



Local Agency Formation Commission of Napa County
Subdivision of the State of California

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February 6, 2012
Agenda Item No. 7a (Action)

January 30, 2012

TO: Local Agency Formation Commission

FROM: Budget Committee (Chilton, Kelly, and Simonds)

SUBJECT: Draft Proposed Budget for Fiscal Year 2012-2013

The Commission will review a draft proposed budget for 2012-2013 for approval and circulation to local funding agencies. The draft's operating expenses total \$431,251; an amount representing a 0.7% increase over the current fiscal year. The draft's operating revenues total \$422,629 with the remaining shortfall (\$8,623) to be covered by drawing down on agency reserves. The draft also includes a related recommendation to authorize the Executive Officer and Chair to negotiate and sign a five year lease agreement for office space at 1030 Seminary Street in Napa.

Local Agency Formation Commissions (LAFCOs) are responsible under State law for annually adopting a proposed budget by May 1st and a final budget by June 15th. State law specifies the proposed and final budgets shall – at a minimum – be equal to the budget adopted for the previous fiscal year unless LAFCO finds the reduced costs will nevertheless allow the agency to fulfill its prescribed duties.

A. Background

Prescriptive Funding Sources

LAFCO of Napa County's ("Commission") annual operating expenses are principally funded by the County of Napa and the Cities of American Canyon, Calistoga, Napa, St. Helena, and Yountville. State law specifies the County is responsible for one half of the Commission's operating expenses while the remaining amount is to be apportioned among the five cities. The current formula for allocating the cities' shares of the Commission's budget was adopted by the municipalities in 2003 as an alternative to the standard method outlined in State law and is based on a weighted calculation of population and general tax revenues. Additional funding – typically representing less than one-fifth of total revenues – is budgeted from application fees and interest earned.

Lewis Chilton, Chair
Councilmember, Town of Yountville

Joan Bennett, Commissioner
Councilmember, City of American Canyon

Juliana Inman, Alternate Commissioner
Councilmember, City of Napa

Brad Wagenknecht, Vice Chair
County of Napa Supervisor, 1st District

Bill Dodd, Commissioner
County of Napa Supervisor, 4th District

Mark Luce, Alternate Commissioner
County of Napa Supervisor, 2nd District

Brian J. Kelly, Commissioner
Representative of the General Public

Gregory Rodeno, Alternate Commissioner
Representative of the General Public

Keene Simonds
Executive Officer

Budgeting Process

In preparing for its own provisions, the Commission has established a Budget Committee (“Committee”) consisting of two appointed Commissioners and the Executive Officer. The Committee’s initial responsibility is to prepare and present a draft proposed budget for approval by the Commission before it is circulated for comment to each funding agency. It has been the practice of the Commission to receive proposed and final budgets from the Committee for adoption at its April and June meetings, respectively.

It is important to note in 2010-2011 the Commission made several substantive amendments to its budget process to improve the fiscal management of the agency. Most notably, this included eliminating annual appropriations for an operating reserve and consultant contingency in favor of establishing a fund balance policy to maintain no less than three months of operating expenses for unexpected costs. A key motivation underlying this amendment was to reduce the amount of unexpended monies accruing at the end of the fiscal years, which were being returned to the funding agencies in the form of credits against their subsequent year budget contributions. Importantly, by eliminating this practice, the Commission clarifies its financial position at the end of each fiscal year by reducing the amount of agency credits remaining in the fund balance. The funding agencies also benefit from eliminating the practice by enjoying more cost-certainty by receiving a more accurate appropriation charge at the beginning of each fiscal year.

Fund Balance and Related Policy on Minimum Reserves

As referenced in the preceding paragraph, it is the policy of the Commission to retain sufficient reserves to equal no less than three months or 25 percent of budgeted operating expenses in the affected fiscal year. The Commission’s current unreserved/unrestricted fund balance totals \$131,692 as of July 1, 2011; an amount equaling 30 percent of the fiscal year’s budgeted operating expenses. This ratio is expected to decrease to 28 percent by the end of the fiscal year.¹

B. Discussion

The 2012-2013 Committee (Chilton, Kelly, and Simonds) conducted a noticed public meeting on January 19, 2012 to review the Commission’s operating expenses and revenues for the upcoming fiscal year. The Committee’s review incorporated three interrelated budget factors. First, the Committee considered baseline agency costs to maintain the current level of services at next year’s projected price for labor and supplies. Second, the Committee considered whether changes in baseline agency costs are appropriate to accommodate changes in need or demand. Third, upon setting operating expenses, the Committee considered the amount of new revenues needed from the funding agencies and whether agency reserves should be utilized in lowering contribution requirements.

¹ Staff currently projects the Commission will finish the fiscal year with an unreserved/unrestricted fund balance of \$118,375.

The Committee's review of the three described budget factors –existing baseline costs, warranted changes in baseline costs, and revenue needs – premises its recommendation for a draft proposed budget totaling \$431,252 in expenses and \$422,629 in revenues for 2012-2013. A detail summary of the draft proposed budget's operating expenses and revenues follows with the corresponding general ledger showing all affected accounts attached.

Operating Expenses

The draft proposed budget represents largely a status quo and increases operating expenses from \$428,270 to \$431,252; a difference of \$2,982 or less than one percent. However, while the monetary difference is relatively the same, there are several individual expense line item changes – both increases and decreases – underlying the draft. The majority of these line item changes are non-discretionary and dictated by LAFCO's current staff support services agreement with the County of Napa; an agreement covering employee salaries and benefits as well as legal, computer network, and accounting services. This includes close to a one-third increase in the Commission's proportional share of the County's post-employment benefit costs, such as health insurance; costs that are amortized over 20 years and allocated based on the number of employees.

In terms of recommended changes in discretionary line items included in the draft, the Committee respectfully highlights the following.

- A \$4,996 decrease is budgeted in the property lease account consistent with the Committee's recommendation for the Commission to relocate its administrative office to an available suite located at 1030 Seminary Street in Napa. The budgeted decrease is based on preliminary negotiations with the property owner for an annual and fixed rent amount of \$24,284 over the next five years and represents close to a one-fifth savings compared to the current suite located at 1700 Second Street.² The proposed new office suite was recently built and includes 800 square feet divided between three private offices, a conference room, and a reception area; dedications matching the current suite while eliminating 400 square feet of underutilized space. The proposed new office suite also includes its own communications closet, which provides added and needed security for the Commission's network system.

The proposed new office suite at 1030 Seminary Street is currently available and the property owner is agreeable to providing the Commission with three months of up-front free rent upon signing a five year lease agreement at a fixed monthly charge of \$2,023.65. This arrangement, notably, would allow the Commission to take possession of the new office suite beginning in April 2012 at no additional costs while completing the agency's current lease obligations at 1700 Second Street through June 2012.³ Accordingly, as part of this item, the Committee

² The Commission's current annual rent at 1700 Second Street is \$29,280. As part of the preliminary negotiations, the property owner at 1030 Seminary Street is agreeable to providing the Commission with an additional five-year option at the end of the original lease agreement.

³ Moving costs are estimated at no more than \$3,000 and could be paid out of the current fiscal year.

- recommends the Commission authorize the Executive Officer and Chair to complete negotiations and sign a five year office space lease with the property owner at 1030 Seminary Street.
- A \$2,000 increase is budgeted in the office expense account and is tied to the proposed office relocation to 1030 Seminary Street in Napa. The budgeted increase would raise the annual allocation in this account from \$12,000 to \$14,000 or 17 percent and would fund two utilities that are not covered by the property owner: electricity and garbage collection. These utilities could, presumably, be absorbed within the existing budget line, but the Committee proposes the increase as a contingency with the intent of revisiting the item next fiscal year.
 - A \$2,500 increase is budgeted in the special department expense account and is tied to establishing live video/audio streamlining of Commission meetings through the agency website. The one-time purchase would be with the County's vendor for audio/video streaming (Granicus) and provide the Commission with a customized web page to transmit live as well as store audio/video recordings. The one-time purchase would also include staff training. The Committee believes this increase is warranted given it would help enhance the agency's transparency and complement an earlier decision to contract with Napa Valley TV to rebroadcast agency meetings on Channel 28; live airing of agency meetings are not available due to other scheduling commitments.⁴

The Committee notes at least three other discretionary expense increases appear merited, but have not been included in the draft in order to control overall costs and more specifically agency contributions in 2012-2013. Most notably, this includes purchasing iPads and related software for preparing/distributing electronic agenda packets at an estimated cost of \$6,000 to \$8,000. The Committee also believes there would be merit in budgeting additional monies – approximately \$5,000 – to provide professional facilitation services in relationship to LAFCO's scheduled municipal service review of the central county region. Finally, the Committee believes the Commission would be better served by purchasing a software system to improve the preparation of meeting minutes. The software system currently utilized by most local governmental agencies – including the County – is operated by Granicus. The cost of Granicus' software system, however, appears prohibitive given the upfront charge quoted to the Commission is \$2,100 along with an annual license/support fee of \$4,380 to cover license/support.

⁴ A related new annual expense of \$480 to cover license/support with Granicus is also budgeted within the information technology services line item.

Operating Revenues

The draft proposed budget increases operating revenues from \$395,441 to \$422,629; a difference of close to seven percent. The Committee proposes nearly this entire amount of new revenues to be collected – \$408,553 – would be drawn from agency contributions and would represent an increase of \$25,452 over the current fiscal year. The rationale for the increase in agency contributions is two-fold. First, as proposed, the Commission’s operating expenses would increase by \$2,982. Second, and most substantively, staff proposes reducing the amount of reserves the Commission would allocate for operating revenue next fiscal year by three-fourths from \$32,828 to \$8,623. This reduction follows similar decreases over the last few years in using reserves as offsetting revenues for the benefit of the local agencies as the Commission has gradually attempted to “catch-up” to its normal operating expenses after an extended vacancy in the analyst position artificially reduced agency contributions.⁵

Budgeted application fees and interest earned on the fund balance invested by the County Treasurer represent the remaining portion of revenues in the draft. No changes in application fees have been made relative to the current fiscal year. A relatively sizeable increase, though, has been made to earned interest to reflect the current return rate on the Commission’s fund balance generated through the current fiscal year.

C. Analysis

The draft proposed budget for 2012-2013 accomplishes the Committee’s two core objectives to (a) provide sufficient resources to maintain current service levels while (b) minimizing impacts on the funding agencies by limiting overall cost-increases. In particular, the draft preserves present staffing levels the Committee believes are merited given the agency’s prescribed duties along with budgeting a one-time special expense to begin live-streaming Commission meetings on the web. The Committee also believes the proposed office relocation to 1030 Seminary Street contemplated in the draft is an appropriate measure in helping to provide the Commission with sufficient administrative space over the next five years while achieving a minimum net savings of \$15,000; savings that will be directly passed on to the funding agencies.⁶

Irrespective of the preceding comments, the Committee recognizes the draft increases agency contributions by nearly seven percent over the current fiscal year from \$383,101 to \$408,553; an amount exceeding the current inflation rate for the San Francisco Bay Area region by over two-fold.⁷ The Committee, nevertheless, believes this increase is reasonable and justified as the Commission continues to adjust back to normal after an extended analyst vacancy artificially reduced the annual apportionments to a low of

⁵ LAFCO’s budgeted allocation of reserves as offsetting revenues over the last two years totaled \$42,459 in 2010-11 and \$32,828 in 2011-12. The amount of reserves calculated for use in 2012-13 represents one-third of the total difference in agency contributions between the two affected fiscal years if no reserve were utilized.

⁶ The estimated \$15,000 in savings over the next five years associated with the office relocation involves a \$4,999 reduction in annual rent less \$2,000 in new budgeted office expenses tied to utility costs at 1030 Seminary Street.

⁷ The current 12-month consumer price index for the San Francisco Bay Area region is 2.9 percent according to the United States Bureau of Labor Statistics as of January 2012.

\$272,032 in 2007-2008. Specifically, since filling the analyst position on a permanent basis three years ago, the Commission has gradually increased its agency allocations back to normal over the this period by utilizing decreasing amounts of reserves as a means to limit the annual increase given the recession; the alternative option would have been to immediately adjust agency funding requirements back to normal in one year's period. The Committee believes this process of utilizing reserves as an offsetting measure should continue for the next fiscal year, albeit at a reduced level from \$32,828 to \$8,623 given the Commission is approaching its minimum three month operating level.

D. Alternatives for Action

The following alternative actions are available to the Commission.

Alternative One: (a) Approve the draft proposed budget for 2012-2013 as provided in Attachment One with any desired changes.

(b) Direct the Executive Officer to circulate the approved draft proposed budget to funding agencies for review and schedule a public hearing on April 2, 2012 for consideration of adoption.

(c) Authorize the Executive Officer and Chair to negotiate and sign a five year lease agreement for office space at 1030 Seminary Street in Napa. Lease terms shall be consistent with the financial provisions included in the approved draft proposed budget and subject to Commission Counsel review.

Alternative Two: Take only actions (a) and (b) listed in Alternative One.

E. Recommendation

It is recommended the Commission take all three of the actions provided in Alternative One as outlined in the preceding section.

F. Procedures for Consideration

This item has been agendized as part of the action calendar. The following procedures are recommended with respect to the Commission's consideration of this item:

- 1) Receive verbal report from the Committee;
- 2) Invite public testimony (optional); and
- 3) Discuss item and consider action on recommendation.

Respectfully submitted on behalf of the Committee

Keene Simonds
Executive Officer

Attachment:
1) Draft Proposed Budget for 2012-2013



Local Agency Formation Commission of Napa County

Subdivision of the State of California

FY2012-2013 OPERATING BUDGET

Draft as of January 30, 2012

Expenses

		FY2009-10		FY2010-11		FY2011-12		FY2012-13			
		Adopted FY09-10	Actual FY09-10	Adopted FY10-11	Actual FY10-11	Adopted FY11-12	Estimate FY11-12	Draft FY12-13	Difference	Difference	Notes
Salaries and Benefits											
<u>Account</u>	<u>Description</u>										
51100000	Regular Salaries	195,580.00	193,055.65	198,346.60	198,280.48	202,387.60	199,418.71	203,183.19	795.59	0.39%	1
51300500	Group Health Insurance	36,471.00	29,210.94	37,953.96	33,872.67	45,648.12	40,251.17	47,646.00	1,997.88	4.38%	2
51300100	Retirement: Pension (CalPers)	34,064.00	33,015.37	34,991.95	34,924.41	36,701.99	36,163.80	37,736.30	1,034.31	2.82%	3
51200500	Commissioner Per Diems	9,600.00	5,100.00	9,600.00	4,900.00	9,600.00	5,900.00	6,400.00	(3,200.00)	-33.33%	4
51300120	Retirement: Non-Pension (OPEB)	8,706.00	8,706.00	9,138.00	9,138.00	9,341.00	9,341.00	12,139.00	2,798.00	29.95%	5
51300300	Medicare	2,836.00	2,657.51	2,876.49	2,738.20	2,934.62	2,746.71	2,946.16	11.54	0.39%	
51301800	Cell Phone Allowance	840.00	843.50	840.00	843.50	840.00	840.00	840.00	-	-	
51301200	Workers Compensation	168.00	168.00	226.00	226.00	327.00	327.00	396.00	69.00	21.10%	
51200100	Extra Help	-	-	-	-	-	-	-	-	-	
51200200	Overtime	-	-	-	-	-	-	-	-	-	
		288,265.00	272,756.97	293,973.00	284,923.26	307,780.33	294,988.39	311,286.64	3,506.31	1.14%	
Services and Supplies											
<u>Account</u>	<u>Description</u>										
52240500	Property Lease	29,280.00	29,280.00	29,280.00	29,280.00	29,280.00	29,280.00	24,283.85	(4,996.15)	-17.06%	6
52180500	Legal Services	24,990.00	17,938.31	26,010.00	17,659.74	22,540.00	21,140.00	22,540.00	-	-	7
52180200	Information Technology Services	22,438.00	19,182.50	18,438.91	17,625.42	24,630.83	24,130.83	25,036.13	405.30	1.65%	8
52170000	Office Expenses	15,000.00	9,697.20	15,000.00	9,628.08	12,000.00	11,000.00	14,000.00	2,000.00	16.67%	9
52180510	Audit and Accounting Services	7,883.00	7,819.33	8,277.15	7,301.48	8,691.01	8,321.01	9,125.56	434.55	5.00%	10
52250800	Training	4,000.00	5,475.00	4,000.00	3,969.00	4,000.00	5,500.00	4,000.00	-	-	
52250000	Transportation and Travel	3,500.00	4,510.88	3,500.00	5,171.79	4,000.00	2,000.00	4,000.00	-	-	
52070000	Communications	3,500.00	1,205.16	3,500.00	1,640.02	4,470.00	3,120.00	3,770.00	(700.00)	-15.66%	
52150000	Memberships	2,275.00	2,200.00	2,275.00	2,200.00	2,275.00	2,200.00	2,275.00	-	-	
52190000	Publications and Notices	1,500.00	1,112.17	1,500.00	1,433.43	1,500.00	750.00	1,500.00	-	-	
52235000	Special Departmental Purchases	1,000.00	1,095.25	1,000.00	2,482.00	1,000.00	1,000.00	3,500.00	2,500.00	250.00%	11
52251200	Private Mileage	1,000.00	533.60	1,000.00	1,297.66	1,000.00	1,000.00	1,000.00	-	-	
52243900	Filing Fees	850.00	250.00	850.00	450.00	850.00	550.00	850.00	-	-	
52250700	Meals Reimbursement - Taxable	500.00	588.92	500.00	171.97	-	-	-	-	-	
52100300	Insurance: Liability	347.00	347.00	444.00	444.00	321.00	321.00	153.00	(168.00)	-52.34%	
53980200	Capital Replacement*	-	3,931.30	3,931.40	3,931.40	3,931.40	3,931.40	3,931.40	-	-	
		118,063.00	105,166.62	119,506.46	104,685.99	120,489.23	114,244.23	119,964.93	(524.30)	-0.44%	
Contingencies and Reserves											
<u>Account</u>	<u>Description</u>										
54000900	Operating Reserve	40,632.80	-	-	-	-	-	-	-	-	
54001000	Consultant Contingency	50,000.00	-	-	-	-	-	-	-	-	
		90,632.80	-	-	-	-	-	-	-	-	
EXPENSE TOTALS		496,960.80	377,923.59	413,479.46	389,609.25	428,269.56	409,232.62	431,251.57	2,982.01	0.70%	

Revenues

		FY2009-10		FY2010-11		FY2011-12		FY2012-13			
		Adopted FY09-10	Actual FY09-10	Adopted FY10-11	Actual FY10-11	Adopted FY11-12	Estimate FY11-12	Draft FY12-13	Difference	Difference	Notes
Intergovernmental Contributions											
<u>Account</u>	<u>Description</u>										
45080600	County of Napa	-	153,965.70	178,009.77	178,010.00	191,550.50	191,550.50	204,276.45	12,725.95	6.64%	
45082200	City of Napa	-	105,428.75	119,646.81	119,647.00	126,330.38	126,330.38	134,723.33	8,392.95	6.64%	
45082400	City of American Canyon	-	22,010.54	27,468.37	27,468.00	32,912.04	32,912.04	35,098.60	2,186.56	6.64%	
45082300	City of St. Helena	-	11,135.35	12,656.54	12,657.00	12,997.37	12,997.37	13,860.87	863.50	6.64%	
45082100	City of Calistoga	-	8,742.73	10,642.45	10,642.00	11,393.34	11,393.34	12,150.28	756.93	6.64%	
45082500	Town of Yountville	-	6,648.33	7,595.60	7,596.00	7,917.37	7,917.37	8,443.37	526.00	6.64%	
		-	307,931.40	356,019.55	356,020.00	383,101.00	383,101.00	408,552.89	25,451.89	6.64%	
Service Charges											
<u>Account</u>	<u>Description</u>										
46003400	Standard Applications Fees	-	18,437.00	10,000.00	24,293.00	10,000.00	8,562.00	10,000.00	-	-	
46003300	Special Application Fees	-	625.00	-	3,187.00	-	175.00	-	-	-	
48040000	Miscellaneous	-	156.30	-	-	-	-	-	-	-	
		-	19,218.30	10,000.00	27,480.00	10,000.00	8,737.00	10,000.00	-	-	
Investments											
<u>Account</u>	<u>Description</u>										
44000300	Interest	-	3,791.48	5,000.00	2,570.00	2,340.00	4,078.20	4,076.00	1,736.00	42.57%	
		-	3,791.48	5,000.00	2,570.00	2,340.00	4,078.20	4,076.00	1,736.00	42.57%	
	REVENUE TOTALS	-	330,941.18	371,019.55	386,070.00	395,441.00	395,916.20	422,628.89	27,187.89	6.87%	
OPERATING DIFFERENCE		-	(43,051)	(42,459.91)	(3,539)	(32,828.56)	(13,316.42)	(8,622.68)			

UNRESERVED/UNRESTRICTED FUND BALANCE

Beginning:	186,574.00	134,344.00	131,692.00	118,375.58
Ending:	134,344.00	131,692.00	118,375.58	109,752.90

NOTES TO OPERATING BUDGET

- 1) This account budgets two full-time employees (Executive Officer and Analyst) and one part-time employee (Secretary). The increase reflects a scheduled merit increase for the Analyst position along with a 1.5% cost-of-living adjustment for all employees as approved by the County Board of Supervisors in 2011.
- 2) This account funds health, dental, and basic life insurance for all three employees. The increase is principally attributed to a rise in Kaiser Permanente premiums for all County employees.
- 3) This account funds the Commission's contribution share for employee pension benefits with CalPERS. The increase reflects a matching percentage rise in employee-paid benefits in 2012-13.
- 4) This account funds \$100 per diem payments for Commission attendance at each regular, special, or committee meeting. The budgeted total contemplates the Commission will have a total of seven regular/special meetings along with four committee meetings in 2012-13.
- 5) This account funds the Commission's apportionment for other non pension post employment benefits, such as health coverage. These costs are increasing by 23% for all County employees in 2012-13.
- 6) This account funds the Commission's rental costs for office space. The budgeted amount contemplates an anticipated move to a smaller office suite located at 1030 Seminary Street in Napa, which will reduce the annual rent by close to one-fifth based on a tentative understanding with the prospective new landlord for a flat annual charge of \$24,283.95 through 2016-17.
- 7) It is expected the Commission's need for County Counsel services in 2012-13 will remain the same at approximately 140 total hours. An expected 5% increase in the current \$154 hourly rate was budgeted last year, but did not occur. Staff anticipates - for budgeting purposes - a 5% increase will occur in 2012-13.
- 8) This account funds the Commission's technology services that include network (County), electronic document database (Incrementum), and website hosting (Planeteria). A small increase is budgeted to fund a new monthly service charge from Granicus to begin live-streaming all Commission meetings.
- 9) This account funds nominal/routine office expenses for the Commission; the largest single cost involving a lease with Xerox for copying/printing. An increase is budgeted to cover new utility costs (electric and garbage) tied to the contemplated office relocation to 1030 Seminary Street.

- 10) This account covers auditing/accounting services provided by the County of Napa as well as funding an independent annual audit. A 5.0% increase in the Auditor's hourly staff rate is budgeted.
- 11) This account covers one-time expenses. An increase is budgeted to fund a software and training purchase from Granicus to implement live video streaming services for Commission meetings.