



Date: February 27, 2008 for March 5th Agenda

Subject: Proposed Budget for Fiscal Year beginning July 1, 2008.

Summary: State law requires that LAFCO adopt a proposed budget no later than May 1 and a final budget no later than June 15. The staff has noticed a public hearing for March 5th in order for the Commission to consider the proposed budget.

Staff Recommendation: Approve draft Resolution No. 2008-9 adopting a proposed budget for the fiscal year beginning July 1, 2008 of \$453,000; direct staff to notice a public hearing for the Commission to consider adopting a final budget at the April meeting; and direct staff to prepare any additional information needed to review the budget.

Submitted by: Patrick McCormick, Executive Officer

This is the beginning of several challenging budget years for LAFCO, and the budget review for fiscal year 2008-9 involves some difficult decisions. The fund balance is low due to projected application fees that haven't materialized and a refund of \$59,000 that LAFCO made to its funding agencies last June. The pending budget will need to be balanced by a combination of lower budgeted expenditures and higher revenues. The largest and most flexible budget expenditures are in the professional services (consulting) and litigation reserves. The principal sources of additional revenue are the annual dues paid to LAFCO by the County, four Cities, and twenty-four Independent Special Districts.

WORK PROGRAM

Over the last year, the Commission has worked amiably and accomplished a great deal. The accomplishments include:

- Concluding the state-mandated Countywide Service Review within a tight budget. The second phase evaluated reorganization options for fire and emergency services in the Pajaro Valley.
- Completing 65 of the 82 state-mandated periodic sphere of influence reviews. The sphere reviews for the remaining cities and fire agencies are noticed for public hearing at the March 5th meeting. The Commission has adopted a schedule to complete the sphere reviews for the other 11 agencies during 2008.
- Conducting a study session surveying trends in rural fire protection.
- Providing technical assistance to a group of water company customers who were investigating incorporation of the Trout Gulch Mutual Water Company in order to buy out the Mar Vista Water Company in Aptos.

- Participating in a variety of CALAFCO activities, including serving on the Board and committees, attending training sessions, and presenting training sessions.
- Processing a range of boundary change applications through the public hearing, protest, and filing process.
- Controlling litigation costs (one lawsuit was filed against the Commission, but the real party of interest indemnified the Commission and that party is defending the case).
- Controlling consultant costs by performing application and sphere reviews in house, without using consultants.

The attached work program identifies the Commission's priorities. The upcoming tasks for include:

- Completing the staff report and conducting a public hearing for a proposed fire protection district in Bonny Doon.
- Preparing a set of water policies by which to review future applications.
- Completing the remaining periodic sphere of influence reviews.
- Controlling costs in order to build back, over several years, the professional services and litigation reserves to levels that will allow the Commission to experience a high-cost project in a year without having to raise contribution levels paid by the County, Cities, and Independent Special Districts.

THE PROBLEM THIS YEAR

Revenues are down greatly this year due to the low number of applications. Also, twice in the last seven years, LAFCO has refunded undesignated fund balances to the County, Cities, and Independent Districts when its professional services and litigation reserves were at their target levels and significant undesignated money remained in the fund balance at the end of a fiscal year. In June 2007, LAFCO refunded \$59,000; so, it had only a small undesignated fund balance on July 1, 2007. Also, LAFCO's revenues have plummeted from \$88,580 in FY 2006-07, to an estimated \$21,700 in FY 2007-8. This later estimate cautiously includes only assured revenues (interest, employee health payments, and copier charges); it doesn't include the any new application fees between now and June 30, 2008. The revenue comparisons between the current FY budget and the proposed budget for next year are:

	Adopted FY07-08	Proposed FY08-09
Funding from the 29 agencies (before refund)	\$291,100	\$321,100
Carryover (rebudget) from previous FY	\$182,500	\$ 94,500
Revenues (application processing fees, interest, employee contributions to health insurance, copies)	\$ 86,000	\$ 37,400
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Total	\$559,600	\$453,000

The expenditure comparisons are:

	Adopted FY07-08	Proposed FY08-09
Salaries and Benefits	\$259,300	\$276,000
Supplies and Services	\$300,300	\$177,000
Fixed Assets	\$ 0	\$ 0
<u>Total</u>	<u>\$559,600</u>	<u>\$453,000</u>

The proposed budget drops the professional services amount from \$85,000 in FY07-08 to \$20,000 in the upcoming year. The proposed budget drops the attorney services amount from \$142,500 in FY 07-08 to \$77,500 in the upcoming year (\$27,500 for ongoing County Counsel Services and \$50,000 for a litigation reserve). The rationale is that the Commission has more flexibility in scheduling major studies that require consultants than in responding to litigation. The remainder of the Supplies and Services budget, \$79,500, is routine operating overhead that doesn't vary much from year to year.

On the revenue side, the proposed budget would increase the funding provided by the County, Cities, and Independent Districts to \$321,100. The following table shows the budget trends since 2001 when the current funding system became law.

Year	Total LAFCO Budget	New Contributions from All Funding Agencies	Refund of Undesignated Reserve	New Funding after Refund
2001-02	344,390	334,390	0	334,390
2002-03	285,600	274,400	0	274,400
2003-04	392,200	271,070	0	271,070
2004-05	506,500	268,400	0	268,400
2005-06	508,900	270,900	113,485	157,415
2006-07	536,500	283,000	0	283,000
2007-08	559,600	291,100	59,000	232,100
2008-09	452,300	321,100	0	321,100
Change from FY 07-08	-19%	+10%		+38%

PROCESS

The law requires that LAFCO adopt a proposed budget by May 1st. Given the priorities that the Commission has to weigh in adopting a budget, the Commission should carefully consider the budget this year.

It is RECOMMENDED that the Commission:

- 1) Discuss the assumptions and priorities upon which to base the budget.
- 2) Approve draft Resolution No. 2007-5 adopting a proposed budget of \$453,000 with a net amount to be funded by the participating agencies of \$321,100.
- 3) Direct staff to work with the Auditor to improve the fund balance estimate that will be carried over to FY 2008-9.
- 4) Direct staff to schedule a public hearing for the next LAFCO meeting in order to consider adopting a final budget.

Attachments

cc: Auditor-Controller
County, 4 Cities, and 24 Independent Special Districts

LAFCO BUDGET SPREADSHEET

DESCRIPTION	SUB OBJECT	05-06 BUDGET	05-06 ACTUAL	06-07 BUDGET	06-07 ACTUAL	07-08 BUDGET	07-08 ESTIMATE	Feb 27 08-09 PROPOSED
Regular Pay	3100	\$161,000	\$140,635	\$164,700	\$148,548	\$168,900	\$155,900	\$184,700
Overtime Pay	3105	1,000	1,219	1,400	410	1,400	700	1,800
Extra Help	3110	800	0	1,600	0	1,600	800	1,800
Sick Leave	3115	2,700	0	2,700	0	2,800	0	3,000
Holiday Pay	3135	6,400	7,728	6,800	7,587	7,300	7,800	8,300
Social Security	3150	11,800	11,174	13,400	11,763	13,400	12,400	13,900
PERS	3155	32,800	26,125	34,600	21,271	31,500	26,100	27,700
Insurances	3160	24,700	25,799	26,300	27,092	28,700	29,100	32,000
Unemployment	3165	700	448	700	318	700	600	700
Workers Comp	3170	3,600	-29	3,000	1,067	3,000	2,100	2,100
Salaries Sub.Tot.		\$245,500	\$213,099	\$255,200	\$218,056	\$259,300	\$235,500	\$276,000
Radio	3235	0	0	0	1,283	0	-600	0
Telecom	3240	2,000	1,765	2,000	1,781	2,000	1,900	2,000
Office Equipment	3355	3,100	661	2,300	633	2,300	500	600
Memberships	3450	1,500	0	2,000	1,800	2,200	4,200	2,200
Duplicating	3484	3,200	4,499	3,200	437	3,200	200	2,200
Postage	3491	1,300	1,752	1,400	1,660	1,800	1,800	1,800
Subscriptions	3492	700	460	700	844	700	800	800
Supplies	3493	2,300	1,794	2,300	1,346	2,100	1,800	2,100
Accounting	3505	800	386	800	521	800	700	800
Attorney	3515	132,800	39,780	137,500	25,528	142,500	11,600	77,500
Info. Center	3545	1,000	888	1,000	0	1,000	0	0
Data Processing	3575	8,000	2,826	7,800	3,076	8,000	5,000	5,200
Data Printing	3576	1,200	815	1,200	1,023	1,300	900	1,000
Director Fees	3585	6,000	3,950	6,000	4,500	6,000	4,100	6,000
Surveyor	3590	600	170	600	631	500	1,200	1,300
Prof. Services	3665	72,500	11,713	80,000	26,656	85,000	4,800	20,000
GIS Maps	3670	3,000	17,499	6,000	11,006	11,000	10,800	13,100
Legal Notices	3790	2,200	2,663	2,400	1,885	2,800	3,800	4,400
Equipment Lease	3800	0	2,757	2,800	2,381	2,900	2,900	3,000
Rents	3810	7,900	7,349	7,900	7,371	7,900	8,000	8,000
Misc. Expenses	3975	3,200	2,537	3,200	5,115	3,000	17,200	8,900
Books	4110	200	332	200	293	300	300	300
Air Fare	4150	1,000	0	1,700	438	1,700	1,800	2,700
Training	4154	800	0	800	0	800	800	800
Lodging	4162	2,600	1,249	3,000	5,267	3,000	3,500	4,100
Meals	4164	500	310	500	316	500	400	400
Mileage	4166	1,500	1,677	2,000	1,189	2,000	2,600	2,800
Travel-Other	4168	400	380	500	782	500	500	500
Registrations	4170	2,800	635	4,500	2,624	4,500	4,500	4,500
Supplies Sub.Tot.		\$263,100	\$108,847	\$284,300	\$110,386	\$300,300	\$96,000	\$177,000
Assets Sub.Tot.		\$300	\$160	\$0	\$0	\$0	\$0	\$0
EXPENDITURES		\$508,900	\$322,106	\$539,500	\$328,442	\$559,600	\$331,500	453,000

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION
 NARRATIVE BUDGET 2008-09
 PROPOSED BUDGET
 FOR MARCH 5, 2008 HEARING

SALARIES & BENEFITS

3100 Regular Pay \$184,700

Executive Officer - The current salary is \$9,102 per month. A 3.25% cost-of-living adjustment is scheduled for September 6, 2008.

Secretary-Clerk - The current salary is \$4,812 per month. A 3.00% cost-of-living adjustment is scheduled for September 6, 2008.

Salary Reserve - The budgeted amount allows for possible adjustments to staff salaries, cash out of administrative leave, and payment of unused leave upon termination of employment. It is budgeted as a lump sum of \$24,771.

The salaries total:

Executive Officer	\$112,094
Secretary-Clerk	\$59,135
Salary Reserve	<u>\$24,771</u>
Total	\$196,000

Revising the accounts to conform to the accounting system used by the County Auditor's Office involves breaking out the following categories of pay into separate line items.

Total Salaries	\$196,000
Sick Leave (#3115)	<3,000>

Holiday Pay (#3135)	<u><8,300></u>
Regular Pay (#3100)	\$184,700

3105 Overtime Pay \$1,800

The Secretary-Clerk works overtime during periods of major projects and night meetings. This amount is calculated at 42 overtime hours at 1.5 times hourly salary.

3110 Extra Help \$ 1,800

These funds will be used if needed for up to 10 days of temporary clerical assistance during the Secretary-Clerk's absence.

3115	Sick Leave \$3,000 Sick leave is budgeted as a lump sum.	
3135	Holiday Pay \$8,300 Holiday pay is budgeted as a lump sum.	
3150	Social Security \$13,900 This figure is calculated at the rate of 7.65% of each salary.	
3155	PERS \$27,700 This amount covers the Commission's contributions to the Public Employees Retirement System. Effective July 1, 2008, the employer's share increases from 12.657% to 12.938%. The Commission matches the benefit levels provided to comparable County employees. The Commission therefore pays the 7.00% employee contribution for the Secretary-Clerk, but not for the Executive Officer. The Executive Officer's payments go directly to PERS, and do not get logged as income to the Commission.	
3160	Employee Insurance \$32,000 This amount provides for health insurance through PERS and for dental, eye care, life insurance, and limited disability insurance through the County's program. The employees pay part of these costs (matching payments by County employees). The employees' contributions are budgeted as revenue, and reduce the net cost of this benefit to the Commission from the gross amount shown in this line item by approximately \$4,500. The amount is based upon actual costs through 12/31/08 and an estimated 15% increase for 1/1/09 through 6/30/09.	
3165	Unemployment \$700 This amount is the estimated cost for the most recent 12 months.	
3170	Workers' Comp. \$2,100 The net workers' compensation insurance costs fluctuate greatly with the amount of the annual credit. The FY 2008-9 amount is estimated at highest amount in last the last three years.	
	SUBTOTAL SALARIES AND BENEFITS	\$276,000

SUPPLIES AND SERVICES

- 3235 Radio \$0
This represents the County radio shop charges for renting public address systems for LAFCO meetings in a facility that doesn't have a built-in system. This service is not expected to be needed in FY08-09.
- 3240 Telecom \$2,000
The telephone cost is estimated at current-year cost plus 3%.
- 3355 Maintenance of Office Equipment \$600
LAFCO leases a copier, which is used by the Grand Jury and several other County offices. This amount is estimated at the highest cost over the last three years.
- 3450 Memberships \$2,200
This amount provides for membership in the California Associations of LAFCOs payable in June.
- 3484 Duplicating \$2,200
This amount provides for photocopying reports at the County's duplicating shop or at a local printing shop.
- 3491 Postage \$1,800
This is the cost of mailing public notices and regular correspondence. It is budgeted based upon the current year estimate plus 5%.
- 3492 Subscriptions \$800
It is budgeted at the current year estimate.
- 3493 Supplies \$2,100
It represents office supplies. It is budgeted at the highest expenditure of the last three years.
- 3505 Accounting and Auditing \$800
This amount is the cost of accounting services from the County Auditor. It includes payroll, vendor payments, and auditing. It is budgeted at the highest expenditure over the last three years.
- 3515 Attorney \$77,500
(\$3,000 FY08-09 + \$74,500 rebudget)
This amount represents \$27,500 for routine legal services from County Counsel's office, and a litigation reserve of \$50,000.
- 3545 Information Center \$0
In previous years, this sub-object was used for monthly service charges the County charged LAFCO for overhead of the computer system. These charges now appear in sub-object 3575.

- 3575 Data Processing \$5,200
The County Information Services Department charges LAFCO with a its share of the staffing overhead used to support LAFCO's computers, printers, and access to accounting, fiscal, and other data bases. The amount budgeted is the current year estimated costs plus 3%.
- 3576 Data Printing \$1,000
This is the electronic printing of each agenda packet by the County Information Services Department. This line item is calculated at the highest cost over the last three years.
- 3585 Director Fees \$6,000
This amount is calculated based upon seven commissioners and four alternates being paid a meeting stipend for eleven meetings per year. The \$50 meeting stipend has not been raised in many years. The Commission may want to review its stipend level in the coming year.
- 3590 Engineering Services \$1,300
This amount covers map checking by the County Surveyor and prints of maps from the County Public Works Department. The estimate is based upon the current year estimated amount plus 5%.
- 3665 Professional Services \$20,000
(\$20,000 rebudget)
This amount provides for outside assistance in doing spheres of influence, municipal service reviews, reorganization studies, and other special studies. Typical consultants required to augment staff expertise include legal, management, economic, planning, engineering, hydrologic, and environmental consultants. The Local Government Reorganization Act requires LAFCO to review all spheres periodically. This amount assumes that a consultant would be used to support a service review, sphere study, or reorganization report prepared by LAFCO staff.
- 3670 Geographic Information System (GIS) Maps \$13,100
The LAFCO staff is using the County geographic mapping system for maps and data analysis for the Sphere and application reviews. This is estimated at the average amount during the last three years.
- 3790 Legal Notices \$4,400
This amount is used to pay for public hearing notices and other legal advertising. The significantly higher budget amount reflects increases in advertising rates.
- 3800 Equipment Lease \$3,000
This account pays the computer and printer lease costs charged by the County Information Services Department. This is estimated at the estimated current year costs plus 3%.

- 3810 Rents \$8,000
The County charges LAFCO rent for its office on the third floor of the Governmental Center. The annual rent is \$7,140 with no additional costs. Additionally, the County charges LAFCO to store LAFCO's old records in the County warehouse, and retrieve them when requested. The budgeted amount is equal to the estimated costs in FY 07-08.
- 3975 Miscellaneous Expenses \$8,900
The main use of this account is to show refunds of the portions of application deposits that are returned to applicants when an application is closed. This account is also used for paying web-hosting costs, State Board of Equalization filing fees, and Fish and Game environmental fees. The amount is estimated at approximately half the FY07-08 expenditures because there were some non-recurring filing costs that the staff does not expect to occur at the same high levels in FY 08-09.
- 4110 Books \$300
This entry is used to purchase books and other written materials. The budgeted amount is the average cost for the last three years.
- 4150 Airfare \$2,100
Airfare is used to attend meetings that are in distant locales in California, usually southern California. The budgeted amount is estimated at nine round trip flights at \$233 per trip.
- 4154 Education and Training \$800
This represents staff development courses and seminars. This is budgeted as a lump sum.
- 4162 Lodging \$4,100
Lodging is budgeted to allow Commissioners and staff members to attend training sessions and meetings. The budgeted amount is the average cost over the last two years.
- 4164 Meals \$400
Meals are budgeted at the highest cost over the last three years.
- 4166 Mileage \$2,800
This includes mileage for staff delivery of agendas, other office errands, and allowance for Commissioners and staff to attend conferences, seminars, CALAFCO Board meetings, and other meetings. It is calculated at 8% above the estimated current year costs.
- 4168 Travel Other \$500
These are miscellaneous travel costs such as train fares, bus fares, parking and bridge tolls. The budgeted amount represents the average over the last three years.

4170 Registrations \$4,500
Workshop and conference registrations are budgeted at the highest cost
over the last three years.

SUBTOTAL SUPPLIES AND SERVICES \$177,000
(includes \$94,500 rebudgeted reserves)

FIXED ASSETS

8404 Equipment \$0 \$ 0

RECAP OF PROPOSED BUDGET:

SALARIES AND BENEFITS	\$276,000
SUPPLIES AND SERVICES	\$177,000
FIXED ASSETS	<u>\$ 0</u>
TOTAL	\$453,000

CALCULATION OF AMOUNT OF NEW FUNDING

RECAP OF PROPOSED BUDGET:

SALARIES AND BENEFITS	\$276,000
SUPPLIES AND SERVICES	\$177,000
FIXED ASSETS	<u>\$ 0</u>
TOTAL	\$453,000

TOTAL BUDGET	\$ 453,000
RE-BUDGET FROM CURRENT FISCAL YEAR	<u>-\$ 94,500</u>
TOTAL TO BE FUNDED IN FY 2008-9	\$ 358,500

BUDGETED REVENUES IN FY 2008-9 \$ 37,400

REVENUE HISTORY

	Act 05-06	Act 06-07	Est 07-08	Prop 08-09
Application Processing Fees	\$19,413	\$65,304	\$6,000	\$23,000
Interest	\$12,569	\$20,629	\$12,000	\$10,000
Employee Health and Retirement	\$7,849	\$1,432	\$3,000	\$3,700
<u>Copy Charges</u>	<u>\$2,327</u>	<u>\$1,215</u>	<u>\$700</u>	<u>\$700</u>
Total	\$42,158	\$88,580	\$21,700	\$37,400

CALCULATION OF DUES TO BE PAID BY FUNDING AGENCIES

TOTAL TO BE FUNDED IN FY 2008-9	\$358,500
<u>BUDGETED REVENUES</u>	<u>-\$ 37,400</u>
DUES TO BE PAID BY FUNDING AGENCIES *	\$321,100

* Subject to increase by Auditor's charges.