



Chairman

Bill Horn
County Board of
Supervisors

April 4, 2016

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Vice Chairman

Sam Abed
Mayor
City of Escondido

TO: Local Agency Formation Commission

FROM: Executive Officer

Members

Dianne Jacob
County Board of
Supervisors

SUBJECT: Proposed/Final FY 2016-17 LAFCO Budget

Andrew Vanderlaan
Public Member

EXECUTIVE SUMMARY

Lorie Zapf
Councilmember
City of San Diego

Apportionment Requirements

Lorraine Wood
Councilmember
City of Carlsbad

According to State Law, the San Diego LAFCO must adopt a proposed budget by May 1st and a final budget by June 15th of each year (Government Code Section 56381). After the budget is adopted, this provision in State Law requires the County Auditor to apportion the Commission’s net costs among the membership categories represented on LAFCO (cities, special districts and the county). In San Diego County, local agencies have requested that the Commission follow an accelerated budget hearing schedule, so that the apportionment figures can be integrated at the earliest possible stage, into the local agency budget planning process. The development and scheduling of the Proposed/Final LAFCO Budget for the April 4th LAFCO meeting is accordingly in response to local agency requests.

Jo MacKenzie
Vista Irrigation District

Vacant
Special District

Alternate Members

Greg Cox
County Board of
Supervisors

Gross and Net Costs

Chris Cate
Councilmember
City of San Diego

In FY 2016-17, the San Diego LAFCO’s gross costs will be \$1,984,064, compared to \$1,896,810 in FY 2015-16. This represents an increase of \$87,255. In terms of a net cost figure, the Commission’s net cost will be \$1,578,564, compared to \$1,395,945 in FY 2015-16. Reasons for the budget increase are primarily related to litigation costs; a new Information Technology project proposed with the County of San Diego; and multiple fire agency reorganization projects proposed for FY 2016-17 that will be subsidized by the Commission. A detailed discussion and itemization of these cost components are fully described in subsequent sections of the FY 2016-17 LAFCO budget. Most all other expenses in FY 2016-17 have either been contained or reduced compared to prior year levels. Even with the modest increase proposed for FY 2016-17, approval of the LAFCO budget

Racquel Vasquez
Councilmember
City of Lemon Grove

Ed Sprague
Olivenhain Municipal
Water District

Harry Mathis
Public Member

Executive Officer

Michael D. Ott

Legal Counsel

Michael G. Colantuono

will result in the completion of a number of priority projects and the improvement of customer service through the reestablishment of policy research and government service units within the LAFCO office.

Revenue

With respect to revenue and fund balance, the Commission's overall fund balance is projected to be \$1,036,269 compared to the budgeted amount of \$953,305 in FY 2015-16. The fund balance has grown over the years as a result of finishing past fiscal years under budget. However, as a result of recent programs instituted by the Commission to facilitate certain special projects (e.g., fee subsidization for fire agency reorganizations and island elimination projects) and unexpected litigation expenses, the fund balance has decreased. The decrease is not significant and will likely be a temporary condition, as the Commission is nearing the end of a number of long-term fire and reorganization projects. Fee based revenue will amount to approximately \$150,000 in FY 2016-17 and is based on the submittal of 15-20 jurisdictional boundary change proposals, and 5-10 sphere of influence and service review studies, plus 3-5 contractual service agreements.

Special Priority Workload Indicators

In terms of special priorities for FY 2016-17, the Commission is expected to deliberate on a number of fire agency and jurisdictional reorganizations, including: (1) Julian-Cuyamaca FPD and CSA No. 135 Reorganization; (2) CSA No. 135 Island Nos. 2-4 Reorganization; (3) CSA No. 17 (San Dieguito Ambulance) Annexation; (4) Alpine FPD Reorganization; (5) Glenwood Memorial Park Island Reorganization; and (6) Tri-City Healthcare District Reorganization. The Commission may also deliberate on two different reorganization proposals involving CSA No. 115 (Pepper Drive) initiated by the Lakeside and San Miguel FPDs. Each of the above fire projects have either been or are proposed to be subsidized by the Commission in terms of payment of LAFCO processing fees. The actual amount of the LAFCO processing fees for these fire agency projects is in excess of \$321,145. The recommended budget provides for a fee subsidy for these designated projects, capped at \$175,000. The source of the funds for the fee waivers would be from an allocation of LAFCO trust funds. Actual costs and fees beyond this amount (\$321,145) would be absorbed by the Commission.

Staffing

The Commission has been operating with a reduced staffing level for portions of FY 2014-15 and 2015-16. In FY 2016-17, the full time equivalent staffing year figure is proposed to decrease by one year – from 9.50 staff years to 8.50 staff years. Costs have been contained through a number of measures, such as underfilling positions and deferral of Commission approved merit increases for LAFCO staff. For example, the Commission authorized merit increases of 1% increase in FY 2014-15 and 2% in FY 2015-16; however, these (authorized) increases have not been implemented.

In FY 2016-17 several reclassifications are proposed to further improve the Commission's office continuity and customer service. One Local Governmental Analyst II position would

be reclassified as an Analyst III and one budgeted Chief Analyst position will be filled internally, plus two existing Administrative Assistant positions would be reclassified as Executive Assistants. Overall, these changes will be cost neutral in terms of the FY 2016-17 budget. The Salaries and Benefits Budget for FY 2015-16 was \$1,073,205 and the FY 2016-17 Salaries and Benefits Budget is slightly less (\$1,073,177). These proposed changes are discussed in greater detail in the wage and benefit portion of the proposed/recommended budget for FY 2016-17.

Budget Components

For descriptive purposes, the FY 2016-17 Budget is divided into the following components: (1) Proposal Review and Jurisdictional Planning; (2) Special Priorities/Studies; (3) Reports and Publications; (4) Legislative and Statutory; (5) Operational, administrative, staffing; (6) Communication; (7) Outreach and Support; and (8) Policy Development. Also covered in the FY 2016-17 Budget are expanded discussions about workload indicators; services and supplies expenditures; revenue projections; and apportionment requirements. A discussion of the Proposed/Final FY 2016-17 Budget follows.

Work Program Item No. 1: Proposal Review and Jurisdictional Planning

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 third quarter of FY 2015-16, 29 proposals were submitted to the Commission (13 annexations; 12 detachments; 2 sphere amendments; 1 contractual service agreement appeal; and 1 contractual service agreement). This compares to 22 proposals during the same period in FY 2014-15 (16 annexations/detachments; 5 sphere/service reviews; and 1 contractual service agreement). In the remaining months of FY 2015-16, it is anticipated that another 5-10 jurisdictional proposals will be submitted to the Commission. In addition to the jurisdictional workload, the Commission also initiates and considers service reviews, jurisdictional information items, and contractual service agreements. The jurisdictional workload figures for the previous and current fiscal year are generally within projected levels; the complexity of the workload was higher than projected. Some proposals are considered routine and involve minimal staff time, however, the majority of the workload has been complex and involved considerable staff/legal resources.

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 change per Commission authorization in order to provide adequate office coverage and continuity of operations. In FY 2015-16, the Commission originally budgeted \$353,973 for professional services associated with jurisdictional proposals, and increased it to \$427,500 mid-year in response to litigation. In FY 2016-17, this amount is proposed to decrease to \$402,500. In comparison, the salaries and benefits budget was \$1,073,205 in FY 2015-16 and will be about the same in FY 2016-17 (\$1,073,177).

Jurisdictional Planning

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 review and update each sphere of influence, as necessary. The Commission completed the first round of sphere updates and MSRs in 2007, and an evaluation of these studies occurred in FY 2012-13. 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 2016-17. 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 have been slightly higher than budgeted amounts in FY 2015-16 and will total about \$40,581 at the end of FY 2015-16; these costs are budgeted for a decrease to \$25,000 in FY 2016-17. Refer to Accounts 52370.F and 52550.A for further information.

Work Program Item No. 2: 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 and 2015-16, emphasis was placed on healthcare districts, and fire and Emergency Medical Services. The program has been integral in terms of facilitating resolution of long-term jurisdictional problems in the County. In FY 2015-16, the Commission approved the reorganization of

the Rural and Pine Valley FPDs with CSA No. 135 resulting in improving fire and emergency medical services covering 490,540 acres (766.47 square miles). In addition, the Commission recently approved the reorganization of a volunteer fire organization CSA No. 107 (Elfin Forest/Harmony Grove) with the Rancho Santa Fe FPD. This reorganization completed a 30-year effort to consolidate the two agencies. LAFCO staff had also been working on another potential reorganization involving Pepper Drive (CSA No. 115, Lakeside FPD, San Miguel Consolidated FPD, Santee, and El Cajon) however, that reorganization has gotten more complicated and it is unknown when it will be scheduled for consideration in FY 2016-17. The Commission waived the processing fees for these fire agency reorganizations to facilitate the overall jurisdictional process. The amount of the authorized fee waiver subsidization for these reorganizations is \$150,000; however, actual staff costs to support these projects have exceeded this amount.

In FY 2016-17, it is proposed that the Commission continue its fee subsidization program for agencies that provide fire protection and emergency medical services. The recommended amount to earmark for FY 2016-17 is capped at \$175,000. It should be noted that the actual amount of the associated fee waivers for the associated fire protection projects is estimated at \$321,145. The amount of fee waiver funds above \$175,000 would be absorbed by the Commission from annual appropriations revenue, unless the Commission opted to commit the estimated actual amount of \$321,145 from one of its trust funds. The proposals subject to recommended fee waivers include the following:

- (1) CSA No. 135/Islands 2-4. Elimination of Islands 2-4 in mid-east County would involve 38,301 acres of unserved territory. Waiver of the LAFCO processing fees for this island elimination proposal is estimated at \$86,700 (\$43,350 for CSA No. 135 latent powers expansion and \$43,350 for a sphere amendment).
- (2) CSA No. 135/Julian-Cuyamaca FPD Reorganization. Julian-Cuyamaca FPD was originally identified as a potential district subject to the County's Hybrid Plan (Step 3) as approved in 2008 to improve fire protection in underfunded and unserved areas in the County. The FPD received a deferral from this step at request of the district. It would be appropriate to revisit the inclusion of the FPD in CSA No. 135 reorganization at this time. A request was made by a member of the Commission to consider placing the FPD into LAFCO's work program at the February 1, 2016 LAFCO meeting. The FPD consists of 52,160 acres (81.5 square miles) and the applicable dissolution, latent powers expansion, and sphere amendment fees are estimated at \$172,972 (\$5,500 for dissolution; \$55,824 for latent powers expansion; \$55,824 for latent powers sphere amendment; \$55,824 for assignment of zero sphere to Julian-Cuyamaca FPD).
- (3) Alpine FPD. The Alpine FPD is assembling an annexation application for submittal to LAFCO involving 7,440 acres. The proposal may also involve the removal (divestiture) of territory from the fire protection and emergency medical service area of CSA No. 135. The annexation will likely involve sphere amendments to Alpine FPD and CSA

No. 135. LAFCO fees are estimated at \$38,020 (\$14,480 annexation fee; \$14,480 sphere amendment fee; and \$9,060 base annexation fee).

- (4) CSA No. 17 (San Dieguito Ambulance). Approximately 3,163 acres will need to be annexed to CSA No. 17 as a condition of the recently approved Rancho Santa Fe FPD and CSA No. 107 Reorganization. The associated LAFCO fee for the CSA No. 17 annexation and sphere amendment is: \$23,453 (\$11,726 for annexation and \$11,726 for sphere amendment).

While there may be other potential reorganizations that could be included in the Commission's fee waiver/reduction program, the ones identified in the budget are likely to be considered in FY 2016-17. The actual amount of the LAFCO processing fees for these potential proposals is in excess of \$321,145; however, it is recommended that a cap of \$175,000 be placed on the amount of trust fund monies that would be transferred into LAFCO's operational account. Any costs in excess of this amount would be absorbed by the Commission, because the associated projects are in response to Commission recommendations or mandates. If additional fire protection reorganizations are identified after the adoption of LAFCO's budget, then a mid-year budget report will be scheduled for Commission consideration.

Work Program Item No. 3: 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 February 1, 2016. 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 *Procedures Guide* 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. A new contractual service agreement application form, policy, and implementation guidelines for SB 239 was adopted by the Commission in 2016 and is available on our website.

Work Program Item No. 4: 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, Southern Region of CALAFCO (formerly

known as the California Coalition of LAFCOs (CCL), and the State Legislature. It has also aided in the recent compliance with new statutes. In FY 2015-16 and FY 2016-17, legislative research costs will total \$15,000 per year.

Work Program Item No. 5: Operational, Administrative, Staffing

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 2015-16, 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 2016-17, approximately \$402,500 will be spent on professional services for operational and administrative support (e.g., accounting and bookkeeping, and policy development); \$112,500 for legal counsel support; \$125,000 for website maintenance and Geographic Information Services; and \$272,480 for County of San Diego IT and document management support (Account 52370.I: \$75,000; 52723: \$51,000; 52750: \$116,480; Account 52732: \$30,000). These IT costs are paid directly to the County of San Diego and its vendors. 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. As discussed in Work Program No. 6: Communications, about \$85,000 of these IT costs are related to the development of a LAFCO SharePoint website in 2015-16. This type of website is used by county departments to secure, place, store, organize, share, and access information. Many of the departments within the County of San Diego utilize this program internally for employees and externally for the public.

FY 2015-16 to 2016-17 Staffing Schedule

San Diego LAFCO employees are recognized as leaders within the local government community. San Diego LAFCO staff received 15 statewide awards from CALAFCO in recent years recognizing outstanding public service. The most recent awards included the Project of the Year Award recognizing the San Diego LAFCO's *Guide to LAFCO Procedures and the Healthcare Municipal Service Review and Sphere of Influence Update*. 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.

In 2015-16 and 2016-17, the focus of a significant amount of staff work has been on fire agency reorganizations. In FY 2015-16, the Commission approved the reorganization of the Pine Valley and Rural Fire Protection Districts, resulting in the dissolution of two fire districts comprising 490,540 acres and the expansion of the fire protection latent powers of CSA No. 135. The Commission will finish the FY 2015-16 an estimated \$163,784 under that amount because of one vacant analyst position and two other analyst positions that have been filled with incumbents below the budgeted classification level. In addition, deferral of Commission authorized merit increases and the use of contractors (Services and Supplies) were utilized to contain costs. This arrangement has helped contain salaries and benefits growth.

A 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 paid personnel. This change has been cost neutral because the expenditure savings derived from reductions in professional services was offset by small staffing year increases. Without this change, the Commission's exposure to staffing continuity issues would occur. Included in Figure 3 of the Commission's budget is the current and proposed Staffing Schedule with budget detail for FY 2015-16 and 2016-17. 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 2016-17 salaries and benefits cost figures are divided among baseline and proposed budget figures. The baseline figures carries over previous year salaries and benefits, plus Commission authorized increases/reductions. The proposed budget includes recommended increases and adjustments to staffing years, salaries, etc. The adopted FY 2015-15 budget includes baseline, adopted, and estimated year-end actual figures. The following summary is provided to elaborate on these budgetary concepts in relation to the current and proposed budgets.

- 2015-16 Estimated Actual Budget. At the end of FY 2015-16, salaries and benefits costs will be approximately \$163,784 under budget because of position vacancies and under-filling other positions at lower classifications than budgeted. In addition, the estimated actual figures are about 2% lower than budgeted in terms of performance based costs because no staff have received performance based pay (merit increases) in FY 2014-15 or FY 2015-16. Other salary savings have occurred because three analyst positions and

two student worker positions have either been under-filled or not filled at all during FY 2015-16. Affected positions include one budgeted Chief Analyst position filled at the Analyst III classification; one Analyst III position filled at the Analyst II level; one unfilled Analyst I position; one Administrative Assistant position filled at the Administrative Aide level; and two student worker positions that were not filled.

- 2016-17 Baseline Budget. The baseline budget carries over the wage and salary figures from the adopted FY 2015-16 Budget, plus a 2% across the board wage and benefit adjustment previously approved by the Commission for non-executive positions (effective June 24, 2016). The Commission's previously approved wage and benefit adjustments mirror the adjustments granted to County employees. The total salaries and benefits budget included in the baseline 2016-17 budget is \$1,073,205. This amount is carried over from FY 2015-16. Direct baseline wage costs are projected to be \$629,527 and benefit costs are estimated at \$428,078.
- 2016-17 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 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 \$11,900, if the full amount of the increase is authorized. However, since the amount is based upon performance, it is likely that the actual amount will be somewhat less than the budgeted amount.

Both the proposed and baseline budget for FY 2016-17 carries over funding from FY 2015-16 to support an office reorganization plan to provide better office continuity and customer service. The plan would establish two senior level positions to reflect the two main functional divisions in the office (policy research and government services), supported by one entry level analyst classification (Local Government Analyst I). The senior analyst positions would be filled with incumbents and the entry level position would be filled with a new hire. Again, filling these positions was previously authorized by the Commission in an effort to improve overall office continuity and depth of resources. The proposed budget also provides for staffing the office with two Executive Assistants and one Administrative Assistant. These support staff positions would be filled internally and would not increase the budgeted staffing years. The wage ramifications for the analytical and support staff changes are minimal (\$13,557 for two analyst positions and \$5,923 for the three support staff positions). In addition, these changes will be offset by reduction of the use of contractors and consultants (Professional Services and Special Departmental expenses).

Work Program Item No. 6: 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 37,850 people have visited the site (28,600

people in 2015). Recent modifications to the website include the creation of a new link and page for tracking disadvantaged unincorporated communities; mutual water companies; water availability policies; fire agency contract guidelines and application forms; and LAFCO Rules. In FY 2016-17, it is proposed that the Commission allocate \$85,000 for the development of a SharePoint component for the current website (www.sdlafco.org). SharePoint is a Microsoft program used as a secure place to store, organize, share, and access information. Many of the departments within the County of San Diego utilize this program internally for employees and externally for the public. If approved by the Commission, this program would be managed by LAFCO staff, through an arrangement with the County of San Diego and its authorized vendors. Upon initial development, the SharePoint site would be used by LAFCO staff (internally); however, the long-term goal would be for select components of the site to be available to the public in order to access LAFCO publications and records.

Work Program Item No. 7: 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 Southern Region of CALAFCO (formerly known as the California Coalition of LAFCOs), and Legislative Research Director Ehrlich serves on the CALAFCO legislative committee. Members of the LAFCO staff are on the Commission's Special Districts Advisory Committee, California Special Districts Association, SANDAG, and the American Planning Association (APA), etc. In 2016, a number of LAFCO staff have been involved as speakers and organizers for CALAFCO conferences and workshops. In 2015-16, LAFCO staff conducted the election/selection process for two special district positions on the Commission, and eight 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. 8: 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. The Executive Officer, Legislative Director, and Local Governmental Consultant are also working with CALAFCO to revise the protest and election provisions. In 2016, the Commission adopted implementation guidelines for SB 239 (Hertzberg) that addressed fire agency contractual service agreements. Other planned policy-related projects include a comprehensive update of the Commission's Jurisdictional Conflict Policy (L-107) and the adoption of a Public Records Request Policy.

Workload Indicators

FY 2015-16 and FY 2016-17

Through the third quarter of FY 2015-16, 29 jurisdictional proposals were submitted to LAFCO (13 annexations; 12 detachments; 2 sphere amendments; 1 contractual service agreement appeal; and 1 contractual service agreement). This compares to 22 proposals during the same period in FY 2014-15 (16 annexations/detachments; 5 sphere/service reviews; and 1 contractual service agreement). In the remaining months of FY 2015-16, it is anticipated that another 5-10 jurisdictional proposals will be submitted to the Commission. Both the prior year and current year figures are well above the proposal data for previous budget cycles. Eight of the proposals deliberated on in FY 2015-16 were complex and required the assistance of both salaried and contract/legal staff (e.g., 3 fire agency reorganizations; 1 municipal reorganization/detachment; 3 sphere/service reviews; and 1 contractual service agreement appeal).

The processing fees accompanying the proposals submitted through the third quarter total \$160,215 (Account 46234: \$53,924 and Account 49900: \$106,291). Fees were waived for three of these proposals (Rural FPD Dissolution; Pine Valley FPD Dissolution; and CSA No. 107 Dissolution). For budgeting purposes, the fees were capped for the three fire agency reorganizations at \$124,686. Staff resources have also been dedicated for two other major proposals subject to fee waivers (CSA No. 115 – Pepper Drive Reorganization and the Glenwood Memorial Park Island Reorganization).

In FY 2016-17, it is projected that the Commission will review and deliberate on a similar level of proposals. For projection purposes, it is conservatively projected that the Commission will consider 15-20 jurisdictional boundary change proposals, and 5-10 sphere of influence and service review studies, plus 3-5 contractual service agreements. Proposal based revenue (service to property owners and filing fees) is projected to be \$150,000. FY 2016-17 revenues also are based on the allocation of \$175,000 of fee reduction funds for fire agency and island elimination reorganizations involving CSA No. 115; Julian-Cuyamaca FPD; Greenwood Memorial Park Cemetery; CSA No. 135/Island Nos. 2-4 Reorganization; Alpine FPD Annexation; and CSA No. 17 Annexation. It is also anticipated that the Commission will deliberate on a major jurisdictional reorganization involving the Tri-City Healthcare District.

Services and Supplies and Fixed Assets

FY 2015-16

The estimated actual budget for Services and Supplies in FY 2015-16 is \$869,292. This amount is \$45,687 more than the budgeted amount originally budgeted in FY 2015-16. The increase is primarily related to the lawsuit filed by the City of Coronado against the San Diego LAFCO and Imperial Beach. There have been some cost decreases in individual accounts in FY 2015-16 related to information technology. Expenditure figures for LAFCO's largest budget category (Professional Services) are at or below 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 higher than projected levels by about \$61,000 due to higher hearing notification costs, telecommunications, printing supplies, meeting supplies, publication renewal fees, and conversion of audio recordings to a digital format. Refer to Figure 1 for further information.

FY 2016-17

FY 2016-17 services and supplies costs are projected to total about \$911,887 which is higher than FY 2015-16 original adopted budget figures of \$823,605. The primary reason for the increase is related to the development of a web-based SharePoint site (estimated at \$85,000) and continued litigation costs (estimated at \$75,000). This website program is discussed in greater detail in the Communications section of the budget (Work Program 6). This program is optional, but recommended for FY 2016-17. Without the inclusion of this program in the budget, Services and Supplies would decrease by \$85,000. In terms of litigation costs, this budgetary allocation is mandatory. Other expenditure levels are carried over from the prior year (FY 2015-16). Some other characteristics of the FY 2016-17 Services and Supplies budget that deserve highlighting are expenditure decreases related to diminishing one-time costs associated with document management and a gradual decrease in professional services and special departmental expenditures.

FY 2015-16 and FY 2016-17 REVENUE PROJECTIONS

FY 2015-16 Revenue

Through a portion of the third quarter of the FY 2015-16, processing for revenue is about \$75,000 under the projected level of \$125,000 (Account 46234). Total fee-based revenue is projected to be slightly lower than budget primarily due to the waiver of fees from fire agency reorganization and island elimination projects. FY 2016-17 revenues are based on a transfer of special project funds into LAFCO's revenue account to cover the costs of fee waivers and litigation. The amount of the special project fund transfer will be \$125,000 for fee subsidies and \$75,000 for litigation expenses. The Commission previously authorized a transfer of up to \$225,000 (\$150,000 for fee waivers and reductions and \$75,000 for litigation support) in FY 2015-16.

FY 2016-17

The amount proposed to be included in the FY 2016-17 budget for fund transfers is: \$250,000 (\$175,000 for fee waivers and \$75,000 for litigation). Any unspent funds in FY 2015-16 and 2016-17 will be transferred to LAFCO Trust Funds 46725, 46726, and 46727 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). Cumulatively, there is a total balance of \$1,455,768 in all four

of these funds as of the second quarter of FY 2015-16. Refer to Figure 2 and the below discussion for individual fund balance activity in FY 2015-16 and proposed activity in FY 2016-17.

FY 2015-16

Account 46725 is considered a Contingency Reserve Fund and this fund is utilized for unanticipated expenses or emergencies. There is currently \$767,659 in this fund. Account 46726 is used for special projects and there is currently \$299,217 in this fund. Account 46727 is a jurisdictional trust fund and there is currently \$148,785 in this fund. Account 44595 is the Commission's trust fund containing its fund balance. There is currently \$240,105 in that fund. The Commission authorized operating transfers of \$225,000 to support litigation and fee waivers in FY 2015-16 (\$75,000 for litigation derived from account 46725 and \$150,000 for fee waivers derived from account 46726). At the end of FY 2015-16, it is projected that the Commission will transfer \$175,000 of the authorized trust fund monies into the operating account.

FY 2016-17

In FY 2016-17, it is proposed that the Commission continue its fee subsidization program for agencies that provide fire protection and emergency medical services. The estimated cost of the fee subsidization is \$175,000 for jurisdictional reorganization proposals (e.g., Island 2-4 Elimination & CSA No. 135 Reorganization; Julian-Cuyamaca FPD Reorganization; CSA No. 17 Annexation; CSA No. 115 Reorganization; and Alpine FPD Reorganization). If approved, a fund transfer of \$175,000 from Account 46726 and 46727 would cover the associated fee waivers. If additional reorganizations are identified after LAFCO's budget is adopted, a mid-year budget adjustment would be considered by the Commission. As previously indicated, it will also be necessary to allocate \$75,000 of trust fund monies for litigation expenses in FY 2016-17.

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 by 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 for the LAFCO budget hearings, so that the cost apportionment figures can be integrated into the local agency budgetary process in a timely manner. Under separate cover, a cost apportionment report will be distributed to local agencies by the County Auditor and LAFCO staff. The 2016-17 apportionment will be \$1,578,564, which is \$182,619 more than in FY 2015-16. The primary reason for the increase is related to the addition of a website development project with the County and litigation expenses.

CONCLUSION

A net budget increase of \$182,619 is proposed in FY 2016-17, compared to the FY 2015-16 Budget. When viewed in terms of gross appropriations, the increase between the same two fiscal years is \$87,254. This is a relatively modest increase when considering that the LAFCO budget has been frozen for consecutive fiscal years. In addition, the increase is related to litigation expenses, fire agency reorganization and island elimination projects, plus an IT project with the County of San Diego. Even with the modest budget increase, the FY 2016-17 Budget will provide sufficient funding for achievement of LAFCO's core responsibilities, as well as the accomplishment of special projects. It will also provide for better customer service and office continuity. Therefore, it is:

RECOMMENDED: That your Commission,

- (1) Open the hearing on the Proposed/Final Budget FY 2016-17 LAFCO Budget and close the hearing after receiving public comments; and
- (2) Adopt the Proposed/Final FY 2016-17 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, 2016 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) Approve the "commitment" of trust fund 46725 monies as follows: \$75,000 for litigation and \$175,000 for payment of process fees for fire agency and jurisdictional island reorganization projects. The fire agency and island elimination projects include, but are not limited to 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; Alpine FPD Reorganization; CSA No. 17 (San Dieguito

Ambulance) Annexation; 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 2016-17 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 2015-16 and FY 2016-17 Budgets to Accounts 46725, 46726, or 46727 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 at or below LAFCO's FY 2016-17 gross cost of \$1,984,064 and net cost of \$1,578,564.
- (h) Approve the FY 2016-17 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 2.0% of annualized salary subject to above-standard overall performance ratings for LAFCO.
- (i) Direct the Executive Officer to return to the Commission with a report and recommendations after the County of San Diego adopts new wage and benefit plan for its employees for FY 2017-18.
- (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 2016-17 LAFCO Budget.

Respectfully submitted,



MICHAEL D. OTT
Executive Officer

MDO:eb

Attachments and Figures: (Available on LAFCO's website)

Figure 1: San Diego LAFCO Budget FY 2014-15 through FY 2016-17

Figure 2: LAFCO Fund Balance

Figure 3: LAFCO Staffing Schedule

Figure 1
LAFCO Budget: FY 2013-14 to FY2015-16

Ordinary Income/Expense	Est. Actual	Adopted	Est. Actual	Adopted	Recommended
	FY14-15 Budget	FY14-15 Budget	FY15-16 Budget	FY15-16 Budget	FY16-17 Budget
Income					
45918 - LAFCO Apportionment (net cost)	1,395,035.00	1,395,035.00	1,394,029.16	1,395,945.74	1,578,564.00
46234 - Service to Property Owner	95,000.00	143,586.00	80,000.00	125,000.00	150,000.00
47540 - Operating Transfers	125,000.00	175,000.00	200,000.00	225,000.00	250,000.00
47615 - Other Sales - Taxable	0.00	7,500.00	0.00	0.00	0.00
49000 - Processing Fee	0.00	0.00	0.00	0.00	0.00
44105 - Interest & Dividends	-	2,000.00	0.00	5,500.00	5,500.00
0000 - Miscellaneous Revenue	18,710.00	0.00	106,291.20	145,365.00	0.00
80100 - Receipts Sch TR & Agency	0.00	0.00	0.00	0.00	0.00
TOTAL Income	1,633,745.00	1,723,121.00	1,780,320.36	1,896,810.74	1,984,064.00
Expense					
51110 - Salaries & Wages	510,863.00	535,822.00	547,636.00	645,127.00	646,689.00
Benefits Total	336,779.00	348,549.00	361,785.00	428,078.26	426,488.00
52074 - Telecommunications	500.00	500.00	0.00	500.00	500.00
52138 - Public Liability Insurance	500.00	500.00	0.00	0.00	0.00
52178 - Auto Maintenance	1,500.00	2,000.00	934.00	2,000.00	2,000.00
52182 - Vehicle Fuel	1,000.00	1,500.00	1,266.00	1,500.00	1,500.00
52270 - Memberships	7,500.00	9,000.00	7,577.00	9,000.00	10,107.00
52304 - Miscellaneous	0.00	77,039.00	0.00	0.00	50.00
52330 - Office Expense	0.00	5,000.00	1,000.00	1,000.00	1,000.00
52332 - Postage	500.00	500.00	500.00	500.00	500.00
52334 - Printing	5,000.00	10,000.00	4,951.58	2,000.00	7,500.00
52336 - Books - Office Library	1,000.00	2,000.00	1,500.00	2,000.00	2,000.00
52338 - Drafting/Engineering	0.00	50.00	0.00	50.00	50.00
52344 - Stores Unallocated	12,000.00	12,500.00	12,862.26	15,000.00	17,500.00
52354 - Mail/Postage-ISF	7,500.00	8,000.00	7,813.86	8,000.00	9,500.00
52370 - Professional Services					
52370.A - Litigation	0.00	0.00	0.00	0.00	75,000.00
52370.B - Special Counsel General	15,000.00	12,973.00	0.00	2,500.00	2,500.00
52370.C - General Counsel	15,000.00	11,000.00	134,472.00	110,000.00	35,000.00
52370.D - GIS Support	60,000.00	60,000.00	60,000.00	60,000.00	60,000.00
52370.E - Web & Doc Support	50,000.00	65,000.00	65,000.00	65,000.00	65,000.00
52370.F - Local Govt Services	50,000.00	65,000.00	45,000.00	50,000.00	50,000.00
52370.G - Legislation	18,000.00	20,000.00	15,000.00	15,000.00	15,000.00
52370.H - Accounting	30,000.00	30,000.00	25,000.00	25,000.00	25,000.00
52370.I - Other (Doc. Mgt)	75,000.00	90,000.00	68,600.00	100,000.00	75,000.00
Total 52370 - Professional Services	313,000.00	353,973.00	413,072.00	427,500.00	402,500.00
52490 - Publications	5,000.00	25,000.00	1,000.00	2,500.00	2,500.00
52504 - Copy Equipment	2,775.00		5,878.32		
52530 - Office Lease	75,000.00	75,000.00	75,000.00	75,000.00	77,000.00
52550 - Special Department					
52550.A - Service Review	40,000.00	55,000.00	40,581.00	25,000.00	25,000.00
52550.B - County Overhead Costs	31,000.00	31,000.00	31,000.00	31,000.00	35,000.00
52550.C - Other	5,400.00	2,000.00	13,200.00	0.00	0.00
52550.D - Minor Expense	25,000.00	17,000.00	76,000.00	15,000.00	35,000.00
52550.E - Other (Doc Mgt.)		50,000.00	10,800.00	10,000.00	5,000.00
Total 52550 - Special Department	101,400.00	155,000.00	171,581.00	81,000.00	100,000.00
52566 - Minor Equipment	0.00	0.00	186.50	0.00	1,000.00
52602 - Computer Related Training	0.00	1,000.00	0.00	1,000.00	2,000.00
52608 - Out of County Travel	0.00	2,000.00	0.00	2,000.00	0.00
52610 - Non-Travel/In-County	0.00	500.00	0.00	500.00	500.00
52612 - Emp. Auto mileage	7,500.00	10,000.00	8,735.30	10,000.00	15,000.00
52622 - Training/Regis	0.00	1,000.00	0.00	1,000.00	1,000.00
52704 - Purchasing ISF	0.00	500.00	0.00	500.00	500.00
52706 - Document Svcs ISF	0.00	200.00	0.00	200.00	200.00
52721 - Network Services IT	30,000.00	32,000.00	32,000.00	32,000.00	32,000.00
52722 - Computing Power ISF	500.00	800.00	800.00	800.00	800.00
52723 - Data Center Service	50,545.56	50,000.00	47,356.86	50,545.56	51,000.00
52725 - Cross Functional Svcs I	6,000.00	6,000.00	19,045.02	6,000.00	6,000.00
52726 - Microfiche & Print	200.00	200.00	200.00	200.00	200.00
52728 - Application Service	46,594.49	67,103.00	3,558.04	10,000.00	10,000.00
52732 - Desktop Computing	27,000.00	27,000.00	21,031.44	30,000.00	30,000.00
52734 - Help Desk	1,500.00	2,500.00	4,215.40	2,500.00	2,500.00
52750 - Catalog Items (SharePoint Dev.)	69,308.58	10,000.00	21,692.00	40,309.92	116,480.00
52752 - Other Services	0.00	500.00	36.00	500.00	500.00
52754 - Non Catalog Items	0.00	500.00	500.00	500.00	500.00
52758 - Vehicle Lease	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00
53585 - Equipment Dep Expense	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00
54955 - Fixed Asset	0.00	1,500.00	0.00	1,500.00	1,500.00
54958 - Office Equip - prior year		0.00	0.00	0.00	0.00
54961 - Fixed Asset Equip & Furn	0	5,000.00	0.00	1,000.00	1,000.00
Subtotal Services & Supplies	778,323.63	960,865.00	869,292.58	823,605.48	911,887.00
TOTAL Salaries & Bens and Serv. & Supplies	1,625,965.63	1,845,236.00	1,778,713.58	1,896,810.74	1,984,064.00

Figure 2
Second Quarter LAFCO Budget Update FY 2015-16

Fund Activity	Est. Actual FY14-15 Budget	Adopted FY14-15 Budget	Est. Actual FY15-16 Budget	Adopted FY15-16 Budget	Recommended FY16-17 Budget
44595 - Fund Balance¹	122,115.00	118,327.28	240,105.87	118,327.28	240,105.87
46725 - Contingency²	663,877.20	528,480.82	767,659.33	528,480.82	692,659.33
Transfer to operating account	0	0	(75,000.00)	-	(75,000.00)
Transfer to operating account	0	0	-	-	(175,000.00)
Deposit to Contingency account				-	
46725 -Contingency [Total]	663,877.20	528,480.82	692,659.33	528,480.82	442,659.33
46726 - Special Project³	515,486.26	515,486.26	299,217.85	295,486.26	199,217.85
Transfer to operating account	-95000	-95000	-	-	-
Transfer to operating account	-125000	-175000	(100,000.00)	(150,000.00)	-
Deposit to Special Project account				7,779.40	
46726 -Special Project [Total]	295486.26	245486.26	199,217.85	153,265.66	199,217.85
46727 - Jurisdictional⁴	148,293.46	147,731.57	148,785.67	147,731.57	148,785.67
46728 - Interest	-	2,097.34	-	5,500.00	5,500.00
46729 - FUND ACTIVITY TOTAL	1,229,771.92	1,042,123.27	1,280,768.72	953,305.33	1,036,268.72

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 designated as UNASSIGNED per Minute Item No. 9: June 3, 2013, except as follows:

\$75,000 designated as COMMITTED for litigation expenses per LAFCO Minute Item No. 10 adopted February 1, 2016.

\$75,000 designated as COMMITTED for litigation expenses per LAFCO Minute Item No. XX adopted April 4, 2016.

\$175,000 designated as COMMITTED for fire agency and island reorganizations per LAFCO Minute Item No. XX adopted April 4, 2016.

³Account 46726 designated as UNASSIGNED, except as follows:

\$50,000 designated as COMMITTED for fee waivers per Minute Item No. 9: June 3, 2013.

\$100,000 designated as COMMITTED for fee waivers in FY 2015-16 per Minute item no. 6 April 6, 2015.

\$22,075 designated as ASSIGNED for the Montecito Ranch Project per Minute item No. 9 June 3, 2013 .

⁴Account 46727: All funds designated as UNASSIGNED per Minute Item No. 9 June 3, 2013.

Figure 3
FY14/15 to FY 16/17 Staffing Schedule

	Previous FY14/15 BUDGET					ADOPTED FY 15/16 BUDGET					PROPOSED FY 16/17 BUDGET						
	Position	F/T	Equiv.	Baseline Budget	Adj. Budget	Est. Budget	Position	F/T	Equiv.	Baseline Budget	Adopted Budget	Est. Budget	Position	F/T	Equiv.	Baseline Budget	Proposed Budget
Executive Officer	1.00	1.00		\$192,379	\$201,732	\$201,732	1.00	1.00		\$187,179	\$190,743	\$190,743	1.00	1.00		\$190,743	\$190,743
Asst. Exec. Officer	0.00	0.00		0	0	0	0.00	0.00		0	0	0	0.00	0.00		0	0
Chief Analyst	1.00	0.50		43,531	44,117	28,073	1.00	0.50		44,117	44,999	44,117	1.00	0.50		44,999	43,355
Chief Analyst	1.00	1.00		77,520	79,055	0	1.00	1.00		77,520	80,651	0	1.00	1.00		80,651	83,772
Local Gov't I Analyst III	1.00	1.00		0	79,055	76,752	1.00	1.00		75,645	77,158	79,055	1.00	1.00		77,158	73,840
Local Gov't I Analyst II	0.00	0.00				0.0	1.00	1.00		0	0	65,000	0.00	0.00		0	0
Local Gov't I Analyst I	0.00	0.00		0.0	0.0	0.0	0.00	0.00		0	0	0	0.00	0.00		0	0
Admin. Analyst I	1.00	1.00		48,160		0.0	1.00	1.00		47,300	49,412	0	1.00	1.00		49,412	49,412
Executive Asst	0.00	0.00		0	0	0.0	0.00	0.00		0	0	0	2.00	2.00		0	118,474
Admin. Asst.	2.00	2.00		108,048	160,445	142,719	3.00	3.00		111,900	171,564	111,263	1.00	1.00		171,564	42,593
Admin. Aide	0.00	0.00		n.a.	n.a.	0.0	0.00	0.00		n.a.		41,859	0.00	0.00			
Student Worker/Temp	2.50	2.00		50,584	0	0	1.50	1.00		15,000	15,000	0	1.50	1.00		15,000	25,000
Subtotal	9.50	8.50		520,221	564,402	449,276	10.50	9.50		558,660	629,527	532,036	9.50	8.50		629,527	627,189
Benefits & Adjustment				348,548	378,150	281,704				379,889	428,078	361,785				428,078	426,488
Subtotal				868,770	942,552	730,980				938,549	1,057,605	893,821				1,057,605	1,053,677
Commissioners (13)				15,600	15,600	10,000				15,600	15,600	15,600				15,600	19,500
TOTAL	9.50	8.50		\$884,370	\$958,152	\$740,980	10.50	9.50		\$954,149	\$1,073,205	909,421	9.50	8.50		\$1,073,205	\$1,073,177