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April 6, 2015

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TO: Local Agency Formation Commission

FROM: Executive Officer

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SUBJECT: Proposed/Final FY 2015-16 LAFCO Budget

EXECUTIVE SUMMARY

LAFCO's FY 2015-16 net costs (\$1,394,945) will be slightly lower, but essentially the same as the net cost figures included in the FY 2014-15 LAFCO Budget (\$1,395,035). Unlike other local agencies, net costs have a particular statutory significance for LAFCO, because LAFCO funding is derived from the contributions received from the local agencies represented on the Commission (i.e., city, district, and county) based on net costs per Government Code Section 56381 et seq. It is also proposed that LAFCO's gross costs will be reduced in FY 2015-16 from \$1,845,236 to \$1,820,810. If approved, the FY 2015-16 Budget will represent the second consecutive year in which net costs will be reduced. Last fiscal year (FY 2014-15), the Commission reduced its actual net expenses by \$2,405 or about \$79,066 in terms of gross costs. Although these reductions are relatively small, a goal of recently adopted budgets has been to find ways to contain and reduce budgetary growth. The FY 2015-16 Proposed/Final Budget is no exception. The Commission will be able to freeze, and in some cases, decrease budgetary growth—while still providing valuable government reorganization services to the public.

One particular noteworthy component associated with the proposed budget is that service and supplies costs will decrease by \$212,260 in FY 2015-16, compared to the previous fiscal year. Approximately \$127,576 of this cost decrease, however, will be shifted over to salaries and benefits resulting in higher personnel costs. The reason for this appropriations shift is to initiate a staffing reorganization program. While keeping staffing costs low by relying on contractors has been very positive in terms of containing long-term salary growth, it has also at times presented some staffing continuity problems. This is apparent whenever there is employee turnover and the Commission is left with inadequate personnel to provide services due to the relatively small size

of LAFCO operations and jurisdictional support services.

With respect to revenues and fund balance, the Commission's overall fund balance is projected to grow by about \$11,746 between FY 2014-15 and the prior fiscal year. This is primarily due to the submittal of a healthy level of processing fees; completion of a number of one-time IT projects with the County; deferral of certain expenditures related to special projects; and cost savings associated with under-filling budgeted staff positions. This is a favorable situation and it will allow the Commission to continue granting fee waivers for certain priority jurisdictional changes such as fire agency reorganizations. As the Commission is aware, LAFCO staff is making substantial headway with a number of high-priority jurisdictional projects that will result in the elimination of 2-3 fire districts in the County. To encourage the submittal of the related fire projects, the Commission has waived associated processing fees. LAFCO staff has engaged its local governmental consultants to provide application assistance and proposal review. These efforts have been fruitful in terms of assisting LAFCO fulfill important local and legislative priorities regarding the simplification of service provision in the region.

For descriptive purposes, the FY 2015-16 Budget and work program is divided into ten components: (1) Jurisdictional Analysis & Proposal Review; (2) Municipal Service and Sphere Review; (3) Special Priorities/Studies; (4) Reports and Publications; (5) Legislative and Statutory; (6) Operational and Administrative; (7) Personnel and Staffing; (8) Communication; (9) Outreach and Support; and (10) Policy Development. Also covered in the FY 2015-16 Budget are expanded discussions about workload indicators; services and supplies expenditures; revenue projections, and apportionment requirements. A discussion of the Proposed/Final FY 2015-16 Budget follows.

Work Program Item No. 1: Jurisdictional Analysis & Proposal Review

The proposal review process begins with a series of pre-application meetings between LAFCO staff and applicants, followed by the submittal of a proposal, proposal processing, service and boundary analysis, final report preparation/presentation, commission consideration, protest proceedings, and completion of proceedings, including issuance of final filings with local and state agencies. Proposal processing and review involves the evaluation of legal, technical, financial, service, jurisdictional, socio-economic, engineering, and geographic factors.

The review of jurisdictional proposals and preparation of special studies represent some of LAFCO's core responsibilities. Each year, a number of jurisdictional inquiries are made of LAFCO staff that result in the submittal of 15-25 major jurisdictional proposals. Through the end of FY 2013-14, 18 proposals were submitted to the Commission involving 40 jurisdictional changes. Through the second quarter of FY 2014-15, 16 proposals were submitted involving multiple jurisdictional changes. Sphere amendments were associated with about 50% of this jurisdictional activity. In addition to the jurisdictional workload, the Commission also initiates and considers service reviews, jurisdictional information items, and contractual service agreements. The jurisdictional workload in both the previous and current fiscal year has been slightly higher than projected. Some proposals are considered

routine and involve minimal staff time, while others are complex and involve considerable staff/legal resources. The jurisdictional workload since FY 2014-15 to current can be classified as complex, as LAFCO staff is processing five major proposals involving fire districts and water districts.

In past years, the Commission has fulfilled its proposal processing and analysis objectives by using a combination of salaried and contract staff. This staffing arrangement, as discussed in subsequent sections of the budget, will need to change in order to provide adequate office coverage and continuity of operations. In FY 2014-15, the Commission budgeted \$508,973 for professional services associated with jurisdictional proposals; in FY 2015-16, this amount will decrease to \$433,500. In comparison, salaries and benefits costs totaled \$945,629 in FY 2014-15 and will be \$1,073,205 in FY 2015-16.

Work Program Item No. 2: Municipal Service and Sphere Review Program

LAFCO's primary long-range responsibility involves the preparation of Sphere of Influence and Municipal Service Review (MSR) studies. MSRs and Spheres of Influence cover 80 special districts and 18 cities in San Diego County. While spheres represent a plan for the probable physical boundary and service area of cities and special districts, MSRs deal specifically with growth projections; identification of disadvantaged communities and infrastructure needs and deficiencies; capacity of public facilities; financial ability of agencies to provide services; opportunities for shared facilities; accountability for community service needs; and a review of whether agencies or water systems under review are in compliance with the California Safe Drinking Water Act.

State Law requires that the Commission, as necessary, review and update each sphere of influence. The Commission completed the first round of sphere updates and MSRs in 2007, and an evaluation of these studies occurred in FY 2012-13. The Commission approved a considerable number of sphere and service reviews including: Descanso CSD, Jacumba CSD, Majestic Pines CSD, Morro Hills CSD; Pauma Valley CSD; Rincon Ranch CSD, Valley Center Parks and Recreation District; San Diego County Water Authority; Metropolitan Water District of Southern California; Carlsbad MWD; Fairbanks Ranch CSD; Leucadia WD; Olivenhain MWD; Rancho Santa Fe CSD; San Dieguito WD; Santa Fe ID; Whispering Palms CSD; Bonita-Sunnyside FPD; Lower Sweetwater FPD; Deer Springs FPD; Valley Center FPD, San Marcos FPD, North County FPD.

Most of the spheres and service reviews that needed updating have been updated. However, there are several pending reviews that are either in process or will be initiated in the upcoming fiscal year. For example, the regional fire agency in the County (CSA No. 135), several outlying fire districts, municipalities, and water districts are scheduled for review and possibly update in 2015-16. LAFCO resources are shifted to this program on a time availability basis, and are shifted away when fee-based proposals are submitted. Program costs have been contained by using a combination of salaried and contract staff. Contractor costs are primarily related to supporting fire protection and water/wastewater evaluations, and geographic information services. Contractor costs are within budget and will total about \$90,000 in FY 2014-15 and \$75,000 in FY 2015-16. Refer to accounts:

Accounts 52370.F and 52550.A for further information.

Work Program Item No. 3: Special Priorities

Based on community and local agency needs, or direction provided by the Commission, some local agencies may be subject to special priorities. In 2014-15, emphasis was placed on healthcare districts; water and wastewater providers in the Pala and Bonsall Hydrologic Subregion; water and wastewater providers in Ramona; and fire and emergency medical services. LAFCO staff's involvement with Pala and Bonsall, and Ramona has been completed. Resources shifted to complex jurisdictional proposals in 2014-15 involving water and wastewater services in the Fallbrook area (Fallbrook PUD and Rainbow MWD); fire protection and emergency medical services in Rancho Santa Fe and Harmony Grove/Elfin Forest; Pepper Drive (CSA No. 115, Lakeside FPD and San Miguel Consolidated FPD; South and East County (Rural and Pine Valley FPD). The above fire projects are in response to either jurisdictional applications submitted by subject agencies or Commission approved priorities. In the upcoming fiscal year (2015-16), LAFCO's involvement with regional fire protection will continue with the review of CSA No. 135. LAFCO staff will be reviewing the efficacy of this newly activated agency.

Work Program Item No. 4: Reports and Publications

In addition to providing customer service to individuals seeking jurisdictional boundary guidance, LAFCO also provides a public service by publishing informational documents. The *LAFCO Procedures Guide and Directory of Sphere of Influence and Municipal Service Review Actions* are documents that are used by other government agencies and the public. The *Sphere and MSR Summary Report* is updated annually and was accepted by the Commission on March 2, 2015. The *Procedures Guide* is updated every 5-7 years, or sooner depending upon statutory and procedural changes. A copy of the final version of the *2013 Procedures Guide* was distributed to the Commission in 2013, and released to the public in 2014. This particular publication received the "Project of the Year Award" from CALAFCO. The LAFCO application forms are regularly reviewed for compliance with new state statutes and LAFCO policies. Special application forms are developed as necessary, especially for the recent fire service reorganizations that are being processed by LAFCO staff.

Work Program Item No. 5: Legislative and Statutory

The San Diego LAFCO maintains an active legislative research program. Rather than allocating salaried staff resources for this activity, the Commission primarily uses contract services to support program objectives. Legislative research tasks are considered important but discretionary, while tasks related to statutory compliance are considered mandatory. Overall, the Commission's legislative program has been useful in communicating local positions to CALAFCO, California Coalition of LAFCOs (CCL), and the State Legislature. It has also aided in the recent compliance with new statutes, such as SB 244 (Disadvantaged Communities) and AB 54 (Mutual Water Companies). The San Diego LAFCO's Legislative Director serves as legislative director for CCL and previously served as Legislative Committee Chairman for CALAFCO. In FY 2014-15 and FY 2015-16,

legislative research costs will total \$15,000 per year.

Work Program Item No. 6: Operational and Administrative

LAFCO's core responsibilities (e.g., completing jurisdictional and legislative projects) are primarily supported by salaried staff, with supplemental assistance provided by contract workers. Unlike larger governmental agencies that have internal administrative sections within the overall organization, most administrative functions are handled internally by a small number of LAFCO staff. In 2014-15, administrative support was provided for LAFCO's audit, budget preparation, update of administrative and jurisdictional procedures covering procurement and bidding, personnel development and staffing, and proposal processing. Professional services support is provided to assist with some operational and administrative projects.

In FY 2015-16, approximately \$25,000 will be spent on professional services for operational and administrative support (e.g., accounting and bookkeeping, and policy development); \$37,500 for legal counsel support; \$125,000 for website and Geographic Information Services; and \$190,000 for County of San Diego IT and document management support (Account 52723: \$50,544; 52750: \$40,309; Account 52370.I: \$100,000). Document management costs are paid directly to the County of San Diego. Under the terms of this arrangement, the County engages various vendors for project development, server costs, and program development. Many of the document management costs are one-time and will level off in the future. These IT costs are considered mandatory and are necessary for compliance system requirements in State Law (Government Code Section 56382). Documents need to be preserved using an immutable medium that does not permit additions, deletions, or changes to the original document per the minimum standards and guidelines of the American National Standards Institute or the Association for Information and Image Management.

Work Program Item No. 7: Personnel and Staffing

FY 2014-15 to 2015-16 Staffing Schedule

San Diego LAFCO employees are recognized as leaders within the local government community. San Diego LAFCO staff received 14 statewide awards from CALAFCO in recent years recognizing outstanding public service. The most recent award was in 2014 resulting in the Project of the Year Award recognizing the San Diego LAFCO's **Guide to LAFCO Procedures**. One of the strengths of the staff is the level of experience and knowledge that personnel have obtained from education, training, and working on a variety of complex jurisdictional projects. Recently, the staff led innovative programs involving consolidation of fire, water, wastewater, and road maintenance agencies. The result has been more efficient services, simplified governmental boundaries, and increased accountability. Since the establishment of the San Diego LAFCO, 113 special districts have been dissolved or consolidated.

In 2014-15 and 2015-16, an additional five district dissolutions/reorganizations will be considered by the Commission (four fire districts and one water district). In 2014-15, the

Commission approved a mid-year budget adjustment for salaries and benefits to \$945,629. The Commission will finish the fiscal year an estimated \$97,987 under that amount because of one vacant analyst position and a mid-year vacancy in another analyst position that has been filled at a support staff level. In addition, the use of contractors (Services and Supplies) was utilized in lieu of hiring additional salaried staff. This arrangement has helped contain salaries and benefits growth.

A major change in the FY 2015-16 Budget compared to previous budgets is associated with a gradual decrease in the use of professional services and a concurrent increase in salaried staff services. This change will be cost neutral because the expenditure savings derived from reductions in professional services will be offset by staffing increases. Without this change, the Commission's exposure to staffing continuity issues will increase to a problematic level. Education and training new staff will become higher priorities in upcoming years to address this issue.

Included in Figure 3 of the Commission's budget is the current and proposed salaries schedule and budget detail for FY 2014-15 and 2015-16. The baseline budget column includes salaries and benefits costs carried over from the previous fiscal year, plus any salary and benefit adjustments authorized by the Commission or the Commission's Rules (e.g., flex benefit rates, lump sum or base salary adjustments, etc.). The adjusted budget column includes salary and benefit changes approved by the Commission through the annual budget process and mid-year adjustments, if applicable. The Estimated (actual) budget column shows projected year-end budget performance.

The FY 2015-16 salaries and benefits budget shows the recommended amount for salaries and benefits for the upcoming fiscal year, based on a baseline budget (carryover of previous year salaries and benefits, plus Commission authorized increases/reductions), and a proposed budget (proposed increases to staffing years, salaries, etc.). The following detailed summary is provided to elaborate on the current and proposed budget.

- 2014-15 Estimated Actual Budget: At the end of FY 2014-15, salaries and benefits costs will be approximately \$97,987 under budget because of two position vacancies. One position became vacant in the fourth quarter of FY 2014-15, while one other position is subject to recruitment and will be filled in early FY 2015-16. LAFCO is staffed by four two fulltime support staff, one fulltime analyst, and one executive. All other staffing is provided by part time workers and contract staff. While this arrangement has contained growth in salaries and benefits, it will have negative consequences in the future with respect to a lack of staffing depth caused by employee turnover.
- 2015-16 Baseline Budget: The baseline budget includes wage and salary adjustments previously approved by LAFCO in 2013 and 2014. These adjustments included a 2% across the board salary increase for *non-executive positions*, effective June 26, 2015. The same increase was also approved by the Board of Supervisors for county employees, and LAFCO staff are aligned with comparable positions in the County. Collectively, the cost of this base salary increase will total

about \$8,250 when compared to the adjusted 2014-15 budget for non-executive positions. Again, this base salary increase applies to County of San Diego and LAFCO staff and is considered a baseline budget increase, because the Commission previously authorized the increase.

- 2015-16 Proposed Budget: LAFCO's Rules indicate that LAFCO employees are eligible for base pay increases after performing at an above average level. It is proposed that the Commission consider approving a maximum of a 2% increase for LAFCO staff based on performance that is determined to be outstanding or better. Collectively, this performance based pay will amount to a maximum of \$16,952, if the full amount of the increase is authorized.

Both the proposed and baseline budget for FY 2015-16 Budget carries over funding from FY 2014-15 to support two analyst positions currently vacant but subject to recruitment (Local Government Analyst I-III and Administrative Analyst I). Filling these positions was previously authorized by the Commission in order to begin an office reorganization effort that will improve overall office continuity and depth of resources. The proposed budget also includes funding for one new position, proposed to be filled at the Administrative Assistant level. The annual salary for this support position will amount to a maximum of \$58,614, plus benefits. This addition will essentially be cost-neutral when compared to the reduction in services and supplies of \$212,260. In the upcoming years, the Commission will be further reducing its reliance on contractor/consultant services.

Salary Schedule Maintenance

Since 2013, the Commission has followed the County of San Diego's lead and approved several wage and benefit changes. These changes resulted in both salary and benefit increases and higher out-of-pocket employee expenses that individual LAFCO staff must make (e.g., health insurance premium increases, reductions and eventual elimination of LAFCO retirement offset contributions). The salary increases have already been granted by the Commission; however, concurrent increases to the non-executive salary schedules applicable to LAFCO employees have not yet been made. Modification of the salary schedules will accordingly be necessary. Modification of the salary schedules will not result in any added salary costs. Rather, the schedules for non-executive positions need to be amended to reflect prior Commission actions per the following rates: 1.24% (effective 8/5/13); 5% (effective April 8, 2013); 1% (effective June 27, 2014); 2% (effective June 26, 2015); and 2% (effective June 24, 2016).

Work Program Item No. 8: Communication

State Law requires that all LAFCOs maintain websites [Government Code Section 56300(f) (1)]. Meeting agendas, hearing notices, publications, and announcements are regularly placed on the San Diego LAFCO's website. Websites need to be reviewed and upgraded periodically to be effective. The Commission's website was comprehensively updated in 2010-11. Since the last website update, over 28,600 people have visited the site,

compared to 15,000 one year ago. Recent modifications to the website include the creation of a new link and page for tracking disadvantaged unincorporated communities, mutual water companies, and water availability policies. Website update, hosting, and document update costs will amount to \$65,000 in FY 2014-15 and FY 2015-16. In FY 2015-16, LAFCO staff will be exploring with the county, a possible upgrade to the LAFCO website that will provide interactive capability to the public regarding parcel and jurisdictional level information based on property location and address. Costs for this potential project are not factored into the FY 2015-16, because a cost estimate has not yet been provided by the County.

Work Program Item No. 9: Outreach and Support

The San Diego LAFCO has historically supported community outreach and support. Outreach occurs through a variety of mechanisms via professional and community activity. For example, Commissioner Vanderlaan and Executive Officer are board members on the Coalition of California LAFCOs (CCL), and Legislative Research Director Ehrlich serves as Legislative Director for CCL. Members of the LAFCO staff are also active with CCL and CALAFCO, the Special Districts Advisory Committee, California Special Districts Association, SANDAG, and American Planning Association (APA), etc. In 2014, the Executive Officer taught a CALAFCO University Class on Protest and Election Procedures and spoke to CALAFCO about LAFCO contracting options. In addition, LAFCO staff coordinated the reappointment process for two positions on the Commission and three positions on the Special Districts Advisory Committee. In 2015-16, LAFCO staff will be conducting the election/selection process for two additional positions on the Commission, and nine positions on the Special Districts Advisory Committee. Outreach and support activities occupy an important portion of the work responsibilities for all LAFCO staff.

Work Program Item No. 10: Policy Development

The San Diego LAFCO provides a benefit to the public and local agencies through its jurisdictional boundary and government reorganization efforts. To ensure that these core responsibilities are carried out consistent with State Law, various publications are prepared. In FY 2014-15, the Commission released a new edition of the **LAFCO Procedures Guide**. The document underwent a comprehensive revision and contains new guidelines for reviewing protest provisions and disadvantaged communities in relationship to jurisdictional changes, sphere actions, and service reviews. The **Procedures Guide** has been sold to the public and local agencies. Your Executive Officer, Legislative Director, and Local Governmental Consultant are also working with CALAFCO to revise the protest and election provisions.

Workload Indicators

FY 2014-15 and FY 2015-16

Through the third quarter of FY 2014-15, 16 jurisdictional proposals; 5 sphere/service reviews; and 1 contractual service agreement were submitted to the Commission. In the remaining months of FY 2014-15, it is anticipated that another five jurisdictional proposals

will be submitted to the Commission. Three of the proposals submitted in FY 2014-15 are extraordinarily complex and will require the assistance of both salaried and contract/legal staff. The processing fees accompanying the proposals submitted through the third quarter totals \$67,240. Fees were waived for two of these proposals amounting to an equivalent of \$41,410 (Rancho Santa Fe FPD Reorganization: \$26,420) and CSA No. 115 (Pepper Drive Reorganization: \$14,990) consistent with LAFCO direction. The Commission authorized the transfer of up to \$175,000 of reserve funds to cover fee waivers for special priority projects, and \$125,000 of these funds will be transferred in FY 2014-15. The remaining funds (\$50,000) will be allocated in the subsequent fiscal year.

In FY 2015-16, it is projected that the Commission will review and deliberate on a total of approximately 15-20 jurisdictional boundary change proposals, and 5-10 sphere of influence and service review studies. Proposal based revenue (service to property owners and filing fees) is projected to be \$125,000. FY 2015-16 revenues also are based on the carryover of \$50,000 of unallocated fee reduction funds for fire agency reorganizations involving CSA No. 135 and Julian-Cuyamaca FPD: \$45,334. It is also recommended that the Commission designate up to another \$100,000 for possible fee waivers associated with the dissolution of CSA No. 115 involving both the San Miguel Consolidated FPD and Lakeside FPD: \$30,604 (dissolution, annexation, and sphere fees); and annexation of 3,163-acre to CSA No. 17 associated with the Rancho Santa Fe FPD Reorganization: \$26,667; and annexation of islands 2-4 to CSA No. 135: annexation and sphere fees in excess of \$25,000; and annexation of a 117-acre island to the City of San Diego (Greenwood Memorial Park Cemetery). This city annexation will also involve concurrent annexations to the County Water Authority, Metropolitan Water District of Southern California, and several special district detachments: \$31,000-\$62,000.

Services and Supplies and Fixed Assets

FY 2014-15

The estimated actual budget for Services and Supplies in FY 2014-15 is \$778,323. This amount is less than budgeted because records management costs are lower than anticipated, compared to the adopted budget. Other reasons for the cost decrease are related to deferral of some document capture costs to FY 2015-16; reduced legislative research expenditures; and slightly lower service review costs. Expenditure figures for LAFCO's largest budget category (Professional Services) are at projected amounts reflecting continued support for LAFCO's sphere of influence, service review, and legislative compliance activities. Expense levels in LAFCO's minor expenditure account 52550.D are slightly higher than projected levels by about \$8,000 due to higher hearing notification costs, telecommunications, printing supplies, meeting supplies, publication renewal fees, etc. Refer to Figure 1 for further information.

FY 2015-16

FY 2015-16 services and supplies costs will total about \$748,605 which is lower than FY 2014-15 adopted budget figures. Expenditure decreases are primarily related to diminishing one-time costs associated with document management and a gradual

decrease in professional services and special departmental expenditures. As discussed in the staffing section of the budget, the decrease in professional services will enable the Commission to focus attention on staffing in order to provide better office coverage and staffing continuity. Legal counsel costs are projected to increase in FY 2015-16 due to several water service and fire agency reorganization proposals that involve complex legal issues. Many of the costs associated with legal counsel services will be recovered from applicant fees.

FY 2014-15 and FY 2015-16 REVENUE PROJECTIONS

FY 2014-15 Revenue

Through the third quarter of the FY 2014-15, revenue will be at projected levels (\$75,000-\$85,000). At the close of FY 2014-15, revenues are estimated to be \$113,700 (account 46234: \$95,000 and account 49900: \$18,710). These amounts are lower than projected with respect to year-end, but are within an acceptable range. FY 2014-15 revenues are also based on a transfer of special project funds into LAFCO's revenue account to cover the costs of proposals that are subject fee waivers. The amount of the special project fund transfer will be \$125,000. The Commission previously authorized a transfer of up to \$175,000 for this purpose in FY 2014-15.

FY 2015-16 Revenue

Processing fees and service to property owners is projected to amount to \$125,000 in FY 2015-16. It is also projected that Miscellaneous revenue amounting to approximately \$145,365 for the amount due on one water/wastewater reorganization proposal. The proposed amount of the special project fund transfers associated with fee waivers for FY 2015-16 is \$150,000 (\$50,000 carried over from FY 2014-15 and \$100,000 for new waivers in FY 2015-16). Any unspent funds in FY 2014-15 and 2015-16 will be transferred to LAFCO Trust Fund 46726 (Special Projects) per Commission directive.

Trust Fund Activity

The Commission maintains three interest bearing trust funds with the County of San Diego Treasury (Accounts 46725, 46726, and 46727) and a revolving fund balance account with the County (Account 44595). Refer to Figure 2 for fund balance activity.

FY 2014-15

Account 46725 is considered a Contingency Reserve Fund and this fund is utilized for unanticipated expenses or emergencies. There is currently \$663,877 in this fund. Account 46726 is used for special projects and the estimated year-end balance of this account will be \$295,486. In FY 2013-14, the Commission authorized the transfer of \$95,000 from this account to support document management. The funds were transferred to LAFCO's operating account in FY 2014-15. The Commission also authorized the transfer of up to \$175,000 from this account for priority jurisdictional projects subject to fee waivers. At the end of FY 2014-15, approximately \$125,000 will be transferred from Account 46726 to support these projects. A third trust fund is a Jurisdictional Project account (Account 46727) and the current fund balance is \$148,293. At the end of FY 2014-15, it is projected

that the Commission will finish the fiscal year \$7,779 under budget and these funds will be deposited into Account 46726. Interest for these funds was conservatively estimated to be about .025% or about \$2,097 in FY 2014-15.

FY 2015-16

In FY 2015-16, a carryover authorization of \$50,000 of special project funds, plus another \$100,000 is proposed to support priority jurisdictional projects subject to fee waivers. These funds should be designated “committed”. The specific projects subject to this “committed” designation include the reorganization of CSA No. 115 (Pepper Drive) with the San Miguel Consolidated FPD and/or Lakeside FPD; Elimination of CSA No. 135 Islands 2-4; Rancho Santa Fe FPD Reorganization; Julian-Cuyamaca FPD /CSA No. 135 reorganization study; and the Greenwood Memorial Park Cemetery Island Reorganization.

The Commission may need to again review its fund balance designations and policy after budget adoption as the result of new pension liability accounting practices promulgated by Governmental Accounting Standards Board Statements 67 and 68 (GASB 67 and 68). GASB Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for the financial reports of most pension plans. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The new standards will improve the way state and local governments report their pension liabilities and expenses, resulting in a more accurate representation of the full impact of these obligations. The Commission will receive updates about GASB 67 and 68 in 2014-15 after more information becomes available.

APPORTIONMENT REQUIREMENTS

Provisions in Government Code Section 56381 require that the operational costs of LAFCO be apportioned by the County Auditor to the membership categories represented on the Commission (county, city, independent special district). This apportionment provision has been a requirement of State Law since 2001. State Law requires the County Auditor to apportion LAFCO’s costs among the classes of agencies represented on the Commission. An accelerated schedule has been used in the past for the LAFCO budget hearings, so that the Auditor can complete the cost apportionment task prior to the various budget adoption dates of the local agencies that contribute to LAFCO’s budget. However, based on the complexity of the FY 2015-16 LAFCO budget, an accelerated budget adoption schedule was not feasible. Under separate cover, a cost apportionment report will be distributed to local agencies. The 2015-16 apportionment will be \$1,394,945, which is \$90 less than the amount for FY 2014-15.

CONCLUSION

A budget reduction of \$24,426 (gross appropriations) is proposed in FY 2015-16, compared to the FY the 2014-15 Budget. When viewed in relation to anticipated revenues, this budget reduction translates into a net decrease of \$90 between FY 2014-15 and FY 2015-16. A budget decrease can be accomplished through overall cost containment of

services and supplies; allocation of special project funds to cover high priority work program items discussed in the FY 2015-16 Budget; and the submittal of processing fees related to a major water/wastewater jurisdictional reorganization that has spanned two fiscal years. Even with a net cost reduction, the FY 2015-16 Budget will provide sufficient funding for achievement of LAFCO's core responsibilities, as well as the accomplishment of special projects, such as the review of fire agency consolidation proposals, elimination of an island in South County, and final implementation of a document management program. Most importantly, the FY 2015-16 Budget represents the gradual decrease in professional services expenditures and a concurrent allocation of additional staff resources to improve staffing continuity. Therefore, it is

RECOMMENDED: That your Commission,

- (1) Open the hearing on the Proposed/Final Budget FY 2015-16 LAFCO Budget and close the hearing after receiving public comments; and
- (2) Adopt the Proposed/Final FY 2015-16 Budget and direct the Executive Officer to implement all related budget recommendations in the staff report, including but not limited to:
 - (a) Direct the County Auditor/Chief Financial Officer to request payment from the Board of Supervisors and each city and independent district no later than July 1 for the amount owed and the actual administrative costs incurred by the auditor in apportioning costs and requesting payment from each entity (Government Code Section 56381).
 - (b) Authorize the Executive Officer and the County Auditor/Chief Financial Officer to determine an appropriate method of collecting the required payment if payment is not remitted within 60 days. Per State Law, the Executive Officer may request the Auditor to collect an equivalent amount from the property tax or any fee or eligible revenue owed to the County, city, or district. Any expenses incurred by the Commission or Auditor in collecting late payments shall be added to the payment owed the Commission [Government Code Section 56381(c)]. Request the Auditor to use the budget adoption date as the basis for selecting the most recent editions of the accounting publications that must be used under State Law to prepare the cost apportionment allocation.
 - (c) Ratify the continuation of an approved "committed" fund balance designation in the amount of \$50,000 and the designation of another \$100,000 of "committed" funds with respect to account 46726 to support the waiver of LAFCO processing fees for the possible reorganization of the Julian-Cuyamaca FPD and CSA No. 135; CSA No. 115 (Pepper Drive) Reorganization with the San Miguel Consolidated FPD and/or Lakeside FPD; elimination of CSA No. 135 Islands 2-4; Rancho Santa Fe FPD Reorganization; and the Greenwood Memorial Park Cemetery Island Reorganization.

- (d) Ratify the continuation of the fund balance designations and amount of funds contained within each designation for application in FY 2015-16 per the Proposed/Final 2015-16 LAFCO Budget.
- (e) Direct the Executive Officer to make conforming changes to LAFCO's fund balance designations based on amounts added to or removed from associated fund balance accounts, and to advise the Commission upon making such changes.
- (f) Authorize the transfer of unspent funds from LAFCO's FY 2014-15 and FY 2015-16 Budgets to Account 46726 (Special Projects Trust Fund) and direct the Executive Officer to inform the Commission of the amount of the fund transfer during the quarterly budget update.
- (g) Direct the Executive Officer to make appropriations adjustments and fund transfers (additions or deletions, services and supplies adjustments, and staffing level changes) to contain LAFCO's FY 2015-16 gross cost of \$1,820,810.74 and net cost of \$1,394,945.74.
- (h) Approve the FY 2015-16 Proposed Staffing Schedule per Figure 3; establish a maximum cap for performance-based (merit) increase and associated salary schedule increase for staff not to exceed 2% of annualized salary subject to above-standard overall performance ratings for LAFCO;
- (i) Direct the Executive Officer to implement the salary schedule changes recommended in the Proposed/Final Budget for all non-executive classifications by amending the maximum rate of the salary ranges to accommodate salary adjustments previously approved by the Commission since 2013. The following salary schedule increases accordingly apply: 1.24% (effective August 5, 2013); 5% (effective April 8, 2013); 1% (effective June 27, 2014); 2% (effective June 26, 2015); and 2% (effective June 24, 2016).
- (j) Authorize the Executive Officer to direct the County Auditor to establish LAFCO's budget and appropriations at the gross and net levels contained in Figures 1-3 of the Proposed/Final FY 2015-16 LAFCO Budget.

Respectfully submitted,

MICHAEL D. OTT
Executive Officer

MDO:trl

Attachments

- Figure 1: San Diego LAFCO Budget FY 2012-13 through FY 2014-15
- Figure 2: LAFCO Fund Balance
- Figure 3: LAFCO Staffing Schedule

**Figure 1
LAFCO Budget FY 2013-14 to FY 2015-16**

Ordinary Income/Expense	Actual	Adopted	Est. Actual	Adopted	Recommended
	FY13-14 Budget	FY13-14 Budget	FY14-15 Budget	FY14-15 Budget	FY15-16 Budget
Income					
45918 · LAFCO Apportionment (net cost)	1,397,440.00	1,492,440.00	1,395,035.00	1,395,035.00	1,394,945.74
46234 · Service to Property Owner	166,965.00	91,530.00	95,000.00	143,586.00	125,000.00
47540 · Operating Transfers	0.00	175,000.00	125,000.00	175,000.00	150,000.00
47615 · Other Sales - Taxable	0.00	5,000.00	0.00	7,500.00	0.00
49000 · Processing Fee	42,245.00	0.00	0.00	0.00	0.00
49200 · Interest & Dividends	5,534.07	2,200.00	0.00	2,000.00	5,500.00
49900 · Miscellaneous Revenue	12,927.51	0.00	18,710.00	0.00	145,365.00
80100 · Receipts Sch TR & Agency	0.00	0.00	0.00	0.00	0.00
TOTAL Income	1,625,111.58	1,766,170.00	1,633,745.00	1,723,121.00	1,820,810.74
Expense					
51110 · Salaries & Wages	459,700.00	563,496.00	510,863.00	535,822.00	645,127.00
Benefits Total	271,048.00	345,174.00	336,779.00	348,549.00	428,078.26
52074 · Telecommunications	0.00	500.00	500.00	500.00	500.00
52138 · Public Liability Insurance	0.00	500.00	500.00	500.00	0.00
52178 · Auto Maintenance	1,771.11	2,000.00	1,500.00	2,000.00	2,000.00
52182 · Vehicle Fuel	784.71	1,500.00	1,000.00	1,500.00	1,500.00
52270 · Memberships	7,319.00	9,000.00	7,500.00	9,000.00	9,000.00
52304 · Miscellaneous	0.00	0.00	0.00	77,039.00	0.00
52330 · Office Expense	0.00	8,000.00	0.00	5,000.00	1,000.00
52332 · Postage	0.00	500.00	500.00	500.00	500.00
52334 · Printing	14,627.25	10,000.00	5,000.00	10,000.00	2,000.00
52336 · Books - Office Library	855.34	2,000.00	1,000.00	2,000.00	2,000.00
52338 · Drafting/Engineering	0.00	50.00	0.00	50.00	50.00
52344 · Stores Unallocated	7,537.46	12,500.00	12,000.00	12,500.00	15,000.00
52354 · Mail/Postage-ISF	8,337.30	12,000.00	7,500.00	8,000.00	8,000.00
52370 · Professional Services					
52370.A · Special Counsel Litigation	0.00	750.00	0.00	0.00	0.00
52370.B · Special Counsel General	17,721.20	8,000.00	15,000.00	12,973.00	2,500.00
52370.C · General Counsel	11,785.20	8,000.00	15,000.00	11,000.00	35,000.00
52370.D · GIS Support	56,204.40	60,000.00	60,000.00	60,000.00	60,000.00
52370.E · Web & Doc Support	56,204.50	65,000.00	50,000.00	65,000.00	65,000.00
52370.F · Local Govt Services	43,187.00	65,000.00	50,000.00	65,000.00	50,000.00
52370.G · Legislation	25,061.00	35,000.00	18,000.00	20,000.00	15,000.00
52370.H · Accounting	12,100.00	30,000.00	30,000.00	30,000.00	25,000.00
52370.I · Other (Doc. Mgt)	35,102.00	55,000.00	75,000.00	90,000.00	100,000.00
Total 52370 · Professional Services	257,365.30	326,750.00	313,000.00	353,973.00	352,500.00
52490 · Publications	1,787.36	1,000.00	5,000.00	25,000.00	2,500.00
52504 · Copy Equipment	0.00	0.00	2,775.00		
52530 · Office Lease	70,276.50	73,000.00	75,000.00	75,000.00	75,000.00
52550 · Special Department					
52550.A · Service Review	47,940.00	55,000.00	40,000.00	55,000.00	25,000.00
52550.B · County Overhead Costs	30,944.00	31,000.00	31,000.00	31,000.00	31,000.00
52550.C · Other	6,390.32	2,000.00	5,400.00	2,000.00	0.00
52550.D · Minor Expense	50,179.37	15,000.00	25,000.00	17,000.00	15,000.00
52550.E · Other (Doc. Mgt)	32,685.48	85,000.00		50,000.00	10,000.00
Total 52550 · Special Department	168,139.17	190,399.00	101,400.00	155,000.00	81,000.00
52566 · Minor Equipment	0.00	1,000.00	0.00	1,000.00	1,000.00
52602 · Computer Related Training	0.00	3,500.00	0.00	2,000.00	2,000.00
52608 · Out of County Travel	0.00	0.00	0.00	0.00	0.00
52610 · Non-Travel/In-County	0.00	500.00	0.00	500.00	500.00
52612 · Emp. Auto mileage	8,604.66	10,000.00	7,500.00	10,000.00	10,000.00
52622 · Training/Regis	0.00	2,000.00	0.00	1,000.00	1,000.00
52704 · Purchasing ISF	0.00	500.00	0.00	500.00	500.00
52706 · Document Srvs ISF	0.00	200.00	0.00	200.00	200.00
52721 · Network Services IT	31,072.31	28,000.00	30,000.00	32,000.00	32,000.00
52722 · Computing Power ISF	0.00	800.00	500.00	800.00	800.00
52723 · Data Center Service	10,239.45	6,000.00	50,545.56	50,000.00	50,545.56
52725 · Cross Functional Srvc I	5,551.22	6,000.00	6,000.00	6,000.00	6,000.00
52726 · Microfiche & Print	99.00	200.00	200.00	200.00	200.00
52728 · Application Service	33,154.28	95,000.00	46,594.49	67,103.00	10,000.00
52732 · Desktop Computing	22,917.71	29,500.00	27,000.00	27,000.00	30,000.00
52734 · Help Desk	1,509.53	5,500.00	1,500.00	2,500.00	2,500.00
52750 · Catalog Items	49,325.00	1,000.00	69,308.58	10,000.00	40,309.92
52752 · Other Services	1,000.00	500.00	0.00	500.00	500.00
52754 · Non Catalog Items	0.00	500.00	0.00	500.00	500.00
52758 · Vehicle Lease	3,090.84	2,500.00	2,500.00	2,500.00	2,500.00
53585 · Equipment Dep Expense		0.00	2,500.00	2,500.00	2,500.00
59000 · Fixed Asset	0.00	17,000.00	0.00	1,500.00	1,500.00
54958 · Office Equip - prior year	-14,130.39	13,780.37		0.00	0.00
54961 · Fixed Asset Equip & Furn	0	17,000.00	0.00	5,000.00	1,000.00
Subtotal Services & Supplies	705,364.50	857,500.00	778,323.63	960,865.00	748,605.48
TOTAL Salaries & Bens and Serv. & Supplies⁵	1,436,112.50	1,766,170.00	1,625,965.63	1,845,236.00	1,820,810.74

Figure 2
Fund Activity FY 2013-14 to FY 2015-16

Fund Activity	Actual FY13-14 Budget ⁵	Adopted FY13-14 Budget	Est. Actual FY14-15 Budget	Adopted FY14-15 Budget	Recommended FY15-16 Budget
44595 - Fund Balance ¹	118,327.28	94,969.51	122,115.00	118,327.28	118,327.28
46725 - Contingency ²	529,471.53	527,057.45	663,877.20	528,480.82	528,480.82
46726 - Special Project ³	422,217.75	102,081.00	515,486.26	515,486.26	295,486.26
Transfer to operating account			(95,000.00)	(95,000.00)	-
Transfer to operating account			(125,000.00)	(175,000.00)	(150,000.00)
Deposit to Special Project account					7,779.40
46726 -Special Project [Total]			295,486.26	245,486.26	153,265.66
46727 - Jurisdictional ⁴	148,008.51	147,333.69	148,293.46	147,731.57	147,731.57
46728 - Interest	-	1,941.18	-	2,097.34	5,500.00
46729 - FUND ACTIVITY TOTAL	1,218,025.07	873,382.83	1,229,771.92	1,042,123.27	953,305.33

Notes for Figures 1 & 2:

¹Account 44595: All funds are currently designated "Unassigned" per Minute Item No. 9: June 3, 2013.

²Account 46725: All funds are currently designated "Unassigned" per Minute Item No. 9: June 3, 2013.

³Account 46726 contains the following designations:

\$95,000 committed funds transferred to operating account for doc. mgt program per Minute Item No. 11: November 4, 2013.

\$50,000 currently "Committed" per Min. Item No. 9: June 3, 2013 for fee waivers; Note that \$175,000 originally committed for fee waivers per Min. Item No. 9; \$125,000 will be transferred into operating account for waivers by year-end FY 2014-15.

\$100,000 proposed to be committed for additional fee waivers in FY 2015-16 (Min. Item No. 6: April 6, 2015).

\$22,075 "Assigned" per Minute item No. 9: June 3, 2013 for the Montecito Ranch Project.

\$145,486.26 balance of Account 46726 proposed to be designated "Unassigned" per LAFCO Minute item No. 6: April 6, 2015.

⁴Account 44727: All funds designated "Unassigned" per Minute Item No. 9: June 3, 2013.

Figure 3
FY13/14 to FY 15/16 Staffing Schedule

	CURRENT FY13/14 BUDGET					ADOPTED FY 14/15 BUDGET					PROPOSED FY 15/16 BUDGET			
	Position	F/T Equiv.	Baseline Budget	Adj. Budget	Est. Budget	Position	F/T Equiv.	Adopted Budget	Adj. Budget	Est. Budget	Position	F/T Equiv.	Baseline Budget	Proposed Budget
Executive Officer	1.00	1.00	\$173,288	\$195,292	\$183,251	1.00	1.00	\$192,379	\$194,233	\$192,469	1.00	1.00	\$187,179	\$190,743
Asst. Exec. Officer	1.00	1.00	99,153	106,718	62,858	0.00	0.00	0	0	0	0.00	0.00	0	0
Chief Analyst	1.00	0.50	41,891	42,410	41,000	1.00	0.50	43,531	44,117	44,117	1.00	0.50	44,117	44,999
Chief Analyst	0.00	0.00	0	0	0	1.00	1.00	77,520	79,055	22,277	1.00	1.00	77,520	80,651
Local Gov't Analyst III	1.00	1.00	72,945	77,432	76,702	1.00	1.00	0	79,055	79,055	1.00	1.00	75,645	77,158
Local Gov't Analyst II	0.00	0.00	0.0	0.0	0.0	0.00	0.00			0.0	0.00	0.00	0	0
Local Gov't Analyst I	0.00	0.00	0.0	0.0	0.0	0.00	0.00	0	0	0.0	0.00	0.00	0	0
Admin. Analyst I	1.00	0.75	37,992	40,362	0.0	1.00	1.00	48,160		0.0	1.00	1.00	47,300	49,412
Admin. Asst.	2.00	2.00	102,627	110,509	146,248	2.00	2.00	108,048	160,445	157,346	3.00	3.00	111,900	171,564
Admin. Aide	0.00	0.00	0.0	0.0	0.0	0.00	0.00	n.a.	n.a.	0.0	0.00	0.00	n.a.	
Student Worker/Temp	2.00	1.00	20,000	15,000	12,000	2.50	2.00	50,584	0	0	1.50	1.00	15,000	15,000
Subtotal	9.00	7.25	547,896	587,723	522,059	9.50	8.50	520,221	556,904	495,263	9.50	8.50	558,660	629,527
Benefits & Adjustments			345,174	305,347	349,780			348,548	373,125	336,779			379,889	428,078
Subtotal			893,070	893,070	871,839			868,770	930,029	832,042			938,549	1,057,605
Commissioners (13)			15,600	15,600	15,600			15,600	15,600	15,600			15,600	15,600
TOTAL	9.00	7.25	\$908,670	\$908,670	\$887,439	9.50	8.50	\$884,370	\$945,629	\$847,642	9.50	8.50	\$954,149	\$1,073,205