

TO: MEMBERS, FORMATION COMMISSION

FROM: PAUL L. HOOD, EXECUTIVE OFFICER

DATE: APRIL 17, 2008

**SUBJECT: CONSIDERATION OF PROPOSED 2008-09
LAFCO BUDGET**

Recommendation: It is respectfully recommended that the Commission
1. Approve the proposed 2008-09 LAFCO budget, as set forth in **Exhibit A.** and 2. Increase the designation to reserves to 15 percent of the operating budget.

Discussion: The Commission's proposed 2008-09 budget is attached as **Exhibit A.** To assist the Commission in its deliberations, a list of year-to-date accomplishments may be found in **Exhibit B.**

The proposed 2008-09 Commission budget represents a seven percent increase in expenditures and a \$4,500 reduction in revenues from processing fees. The proposed 2008-09 budget is \$528,541 (+7%). Salaries and benefits are recommended to increase by 8 percent. The increase includes a 15 percent increase in the employer contribution to the retirement plan. This is the final phase of an 8.42 percent increase over a 12 month period. As the Commission may recall, the increase was phased over fiscal year 2007-08 (1/3rd on June 30th 2007 and 1/3rd on January 1st, 2008), with the final 1/3rd to be applied on June 30th, 2008. The increase is based on a percentage of salaries.

As directed by the Commission, proposed revenues from application processing fees are again recommended for a decrease. This year staff is only recommending a \$4,500 decrease, rather than a \$20,000 decrease, in light of the increase in the employer retirement contribution discussed above. Therefore, charges to the funding agencies are proposed to increase by \$12,958 (8%) per funding category (cities, county, and special districts). The proposed budget does not include a contribution to reserves for this year. However, staff is recommending that reserves be increased to 15 percent of the operating budget and that any fund balance from 2007-08 be added to reserves. Reserves are currently at 9.3 percent.

Proposed Salaries Costs: The proposed budget will accommodate a 3.13 percent cost-of-living increase for staff (4/8/08). This is based on the Commission's adopted policy of averaging the Consumer Price Indexes (CPI-U) for LA-Long Beach, San Francisco, and San Luis Obispo-Atascadero-Paso Robles, as determined by the Bureau of Labor Statistics for the preceding 12-month period. A merit increase for the Executive Officer will be considered by the Commission in April as part of his annual evaluation. Merit increases for the Deputy Executive Officer and Commission Clerk will be awarded by the Executive Officer based on performance after their annual evaluation in June. Salary increases will take effect for the pay period that includes July 1, 2008.

Proposed Benefit Costs: The recommended increase in benefit costs for 2008-09 will cover a significant increase in the Employer Contribution to the pension trust. The Board of Trustees for the County's Pension Trust took action last year to adjust the plan assumptions based on new actuarial valuations. The increase affects all members of the County Pension Trust, not just LAFCO. As a result the Employer rate charged to LAFCO will increase by 8.42 percent over a 12 month period. The increase was phased over fiscal year 2007-08, 1/3rd on June 30th 2007, 1/3rd on January 1st, 2008, and the final 1/3rd on June 30th, 2008. For 2008-09 this will result in a \$6,767 increase (15% over the 2007-08 contribution) in LAFCO's Employer Contribution. Other benefits rates for LAFCO employees will remain stable for 2008-09 because they are tied to a percentage of salaries.

Proposed Services and Supplies Costs: Services and supplies are recommended for a 6 percent increase based on current year expenditures and the annual contractual increase in rent for LAFCO office space. In addition, lodging and car rental expenses have increased due to attendance at CALAFCO meetings by the Executive Officer. These increases will be mostly offset by a stipend from CALAFCO.

Application Processing Fee Reduction: In 2005-06, the Commission recognized that it was unrealistic to establish revenues from LAFCO applications at levels that could not be achieved. Over a five year period the Commission never met its budgeted revenues from application processing fees. In the past, the emphasis was to maximize the collection of revenues from applicants to minimize the fiscal impact on the funding agencies. However, this resulted in inflated revenue projections that had serious budget consequences when those projections were not realized. Based on this, the Commission directed staff to substantially reduce budgeted revenues from application processing fees by \$20,000 per year, place any fund balance into a reserve, and credit the funding agencies for subsequent fiscal years when the reserve level reaches 10 percent of the operating budget. Staff is recommending an increase

in the reserve account to 15 percent of the operation budget. This is discussed in the next section.

Proposed Allocation to Reserves: No allocation for reserves is recommended for 2008-09. However, staff is recommending that the Commission increase the percentage of reserves to 15 percent of the operating budget. Although our current reserves are close to 10 percent, many LAFCO's establish reserves at 15-20 percent of their operating budget. Reserves may be needed to cover unexpected costs such as unexpected increases in employer retirement contributions, litigation, capital replacement costs for computers and other office equipment, employee vacation and sick leave payoff, increases in medical plan contributions, not to mention unexpected decreases in revenues. It is anticipated that the Commission's budget will end the 2007-08 fiscal year with approximately \$46,394 in reserves, plus any fund balance. Staff is recommending that any fund balance from 2007-08 be added to reserves. It is projected that this could increase reserves for 2008-09 to 11-13 percent of the proposed operating budget.

Impact on Funding Agencies: The overall impact on funding agencies (county, cities and special districts) will be a \$12,958 increase per funding group. This represents an 8 percent increase over the current year.

Staff will present the proposed 2008-09 LAFCO budget in greater detail at the April 17, 2008, Commission meeting.

Distribution List: As required by Government Code Section 56381, the Commission's proposed 2008-09 budget has been transmitted to the following agencies and individuals:

Board of Supervisors
Each City Manager
Each Independent Special District