



LOCAL AGENCY FORMATION COMMISSION

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March 11, 2020

To: LAFCo Commissioners
From: Martha Poyatos, Executive Officer *M. Poyatos*
Subject: Consideration of Adoption of Proposed Work Program and LAFCo Budget for Fiscal Year 2020-21

Summary

Consider the Proposed 2020-21 Appropriations Budget of \$687,946 resulting in a one-third apportionment of \$196,941 to the County, cities, and independent special districts. Following public comment, it is recommended that the Commission adopt the Proposed Budget with any desired amendments and direct the Executive Officer to (1) schedule consideration of the Final Budget for public hearing at the May 20 Commission meeting and (2) distribute it to the County, cities, and independent special districts.

Budget Review Schedule and Background

Section 56381 of Cortese-Knox-Hertzberg, which covers adoption of the LAFCo budget, requires Commission consideration of both a proposed and final budget at the following intervals:

1. By May 1, the Commission shall adopt a "proposed" net operating budget at a noticed public hearing.
2. By June 15, the Commission shall adopt a "final" net operating budget at a noticed public hearing following circulation of the recommended final budget to the County, all cities and all independent special districts.

The Act also provides that the proposed and final budgets shall be equal to the budget adopted for the previous fiscal year unless the Commission finds that reduced staffing or program costs will nevertheless allow the Commission to fulfill the purposes and programs of the Act. There is also a provision for carryover of unused funds to the subsequent year's budget and requires that the LAFCo net operating budget be apportioned in thirds to the County, the cities and independent special

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ALTERNATES: KATI MARTIN, SPECIAL DISTRICT ▪ HARVEY RARBACK, CITY ▪ JAMES O'NEILL, PUBLIC ▪ DAVE PINE, COUNTY

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districts¹. Also, because the Proposed Budget and Adopted Budget are adopted before the end of the fiscal year and include an estimate of fund balance carry over, once the current fiscal year closes and the actual fund balance carry over is determined, it will be necessary for the Commission to consider revisions to the budget to reflect application of the actual fund balance carry over.

The mandated schedule requiring preliminary budget action by the Commission in March presents a challenge because many 2020-21 costs have not been provided by the County. For this reason, charges are estimated where necessary.

Proposed 2020-21 Budget

The attached draft budget includes the actual budget for 2018-2019, adopted and estimated actual for 2019-20 and the draft proposed 2020-21 Budget of \$687,946. Key items addressed in more detail below include an increase of \$600 in general liability insurance, \$1,500 in one time funding for the purchase of a new laptop, a \$3,157 increase in CALAFCO dues (which San Mateo LAFCo supported and voted in favor of at the annual CALAFCO Conference), and a significant increase in A 87/Cost Allocation charges with a total of \$33,163 compared to last year’s \$8,598, primarily related to how the State Controller directs Counties to apportion unfunded retirement liability . This results in an increase in the net operating budget of approximately \$65,000 and an associated increase in apportionment to funding agencies.

Proposed Work Program

The following draft work plan includes a summary of recent activities and upcoming goals/objectives, such as preparing Municipal Service Reviews (MSRs)/Sphere of Influence (SOI) updates and special studies, updating the Commission’s policies and procedures, and other projects and activities. It is anticipated that projects proposed in the work plan will be completed by LAFCo staff and not consultants.

MSRs/SOI Updates - LAFCO law provides that every five years the Commission shall, as necessary, review and update each SOI [Gov. Code §56425(g)]. The statute also provides that in order to prepare and update an SOI, the Commission shall conduct a MSR. San Mateo LAFCo has completed first round MSR’s for all districts except Westborough Water District and all cities except Foster City, Burlingame, Hillsborough, Millbrae, San Bruno and South San Francisco. Staff has established the following prioritization for completing MSR’s:

<u>Agency</u>	<u>Completion date</u>
San Mateo County Resource Conservation District	Administrative draft out for review – to Commission in May 2020
City of South San Francisco/Westborough Water District	July 2020
San Bruno and Millbrae	October 2020
Burlingame, Hillsborough and Foster City	January 2021

¹ Apportionment of the one-third shares to individual cities and special districts is calculated by the County Controller based on proportionate share of revenues reported in the most recent edition of the State Controller’s reports on cities and special districts. These reports are not yet available. For estimation purposes, agencies can use apportionment rates used by the Controller for the current Fiscal Year.

In addition to finishing first round MSR's, staff will commence sphere reviews and MSR's for South County and Coastside cities and districts. It is anticipated that these updates will be less extensive than the first round reviews and focus on issues identified in prior studies and any changes in service demands and finances.

Policies and Procedures Updates – Staff is working with the Legislative/Policy Committee on updating the Commission's Policy and Procedures and will be bringing recommended updates to the Commission in the coming months .

Annexation Program

Staff will continue to conduct outreach to affected cities regarding plans for annexation and deferred annexation agreements to encourage local agencies to areas in their spheres including islands.

Other Items of Interest – LAFCo staff has been focused on several areas including the following:

Processing boundary change applications

Preparing the FY 2020-21 budget

On-going update of the LAFCO Directory of Local Agencies on the LAFCo website

Preparing for the FY 2018-19 financial audit

CALAFCO support activities including the Executive Officer serving as the CALAFCO Deputy Executive Officer

Estimated Actual 2019-20 Budget

The 2019-20 Adopted Budget includes appropriations for the Executive Officer and Management Analyst positions; Commission meetings; County Counsel; general operating expenditures including rent, supplies, etc.; travel; meetings; and a partial year of the shared Executive Secretary position which was filled in December of 2019. Staff is conservatively estimating county counsel actual charges based on the complexity of the several potential applications. Revenue funds include fund balance carry over, application fees (estimated to come in under the projected) and the intergovernmental revenue from the County, cities and special districts.

As noted below, based on estimated revenues and expenditures, the estimated fund balance carryover to be applied to the 2020-21 fiscal year is \$63,123.

Proposed 2020-21 Budget

Salary and Benefits

Salary and benefits of \$473,413 reflects the Executive Officer position, Management Analyst, and Commissioner stipend. The part-time Executive Secretary position has been recategorized from salaries and benefits to contract administrative services to reflect that the position is located in the Planning and Building Department and that LAFCo is billed for half of the position.

Services and Supplies

The Commission's contract with the County of San Mateo includes staffing, office space, and related services. With the exception of the Controller Administrative Fees (Account 5872), expenditures reflect

service charges provided by County departments. An adjustment may be made to Account 5872 prior to the May meeting.

Charges from outside agencies include Memberships (Account 5331), which includes California Association of Local Agency Formation Commissions (CALAFCO) membership and California Special Districts Association (CSDA) membership and liability insurance (Account 6725) purchased from the California Special District Risk Management Authority. The increase in CALAFCO dues heard at the September 18, 2019 LAFCo meeting. San Mateo LAFCo supported the dues increase and voted in favor of at the annual CALAFCO Conference.

The cost of part-time Executive Secretary position has been moved to services and supplies from salary and benefits to reflect that the position is contracted to LAFCo from the Planning and Building Department.

Meetings and Conferences

The Meetings and Conference appropriation is maintained at \$9,000 based on the annual CALAFCO conference venue in Monterey and budgeting for staff to attend the staff conference in 2021.

County Service Charges including Rent, Information Services, Controller

Information Services and Controller charges are estimates pending actuals from these departments. The rent charges are estimated to remain flat at \$12,925 for two work stations, but may increase depending on how the Planning and Building Department allocates the cost of the work space for the part-time Executive Secretary. Minor changes were also made to the budget spreadsheet to better align the document with the County's accounts and format. These changes are seen in red text and strikethrough on the spreadsheet.

A-87 Charges/County Cost Allocation

A-87 is an Office of Management and Budget (OMB) circular or guideline that sets forth principles and standards for the determination of costs applicable to County programs funded by the Federal and State governments. Under the circular, the County has to observe uniformity in its allocation of costs, that is, the County cannot be selective in the allocation process whereby externally (State and Federal) funded programs are not charged equitably. Also referred to as the Countywide Cost Allocation Plan, the County uses A-87 guidelines to obtain reimbursement from Federal, State, and non-General Fund programs for departments that do not charge directly for services rendered. For example, the Controller's Office does not charge departments for payroll services. However, the cost of providing payroll services to Non-General Fund Departments and programs receiving funds from the Federal and State governments for this specific purpose is recovered through County Cost Allocation.

The A-87 formula for 2020-21 allocates \$33,163 compared to \$8,598 in the current fiscal year. This increase is mainly due to a charge of \$19,274 for payments to unfunded retirement liability for the San Mateo County Employees' Retirement Association (SamCERA). In previous years, this charge was assessed only on select County departments. However, based on direction from the State Controller, this charge is now being allocated to all County departments and those agencies that contract for staff services, including LAFCo. LAFCo staff will continue to work with the County Controller's Office

regarding the increase in these charges and will provide more information as part of the consideration of the final 2020-21 Budget in May 2020.

Reserve

Staff recommends appropriating the customary 3 percent reserve this fiscal year.

Application of Fund Balance Carry Over

The Commission's practice regarding fund balance has been to appropriate all or a portion of it for consulting and/or special reserve and use a portion to offset the net operating budget thereby reducing the funding obligation of the County, cities and special districts to the extent possible. In preparing the annual budget, staff has been mindful of balancing the fiscal impact of the LAFCo budget to funding entities with the Commission's mandate to carry out mandated processing of applications and preparation of municipal service reviews and sphere studies.

This year's estimated fund balance is \$63,123. The proposed draft 2020-21 budget includes no appropriation for consulting and a standard 3% reserve of \$20,037.

Review by Budget Committee

The Budget Committee unanimously recommended approval of the Draft Proposed 2020-21, however the Committee expressed concern regarding the allocation of \$19,274 in the budget for increased A-87 Charges/County Cost Allocation charges for countywide unfunded retirement liability. As requested by the Budget Committee, a representative from the Controller's office will attend the Commission's March budget hearing to respond to questions.

This is the first of two budget hearings. Absent new information from the Controller's office, staff recommends that the Commission approve the budget including the proposed increase for the A-87 Charges/County Cost Allocation charges and direct staff to continue to work with the Controller's Office regarding these charges.

Recommendation:

1. Open the public hearing and accept public comment.
2. Consider and approve by resolution the attached Proposed Budget of \$687,946 and direct LAFCo staff to continue discussions with the County Controller's Office regarding A-87 Charges/County Cost Allocation charges.
3. Direct the Executive Officer to schedule the Final 2020-21 Budget for a public hearing at the May 20, 2020 Commission meeting and circulate it with any necessary amendments to the County, cities, and independent special districts.

Attachments: Budget Narrative and Budget Spreadsheet

Distribution: County of San Mateo, Cities, Independent Special Districts

LAFCO PROPOSED 2020-21 BUDGET NARRATIVE

The following provides a narrative to the budget spreadsheet and reflects costs associated with LAFCo's contract with the County of San Mateo for staffing, office space, supplies and legal counsel.

Salary & Benefits (4111 through 4161)

Salary and benefits of \$473,413 includes the County position of Principal Management Analyst that serves as Executive Officer by contract with the County, Management Analyst salary and benefits, Executive Officer administrative leave cash out, and Commissioner stipend of \$100 per bi-monthly meeting. Salary and benefits increase reflects the County's Salary Schedule.

Services & Supplies

Refund to County for Overpayment in 2014/15 and 2018/19 (5184)

In fiscal years 2014/15 and 2018/19, the County has overpaid their portion of the 1/3 apportionment. This appropriation is a refund to the County for these overpayments.

Outside Printing (5191)

Appropriation of \$1,000 for copying and printing by outside print shops for special community mailings or workshop distribution of MSRs that cannot be distributed electronically.

General Office Supplies (5193)

A flat appropriation of \$500 for incidental office supplies provided to LAFCo.

Photocopy (5196)

A flat appropriation of \$500 for incidental copies made from the Planning Department copier where the LAFCo office is located.

Postage & Mailing (5197)

Appropriation of \$1,200 for postage/ mailing service through the County mailroom.

Computer Equipment under \$5,000 (5212)

Appropriation of \$1,500 in one time funds to replace an existing 2011 laptop.

Records Storage (5218)

Appropriation of \$700 for offsite records storage.

Memberships (5331)

Estimated dues of \$12,500 for CALAFCO and California Special Districts Association. The increase in CALAFCO dues heard at the September 18, 2019 LAFCo meeting. San Mateo LAFCo supported the dues increase and voted in favor of at the annual CALAFCO Conference.

Legal Advertising (5341)

Appropriation of \$1,500 for legal notices published in newspapers for LAFCo hearing items that require notice.

Mileage Allowance (5712) and Motor Pool (6717)

Appropriation of \$250 for mileage reimbursement and \$150 for the use of the County motor pool for staff attendance at off-site meetings or site visits.

Video Recording of Commission Meetings (5858)

\$8,000 based on minimum of 4 hours at \$100 per hour and carry over from charges not received in FY 19-20. Six regular meetings of various duration and one potential additional meeting.

Meetings & Conferences (5721)

Appropriation of \$9,000 for Commission and staff attendance and travel related to CALAFCO Annual Workshop and Staff Workshop based on the venue for each event (four Commissioners and Executive Officer to attend the Annual Conference and three staff members to attend at the CALAFCO staff workshop.

Training (5733)

Appropriation of \$250 for educational classes, workshops, or training related to LAFCo or CEQA.

Fiscal Office Specialist (5814)

Appropriation of \$988 for a County Fiscal Office Specialist to process LAFCo accounts receivable, accounts payable, and payroll.

Part-time Executive Secretary (5838)

Estimated appropriation of \$43,448 for the position. The cost of part-time Executive Secretary position has been moved to services and supplies from salary and benefits to reflect that the position is contracted to LAFCo from the Planning and Building Department.

Outside Auditing Services (5842)

Allocation of \$7,700 for outside auditing services for the conducting of the FY18-19 audit.

Graphics/GIS (5848)

Appropriation of \$1,500 for GIS and other mapping services for LAFCo studies and sphere updates.

Consulting (5856)

No appropriation for consulting recommended at this time.

GIS (5861)

Appropriation of \$1,000 for special work completed by ISD/Public Works GIS mapping related to LAFCo applications or studies.

Controller (5872)

Estimated Cost of \$2,500 for administering the apportionment and collection of LAFCo budget to county, cities, and special districts.

Telephone (6712)

Estimated telephone charges of \$1,500 for Executive Officer and Management Analyst phone lines.

Other Information Services Department (ISD) Services (6713)

An estimate of \$7,576 for computer support, connectivity, etc.

Rent (6714)

Estimated rent charges of \$12,925.

General Liability (6725)

Estimated appropriation of \$7,000 for insurance through CSDA and employee insurance with County of San Mateo.

County Counsel (6732)

Appropriation of \$20,000 for County Counsel charges. This appropriation is based on requirement for indemnification by applicants for all annexation/reorganization proposals.

A-87 Charges/County Cost Allocation (6821)

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Reserve (8612)

Amount of \$20,037 in reserve for unanticipated expenditures, historically set at 3 percent of gross appropriations. Commission authorization is required to spend reserve.