AGENDA REPORT
December 4, 2017
Item No. 2 (Consent/Action)

November 22, 2017

TO: Commissioners
FROM: Executive Officer
SUBJECT: Budget Update for 2017-18 and Year End Projections

SUMMARY

The San Diego Local Agency Formation Commission (LAFCO) will review a report comparing budgeted and actual transactions for 2017-2018 through September 30th. The report projects the Commission is on pace to finish with an operating net of $0.144 million or 9%; an amount that is mostly attributed to savings in salaries and benefits. The report is being presented to the Commission to accept and file and provide direction as needed.

BACKGROUND

San Diego LAFCO
Prescribed Funding

State law mandates operating costs for LAFCOs shall be annually funded among their represented membership categories. San Diego LAFCO’s operating costs, accordingly, are divided among four distinct membership categories with the largest apportionment assigned to the County of San Diego at 28.6%. The independent special districts and cities less the City of San Diego are also apportioned funding percentages of 28.6% with individual amounts divided among the agencies based on total revenue shares in a given fiscal year. The City of San Diego – and based on special legislation providing the City a dedicated seat on the Commission – is responsible for the remaining 14.3% of San Diego LAFCO’s annual operating costs.
FY 2017-18 Adopted Budget

San Diego LAFCO’s adopted final budget for 2017-2018 totals $1,986 million. This amount represents the total approved operating expenditures for the fiscal year divided between three active expense units: salaries and benefits; service and supplies; and other. A matching revenue total was also budgeted to provide a projected year-end net of $0 and with the aid of a planned $0.220 million transfer from reserves. Budgeted revenues are divided between three active units: intergovernmental contributions; service charges; earnings; and miscellaneous. The Commission’s unaudited estimated total fund balance – which includes restricted, committed, and unassigned – as of July 1, 2017 was $1.274 million.

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<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>$1,986</td>
<td>$1,986</td>
<td>$0</td>
<td>$1.274</td>
</tr>
</tbody>
</table>

DISCUSSION

This item is for San Diego LAFCO to receive an update comparison of (a) budget to (b) actual expenses and revenues through the month of September. The report provides the Commission the opportunity to track expenditure trends and consider year-end operating projections from the Executive Officer. The report is being presented to the Commission to formally accept and file and provide related direction as needed.

Summary of Operating Expenses

San Diego LAFCO’s budgeted operating expense total for 2017-18 is $1,986. Actual expenses through the first three months totaled $0.530 million. This amount represents 27% of the budgeted total with 25% of the fiscal year complete. A breakdown of budget to actual expenses by unit through September 30th follows.

<table>
<thead>
<tr>
<th>Expense Units</th>
<th>Adopted</th>
<th>Actuals Through 9/30</th>
<th>Percent Expended</th>
<th>Unexpended Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Salaries and Benefits</td>
<td>1,100,599</td>
<td>344,821</td>
<td>31</td>
<td>755,778</td>
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<tr>
<td>2) Services and Supplies</td>
<td>881,300</td>
<td>184,976</td>
<td>21</td>
<td>696,324</td>
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<tr>
<td>3) Other</td>
<td>5,000</td>
<td>505</td>
<td>10</td>
<td>4,495</td>
</tr>
<tr>
<td>Total</td>
<td>$1,986,899</td>
<td>$530,302</td>
<td>27%</td>
<td>$1,456,597</td>
</tr>
</tbody>
</table>

Actuals through the first three months or one-fourth and related analysis suggest the Commission is on pace to finish the fiscal year with $1.632 million in total expenses. Should this projection hold the Commission will achieve an unexpended budgeted savings of $0.354 million or 18%. An expanded discussion on budgeted and actual expenses through the first three months and related year-end projections within the expense units follow.
Expense Unit | Salaries and Benefits
The Commission budgeted $1.100 million in salaries and benefits for 2017-18 with the proceeds largely tied to funding 8.0 fulltime equivalent employees as well as existing retiree obligations. Through the first three months the Commission’s actual expenses within the affected line-item accounts totaled $0.344 or 31% of the budgeted amount with 25% of the fiscal year complete. This proportional overrun in actuals through the unit is entirely attributed to unbudgeted payouts made to three former employees at the time of their retirement/departure in August 2017 to cover vacation and other owed accruals.1 Going forward it is expected overall actuals will fall significantly below budgeted amounts due to delays in filling budgeted positions with a projected year-end total of $0.916 million. This projection – should it hold - would produce an overall budgeted savings within the unit of $0.185 million or 17%.2

Expense Unit | Services and Supplies
The Commission budgeted $0.881 million in services and supplies for 2017-18 to provide funding for direct support services necessary to operate San Diego LAFCO. The majority of the budgeted funds are dedicated to professional services to cover such items as planning and legal services as well as general overhead from the County. Through the first three months the Commission’s actual expenses within the affected line-item accounts totaled $0.185 million or 21% of the budgeted amount with 25% of the fiscal year complete. Actuals in only of the line-item accounts – memberships – significantly exceeded the proportional threshold for the period at 58% and is the result of making several upfront annual payments. Going forward it is expected overall actuals will fall substantively below budgeted amounts due to savings in consultant use given several contracts for onsite support have recently termed with a projected year-end total of $711 million.3 This projection – should it hold – would produce an overall budgeted savings within the unit of $0.170 million or 19%.

Expense Unit | Other
The Commission budgeted $5,500 in two separate units to collectively address depreciation and fixed asset purchases in 2017-18. Through the first three months the Commission’s actual expenses within this combined unit totaled $505 million or 10% of the budgeted amount with 25% of the fiscal year complete. Going forward it is expected actuals will match budgeted amounts and leave a $0 year-end balance.

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1 Payouts made during the first three months to cover unused vacation and related accruals totaled $0.140 million.
2 For budgeting purposes the projected year-end totals within salaries and benefits includes maintaining current staffing levels as of report date as well as the hiring of two analysts by January 2018.
3 For budgeting purposes the projected year-end totals within services and supplies assumes close to a one-fourth reduction in actual consultant services.
Summary of Operating Revenues

San Diego LAFCO’s budgeted operating revenue total for 2017-18 is $1.986 million. Actual revenues through the first three months totaled $1.641 million. This amount represents 81% of the budgeted total with 25% of the fiscal year complete. A breakdown of budget to actual expenses by unit through September 30th follows.

<table>
<thead>
<tr>
<th>Revenue Units</th>
<th>Adopted</th>
<th>Actuals Through 9/30</th>
<th>Percent Collected</th>
<th>Outstanding Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Intergovernmental</td>
<td>1,635,099</td>
<td>1,579,057</td>
<td>97</td>
<td>56,042</td>
</tr>
<tr>
<td>2) Service Charges</td>
<td>125,000</td>
<td>35,320</td>
<td>28</td>
<td>89,680</td>
</tr>
<tr>
<td>3) Earnings</td>
<td>6,800</td>
<td>0</td>
<td>0</td>
<td>6,800</td>
</tr>
<tr>
<td>4) Miscellaneous</td>
<td>220,000</td>
<td>0</td>
<td>0</td>
<td>220,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,986,899</strong></td>
<td><strong>1,614,377</strong></td>
<td><strong>81%</strong></td>
<td><strong>$372,522</strong></td>
</tr>
</tbody>
</table>

Actuals through the first three months and related analysis suggest the Commission’s year-end revenue totals will tally $1.776 million and result in a moderate shortfall of ($0.210) or (11%). However, and as outlined below, nearly all of the projected shortfall is the result of the expectation of cancelling a budgeted reserve transfer given the anticipated savings in budgeted expenses. An expanded discussion on the budgeted and actual revenues through the first three months in the four revenue units follows.

Revenue Unit | Intergovernmental Fees
The Commission budgeted $1.635 million in intergovernmental fees in 2017-18. This total budgeted amount was subsequently divided between San Diego LAFCO’s four membership categories with the County of San Diego, independent districts, and cities less San Diego all receiving apportionments equaling $0.467 million. The remaining amount – $0.233 million – was apportioned to the City of San Diego. Through the first three months of the fiscal year the Commission received $1.579 million or 97% of apportioned agency contributions with 25% of the fiscal year complete. Staff anticipates full payments shortly and as such a $0 balance by the end of the fiscal year.

Revenue Unit | Service Charges
The Commission budgeted $0.125 million in application fees in 2017-18. Through the first three months $35,320 in application fees have been collected. Staff anticipates – and at least for budgeting purposes for this update – no monies will be booked based on recent year-end practices.

Revenue Unit | Interest
The Commission budgeted $6,800 in interest earnings in 2017-18. No interest earnings have been booked by the County Treasurer through the first three months and as such no monies have been collected. Staff anticipates – and at least for budgeting purposes for this update – no monies will be booked based on recent year-end practices.
will result in a fiscal year deficit of the full ($6,800) budgeted amount in the unit.\textsuperscript{4}

Revenue Unit | Miscellaneous
The Commission budgeted $0.220 million in operating transfers from the reserve in 2017-18. This transfer was budgeted, notably, to help offset new agency contributions and in step with subsidizing certain proposal activities given their overall public benefit. No transfers were made through the first three months, and assuming other expense-to-revenue projections no transfers will be made. This will result in a fiscal year deficit of the full ($0.220 million) budgeted amount in the unit

ANALYSIS
Activity through the first three months of the fiscal year indicates San Diego LAFCO is proceeding advantageously with respect to achieving a significant operating surplus by the end of the fiscal year in the amount of $0.144 million or 9\%. This projected improvement is largely tied to accruing savings associated with the significant turnover in staff involving the departure of three employees and two onsite consultants during the first quarter.\textsuperscript{5} Additionally, while most – if not all – of these now vacated positions are expected to be filled, staff anticipates San Diego LAFCO continuing into the immediate future at lower than budgeted staffing levels while a more holistic review of staffing options is performed through an ad hoc committee process. All other expense and revenue actuals are generally proceeding as expected with limited to no deviations.

ALTERNATIVES FOR ACTION
The following alternatives are available to the Commission in considering this item:

Alternative One (recommended)
Accept and file the report as presented.

Alternative Two
Continue the item to a future meeting and provide direction to staff with respect to any additional analysis or information requested.

RECOMMENDATION
It is recommended the Commission proceed with Alternative One as outlined in the preceding section.

\textsuperscript{4} Staff will inquire with the County Auditor-Controller with respect to the status of the interest earned by San Diego LAFCO and report back to the Commission.

\textsuperscript{5} A fourth position – Local Government Analyst I- was also budgeted in 2017-18 but remains vacated.
PROCEDURES

This item has been agendized as part of the consent calendar. Accordingly, a successful motion to approve the consent calendar will include taking affirmative action on the staff recommendation as provided unless otherwise specified by the Commission.

Respectfully,

Keene Simonds
Executive Officer

Attachments:

1) Operating Budget | General Ledger Through September 30, 2017
## Operating Budget Report through September 2017

### Operating Expenses

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Descriptions</th>
<th>2015-16 Adopted FY15-16</th>
<th>2016-17 Adopted FY16-17</th>
<th>2017-18 Adopted FY17-18 (25% of FY)</th>
<th>Sep-17 Ending Balance</th>
<th>Year End FY17-18 (100% of FY)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>FY15-16</td>
<td>FY16-17</td>
<td>FY17-18</td>
<td></td>
<td></td>
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<tr>
<td>51110-51310</td>
<td>Salaries and Wages</td>
<td>1,028,205.00</td>
<td>1,073,177.00</td>
<td>1,100,599.00</td>
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<td>626,674.00</td>
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<tr>
<td>51410</td>
<td>Retirement - SDCERA</td>
<td>153,326.00</td>
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<td>51415</td>
<td>Retirement - OPEB</td>
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<td>51421</td>
<td>Retirement - Pension Obligation Bonds</td>
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<tr>
<td>51450</td>
<td>Retirement - Social Security</td>
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<td>36,919.00</td>
<td>8,850.00</td>
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<td>51510-51550</td>
<td>Group Insurances (Health)</td>
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<td>17,330.00</td>
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<td>51560</td>
<td>Unemployment Insurance</td>
<td>161.00</td>
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<td></td>
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<td>1,028,205.00</td>
<td>1,073,177.00</td>
<td>1,100,599.00</td>
<td>344,821.00</td>
<td>916,024.00</td>
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<tr>
<td></td>
<td></td>
<td>785,912.00</td>
<td>875,759.00</td>
<td>875,759.00</td>
<td>31%</td>
<td>184,753.00</td>
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</table>

### Other Units

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Descriptions</th>
<th>2015-16 Adopted FY15-16</th>
<th>2016-17 Adopted FY16-17</th>
<th>2017-18 Adopted FY17-18 (25% of FY)</th>
<th>Sep-17 Ending Balance</th>
<th>Year End FY17-18 (100% of FY)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>FY15-16</td>
<td>FY16-17</td>
<td>FY17-18</td>
<td></td>
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<tr>
<td>53585</td>
<td>Equipment Depreciation</td>
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<tr>
<td>54955-54961</td>
<td>Fixed Assets</td>
<td>2,500.00</td>
<td>1,500.00</td>
<td>2,500.00</td>
<td>0%</td>
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<tr>
<td></td>
<td></td>
<td>5,000.00</td>
<td>4,000.00</td>
<td>5,000.00</td>
<td>505.00</td>
<td>5,000.00</td>
</tr>
</tbody>
</table>

**Expense Totals:**

- **1,896,977.00**
- **1,646,625.00**
- **1,984,064.00**
- **1,764,321.00**
- **1,986,899.00**
- **530,302.00** (27%)
- **1,632,676.48**

**Ending Balance:**

- **334,222.52**
### OPERATING REVENUES

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Descriptions</th>
<th>FY15-16 Adopted</th>
<th>FY15-16 Actual</th>
<th>FY16-17 Adopted</th>
<th>FY16-17 Actual</th>
<th>FY17-18 Adopted Through Sep-17</th>
<th>(25% of FY)</th>
<th>FY17-18 Projected Year End</th>
<th>(100% of FY)</th>
<th>Ending Balance</th>
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<tbody>
<tr>
<td>45918</td>
<td>Agency Apportionments</td>
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<td>1,394,946.00</td>
<td>1,578,564.00</td>
<td>1,577,636.00</td>
<td>1,635,099.00</td>
<td>1,579,057.00</td>
<td>1,635,099.00</td>
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<tr>
<td>46234</td>
<td>Applicant Fees</td>
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<td>76,510.00</td>
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<tr>
<td>44105</td>
<td>Interests and Dividends</td>
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<tr>
<td>47540</td>
<td>Operating Transfer</td>
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<td>175,000.00</td>
<td>250,000.00</td>
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<td>220,000.00</td>
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<td>-</td>
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### REVENUE TOTALS

- 2015-16: 1,895,811.00
- 2016-17: 1,984,064.00
- 2017-18: 1,986,899.00

| OPERATING NET | $ (169.00) | $ (168.00) | $ - | $ 143,702.52 |