



Solano Local Agency Formation Commission

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Staff Report

DATE: February 26, 2018
 TO: Local Agency Formation Commission
 FROM: Finance Committee (Commissioner Sanchez and Alt. Commissioner Smith)
 SUBJECT: Mid-Year Budget Status and Finance Committee Meeting Report

BACKGROUND:

On January 30, the Finance Committee met to discuss the mid-year budget status and begin preliminary discussions of the upcoming budget for fiscal year 2018-2019.

The mid-year budget status, see table below, provides an overview of LAFCO's expenses and revenues through December 31, 2017. The Commission's adopted operating budget for the current year is \$459,319. Expenses included \$316,539 for salaries and employee benefits, and \$142,780 for services and supplies. At mid-year, expenses (actuals plus encumbrance) totaled \$185,858 which represents approximately 40% of the adopted operating budget. The budget was developed assuming that an executive officer employee would begin on July 1, 2017, the first day of the fiscal year. However, the new Executive Officer's start date was approximately 3 pay periods or 6 weeks into the fiscal year. During this time period, the Commission continued to rely on a consultant for executive services which are reflected in the Services and Supplies budget line items. Additionally, cost of living adjustments were budgeted for employees, but have not yet been expended. Thus, the salaries and employee benefits budget category is only at 37% of the budgeted expenses.

For the purposes of this report, the term "revenue" is broadly used to encompass all sources of funds used to finance LAFCO's total expenditure. This includes funding from the county and cities, fees collected from changes of organization applications, and interest income. At mid-year, total revenue recognized was \$478,143, representing 104% of the anticipated budget amount. The higher than anticipated revenue can be attributed to fees collected from project applications.

Commissioners

Nancy Shopay, Chair • Harry Price, Vice-Chair • Pete Sanchez • Jim Spering • John Vasquez

Alternate Commissioners

Len Augustine • Shawn Smith • Skip Thomson

Staff

Rich Seithel, Executive Officer • Michelle McIntyre, Analyst • P. Scott Browne, Legal Counsel

The table below is a summary of the mid-year budget status.

Table - Summary of Mid-Year Status

	2017-18 Adopted	Mid-Year – (Actual Plus Encumbrance)	Percent of Budget at Mid- Year
EXPENDITURES			
Salaries and Benefits	\$316,539	\$116,394	37%
Services and Supplies	\$142,780	\$69,464	49%
Total Expenditures	\$459,319	\$185,858	41%
REVENUES			
Intergovernmental Revenue	\$447,319	\$447,319	100%
Applications	\$10,000	\$29,661	296%
Interest Income	\$2,000	\$1,163	58%
Total Revenues	\$459,319	\$478,143	104%
Reserve Other	\$91,996	\$91,996	
Fund Balance	\$28,710	\$28,710	

COMMITTEE DISCUSSION (FUND BALANCE AND 2018-2019 BUDGET):

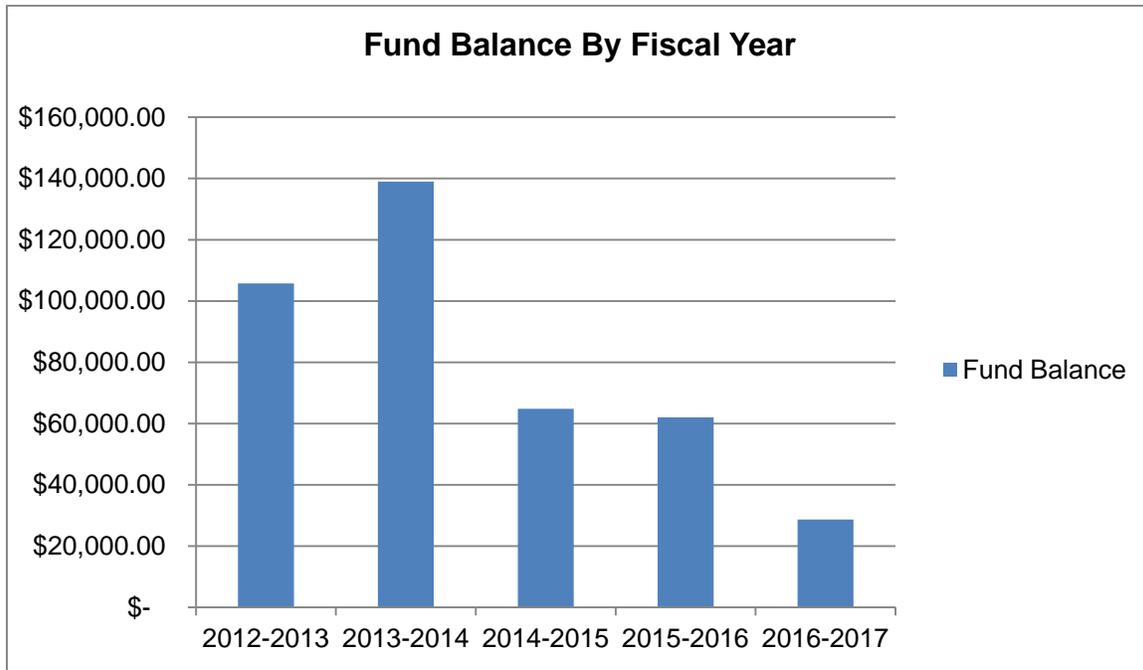
Fund Balance:

At Committee’s January 26, 2018 meeting, the Committee discussed the unappropriated fund balance from fiscal year 2016-2017 which totals \$28,710. Options included:

1. Paying down the Commission’s CalPERS Unfunded Actuarial Liability. (\$16,143 as of 6-30-2017)
2. Increasing the Commission’s unassigned reserve fund (budget line item 0000730 - Reserve Other)
3. Funding the Commission’s reserve fund assigned to litigation defense. (Currently not funded)
4. Retaining the fund balance to use in next fiscal year’s budget, 2018-2019.

The Committee requested that staff provide a history of the Fund Balance account, which is summarized in the chart below:

Chart: Fund Balance History
Budget Line Item 0000740



Historically, the Commission has appropriated the fund balance from the prior year in the next fiscal year to help off-set the cost of LAFCO’s expenses.

2018-2019 Budget:

The Committee also held preliminary discussions surrounding the Commission’s 2018-2019 Budget and more specifically funding municipal service review (MSR) and sphere of influence (SOI) studies. The Committee requested staff provide information on how other LAFCOs are funding their MSR/SOI studies. Staff polled the Bay Area LAFCOs and below is a summary of their responses:

Question 1 – Is your LAFCO: using consultants, completing studies in house, or a combination of both consultants and staff?

- Three of the Bay Area LAFCOs use consultants (exclusively or almost exclusively). Two use a combination of consultants and staff, and one LAFCO uses staff exclusively.

Question 2 – If you use consultants, how is your LAFCO funding the studies? For example, do you have a budget line item for the studies or invoice the individual agencies for the cost of their studies?

- Four of the Bay Area LAFCOs use a budget line item. One LAFCO does not charge for MSR as they are completed by staff. One LAFCO does not currently charge for MSR, (they will include a budget line item for studies next fiscal year) and their LAFCO & County has an agreement that the County will pay for consolidation of fire agencies and related costs.

Question 3 – Are you completing MSR/SOI studies on a cycle or on an as needed basis?

- One LAFCO completes the projects on an as needed basis, while the remaining five LAFCOs complete the studies on a cycle (ranging from 5 year cycles to 6-8 years).

FINANCE COMMITTEE'S RECOMMENDATION & NEXT STEPS:

The Committee recommends that the Commission consider retaining the fund balance to use in the next fiscal year's budget as allowed for under California Government Code Section 56381. Retaining the funds will help off-set the cost to LAFCO's funding agencies for the 2018-2019 Budget.

The Finance Committee will meet again in March to work on the 2018-2019 Proposed Budget which will be presented to the Commission as a public hearing item on April 9, 2018.