities - Appropriations**

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

BUDGET ITEM	Approp. 2009-2010	Est. Expense 2009-2010	Remaining at Year End	Recomm. 2010-11
7039 Mobile Communications	\$240	\$0	\$240	\$0
7040 Telephone Charges	\$4,727	\$883	\$3,844	\$4,470
7101 Liability Insurance	\$13,319	\$13,319	\$0	\$13,319
7175 Insurance-Other	\$17	\$0	\$17	\$13
7205 Maintenance-Equipment	\$600	\$242	\$358	\$400
7250 Professional Memberships	\$6,395	\$6,185	\$210	\$6,185
7265 Office Operations Expense	\$5,000	\$5,200	-\$200	\$5,000
7266 Messenger Service	\$2,651	\$2,651	\$0	\$0
7268 Postage	\$5,000	\$1,661	\$3,339	\$4,000
7286 PeopleSoft Human Resources Charge	\$723	\$561	\$162	\$0
7287 PeopleSoft Financials Charge	\$3,508	\$2,627	\$881	\$0
7294 Professional & Special Serv. Contract	\$0	\$0	\$0	\$4,800
7295 Profess. & Special Serv. (w/ benefits & salaries)	\$541,276	\$505,158	\$36,118	\$371,106
7296 Data Processing Services	\$18,556	\$18,339	\$217	\$20,169
7325 Publication & Legal Notices	\$3,000	\$1,000	\$2,000	\$1,000
7340 Office Leases	\$39,787	\$38,118	\$1,669	\$38,587
7412 Mileage/Auto Allowance	\$2,400	\$2,200	\$200	\$4,825
7415 Trans, Travel & Education (Staff)	\$6,000	\$6,525	-\$525	\$6,000
7417 Trans & Travel - Comm & Adv Bds	\$4,500	\$5,700	-\$1,200	\$4,875
8300 Fixed Assets (Furnishings)	\$0	\$0	\$0	\$0
8991 Contingencies	\$3,000	\$129	\$2,871	\$3,000
<b>Total</b>	<b>\$660,699</b>	<b>\$610,498</b>	<b>\$50,201</b>	<b>\$487,749</b>

Total Recommended Appropriations for 2010-2011

\$487,749

**EXHIBIT 2**  
**FISCAL YEAR 2010-2011 FINAL BUDGET**  
**Net Operating Cost and City/County Contribution Calculation 2009-2010**

<b>Total Budget</b>	<b>\$487,749.00</b>
<b>Net Operating Cost (Total Budget Minus Fees and Reserve Balance Transfer)</b>	<b>\$357,749.00</b>
<b>Est. Revenue &amp; Fund Balance Transfer</b>	
Fees	\$15,000.00
Special Fund Transfer To Revenue Account	\$115,000.00
<b>Fee and Reserve Fund Revenue Transfer Subtotal</b>	<b>\$130,000.00</b>
<b>Cities' Contribution</b> (The actual apportionment will be determined by the County Auditor)	<b>\$178,745.00</b>
<b>County Contribution</b>	<b>\$178,745.00</b>
<b>City/County Contribution</b>	<b>\$357,490.00</b>
<b>Total Revenue</b>	<b>\$487,490.00</b>

**EXHIBIT 3**  
**FISCAL YEAR 2010-2011 PROPOSED BUDGET**  
**Special Fund Balance**

<b>Estimated Special Fund Balance as of June 30, 2010*</b>	<b>\$185,541.00</b>
<b>Recommended Amount To Be Transferred to Revenue Account</b>	<b>\$115,000.00</b>
<b>Estimated Special Fund Balance After Transfer</b>	<b>\$70,541.00</b>
<b>Percentage of Budget Remaining In Special Fund After Transfer</b>	<b>14.46%</b>

\* Fund Estimate Prepared by Fresno County Auditor's Office

**EXHIBIT 4**  
**FISCAL YEAR 2010-2011 BUDGET**  
**ACCOUNT #7295 - PROFESSIONAL AND SPECIALIZED SERVICES**  
General Administrative, Auditor-Controller, Professional and Specialized, Salaries/Benefits

BUDGET ITEM	Approp.2009-2010	Est. Exp. 2009-2010	Est. @ Year end	Recom. 2010-11
<b>GENERAL COUNTY</b>				
Administrator, Personnel, Employee Relations,	\$8,000	\$12,443	(\$4,443)	\$2,000
<b>SUB-TOTAL</b>	<b>\$8,000</b>	<b>\$12,443</b>	<b>(\$4,443)</b>	<b>\$2,000</b>
<b>AUDITOR-CONTROLLER TREASURER-TAX COLLECTOR</b>				
Financial Statements and General Accounting	\$6,000	\$6,000	\$0	\$7,100
Independent Financial Audit	\$7,000	\$6,200	\$800	\$7,000
<b>SUB-TOTAL</b>	<b>\$13,000</b>	<b>\$12,200</b>	<b>\$800</b>	<b>\$14,100</b>
<b>PROFESSIONAL &amp; SPECIALIZED SERVICES</b>				
Fresno Co. Assessor	\$9,000	\$5,100	\$3,900	\$4,500
LAFCo Counsel	\$80,000	\$114,000	(\$34,000)	\$80,000
Fresno Co. Elections	\$5,000	\$0	\$5,000	\$500
Fresno Co. Health	\$3,520	\$1,232	\$2,288	\$1,760
Special Counsel	\$5,000	\$7,600	(\$2,600)	\$6,000
<b>SUB-TOTAL</b>	<b>\$102,520</b>	<b>\$127,932</b>	<b>(\$25,412)</b>	<b>\$92,760</b>
<b>SALARIES AND BENEFITS</b>				
6100 - Regular Salaries	\$258,115	\$242,494	\$15,621	\$194,077
6200 - Extra Help	\$20,660	\$128	\$20,532	\$0
6300 - Overtime	\$0	\$0	\$0	\$0
6350 - Unemployment Insurance	\$525	\$525	\$0	\$207
6400 - Retirement Contribution	\$87,292	\$64,697	\$22,595	\$42,068
6500 - Oasdi Contribution	\$21,591	\$15,167	\$6,424	\$7,935
6550 - Workers Comp Contribution	\$657	\$1,000	(\$343)	\$1,525
6600 - Health Insurance Contribution	\$27,750	\$20,720	\$7,030	\$15,820
6650 - Life & Disability Insurance	\$769	\$564	\$205	\$288
6670 - Benefit Administration	\$396	\$310	\$86	\$326
<b>SUB-TOTAL</b>	<b>\$417,755</b>	<b>\$345,605</b>	<b>\$72,150</b>	<b>\$262,246 *</b>
<b>GRAND TOTAL</b>	<b>\$541,275</b>	<b>\$498,180</b>	<b>\$43,095</b>	<b>\$371,106</b>

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

**EXHIBIT 5**

**FISCAL YEAR 2010-2011 BUDGET**

**Salaries and Benefits**

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

<b>Account Number &amp; Description</b>	<b>FY 2010-2011</b>
6100 - Regular Salaries	\$194,077
6200 - Extra Help	\$0
6300 - Overtime	\$0
6350 - Unemployment Insurance	\$207
6400 - Retirement Contribution	\$42,068
6500 - Oasdi Contribution	\$7,935
6550 - Workers Comp Contribution	\$1,525
6600 - Health Insurance Contribution	\$15,820
6650 - Life & Disability Insurance	\$288
6670 - Benefit Administration	\$326
<b>Total Salaries and Benefits</b>	<b>\$262,246</b>