



Solano Local Agency Formation Commission

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Staff Report

DATE: January 26, 2018 for the Meeting of January 30, 2018
TO: Finance Committee (Commissioner Sanchez and Alt. Commissioner Smith)
FROM: LAFCO Staff
SUBJECT: Mid-Year Budget Status, and Budget Appropriation Discussion

RECOMMENDATION:

- 1) Receive the mid-year budget status report.
- 2) Discuss making recommendations to the Commission to appropriate funds from Fund Balance.
- 3) Discuss making other recommendations to the Commission as related to the mid-year budget.

BACKGROUND:

The mid-year budget status provides an overview of LAFCO's expenses and revenues through December 31, 2017. The Commission's adopted operating budget for the current year is \$459,319. This included \$316,539 for salaries and employee benefits, and \$142,780 for services and supplies. At mid-year, expenditure (actuals plus encumbrance) totaled \$185,858 which represents approximately 40% of the adopted operating budget.

The operating budget was adopted with the anticipation that the fund balance from 2016-2017 would not be appropriated until mid-year due to the uncertainty of the starting date of the new Executive Officer.

Commissioners

Nancy Shopay, Chair • Harry Price, Vice-Chair • Pete Sanchez • Jim Spering • John Vasquez

Alternate Commissioners

Len Augustine • Shawn Smith • Skip Thomson

Staff

Rich Seithel, Executive Officer • Michelle McIntyre, Analyst • P. Scott Browne, Legal Counsel

Mid-Year Status:

It is important to note that the budget was developed with the intention that an executive officer employee would begin on July 1, 2017, the first day of the fiscal year. However, the new Executive Officer’s start date was approximately 3 pay periods into the fiscal year and that during this time period, the Commission relied on a consultant for executive services. Thus, the salaries and employee benefits category is only at 37% of the budgeted expenses. As an aside, consultants are paid from Services and Supplies budget line items.

For the purposes of this report, the term “revenue” is broadly used to encompass all sources of funds used to finance LAFCO’s total expenditure. This includes funding from the county and cities, fees collected from changes of organization applications, and interest income. At mid-year, total revenue recognized was \$478,143, representing 104% of the anticipated budget amount. The higher than anticipated revenue can be attributed to fees collected from changes of organization applications.

The table below is a summary of the mid-year budget status.

Table - Summary of Mid Year Status

	2017-18 Adopted	Mid-Year – (Actual Plus Encumbrance)	Percent of Budget at Mid- Year
EXPENDITURES			
Salaries and Benefits	\$316,539	\$116,394	37%
Services and Supplies	\$142,780	\$69,464	49%
Total Expenditures	\$459,319	\$185,858	41%
REVENUES			
Intergovernmental Revenue	\$447,319	\$447,319	100%
Applications	\$10,000	\$29,661	296%
Interest Income	\$2,000	\$1,163	58%
Total Revenues	\$459,319	\$478,143	104%
Reserve	\$91,996	\$91,996	
Fund Balance	\$28,710	\$28,710	

Discussion of Fund Balance and Appropriation Options:

Fund Balance

The fund balance account represents the carry-over funds from the prior fiscal year’s budget. The Commission’s unappropriated fund balance from fiscal year 2016-2017 is \$28,710. As noted above, the Commission’s budget was adopted with the concept that the fund balance would be appropriated at mid-year at the Commission’s discretion. At the April 2017 public hearing, discussions centered on appropriating funds from the fund balance to pay-down the

CalPERS Unfunded Actuarial Liability (UAL) and funding the Commission's reserve assigned to legal defense.

CalPERS Unfunded Actuarial Liability (UAL)

As of June 30, 2016, LAFCO's UAL was \$21,605. The Commission gave direction to pay-off the CalPERS UAL within 5 years beginning FY 2016-2017. The first payment was made on August 2016 that fiscal year. As of June 30, 2017 (the last day of the prior fiscal year), per CalPERS, the Commission's UAL was \$16,143. The Committee may consider recommending that the Commission appropriate funds from the fund balance to make a payment within this fiscal year.

Reserve Other and Reserve Legal Defense

The Commission's contingency reserve (budget line item 000730 and identified as Reserve Other), totals \$91,996. This represents approximately 20% of the Commission's total expenditures for FY 2017-18. Per policy, attached, the contingency reserve is no less than 20% of the Commission's total expenditures. The Committee may consider recommending the Commission appropriate funds from the fund balance to increase the contingency reserve.

The Commission's Legal Defense reserve is currently unfunded. Per policy, the Commission may use fund balance (and other sources outlined in the attached policy) to fund its legal defense reserve account. Therefore, the Committee may consider recommending the Commission appropriate funds from the fund balance to the legal defense reserve account.

2018-2019 Budget

California Government Code Section 56381 allows the Commission to retain the fund balance to use in the next fiscal year's budget, 2018-2019. This would help off-set the cost to LAFCO's funding agencies. The Committee may consider recommending the Commission defer appropriating the fund balance until next fiscal year.

Summary of Possible Recommendations for the Committee to Consider:

In summary, the Finance Committee should discuss the fund balance and whether to: pay-down/pay-off the CalPERS UAL, increase the contingency reserve, fund the legal defense reserve, or leave as is and use the funds to off-set the costs of the 2018-2019 budget. Upon the Committee's recommendation, staff can then prepare a resolution for the Commission's consideration and approval at its February 26, 2018 meeting.

Attachments:

- A - Mid-Year Status Report
- B - Reserve Policy