

Les Baugh
County Member

Larry Farr
City Member

James Yarbrough
City Member Alternate

Invin Fust
Special District Alternate

Pam Giacomini
County Member Alternate

Brenda Haynes
Special District Member



Brent Weaver
City Member

David Kehoe
County Member

Stephen Morgan
Special District Member

Dick Eytan
Public Member

Bob Richardson
Public Member Alternate

Vacant
Executive Officer

Thursday, April 30, 2015

Re: Shasta LAFCO Proposed FY 2015/16 Budget (Item # 5)

Commissioners:

Summary & Recommendations

The Fiscal Committee and LAFCO staff have continued their work since the recent Commission Budget Workshop on Shasta LAFCO finances, including a detailed review of expenditures to date compared to the adopted FY 2014/15 budget, the preparation of an updated Cash-Flow Plan for the balance of this year, and the preparation of a Proposed FY 2015/16 Budget. Based on this considerable work, and despite at least short term challenges, the Fiscal Committee and staff have concluded that Shasta LAFCO will need no loans or "bridge" financing to complete FY 2014-15, but some current year costs will need to be deferred to FY 2015-16. As a result, and even after absorbing deferred costs from FY 2014-15, LAFCO can meet all of its essential functions in FY 2015-16 without increasing the contributions to be requested from affected local agencies.

It is recommended that the Commission consider a staff report on Shasta LAFCO's Proposed FY 2015-16 Budget, as summarized in this written report, and then consider the following actions:

1. Conduct a public hearing to accept comments on the Proposed FY 2015-16 Budget;
2. Adopt the Proposed FY 2015-16 Budget, as modified as the Commission may determine;
3. Authorize and direct staff to inform the affected Shasta County local agencies of the Proposed FY Budget, and resulting requested cost share contributions without an increase from FY 2014-15;
4. Consider directing staff, working with the Executive Committee, to develop a proposed Executive Officer request for proposals (RFP) that is consistent with the adopted Proposed FY 2015-16 Budget; and
5. Consider directing staff, working with the Fiscal Committee, to develop a proposed auditing RFP that would solicit proposals for (a) Fiscal audits for FY 2012-13, 2013-14 & 2014-15 and (b) A detailed disbursements review for the period of October 2013 through March 2015.

Proposed FY 2015/16 Budget

The attached Proposed FY 2015-16 Budget document can be summarized as follows:

- **No Increased Agency Contributions** – The Proposed FY 2015/16 Budget would maintain local agency contributions to finance LAFCO functions without any increase. The Fiscal Committee and staff believe that all essential LAFCO functions can be accomplished without asking affected local agencies to increase the next fiscal year budget, even after paying for identified costs proposed to be deferred from FY 2014/15. This, it is believed, can occur even while projecting a modest \$10,017 FY 2015-16 ending projected fund balance, to be used for future MSRSOI update planning, general contingencies and/or other possible LAFCO activities.
- **Contract Executive Officer Appointment Options** – The Fiscal Committee's Proposed FY 2015-16 Budget would allocate \$50,000 for new contract executive officer services. Because most of the MSRSOI update work has been completed, and application work to be performed will be 100% applicant fee based, the Fiscal Committee and staff believe this is a realistic maximum contract costs for the performance of general LAFCO functions. An illustrative conceptual budget for contract executive officer services that would meet this proposed budget allocation is attached. Again, it is premised on a part-time general services need, with an independent contractor agreement structured to have the selected consultant also provide fee-based application project work for LAFCO as needed.
- **Legal Services** – Based on experience from recent years, with LAFCO legal costs having significantly increased from FY 2012/13 when all such costs were approximately \$8,950, the Fiscal Committee is recommending a budget line item of \$12,980, plus funding for legal fees deferred from FY 2014-15 that are estimated to be \$29,443. A less contentious and litigious agency work environment going forward should allow Shasta LAFCO to get back to a substantially reduced legal services budget after FY 2015-16.
- **Financial Audits** – The Proposed FY 2015-16 Budget would allocate \$10,000 for financial audits to be completed in the new fiscal year. (See related discussion in staff report for Agenda Item #4.) The proposed RFP for these services will be structured to solicit proposals addressing all unaudited prior fiscal years in a manner that is consistent with best public agency practices, including the possibility of "review" level audits for FY 2013-14 and FY 2014-15, with a full audit for FY 2014-15; and a specific disbursements audit for the period from October 25, 2013 through March of 2015 in light of questions that have been raised in the Fiscal Committee's and staff's review of FY 2014-15 finances for cash-flow and budget preparation purposes in the weeks since April 2, 2015.

The proposed RFP structure would allow the Commission to select one or more auditors to perform one or multiple audit tasks, commencing as soon as possible, depending on what is determined to be most feasible, cost effective and affordable once actual CPA proposals are requested and received for consideration. Based on the preliminary evaluation of the total estimated cost of contract executive officer and staff support functions, with the combined proposed budget amounts for these two functions in excess of the actual estimate, some such budget savings or an additional amount from the now

projected FY 2015-16 fund balance, could be used to augment the actual Commission determined audits work scope when proposal are received.

- ***Fund Balance Management*** – During the Fiscal Committee and staff reviews of existing LAFCO finances and in the preparation of the Proposed FY 2015-16 Budget, it became apparent that former executive management had not fully accounted for local agency application fees, as deposited, expended and unused. As a result, among other accounting deficiencies that are now being corrected, there has not been a dedicated fund balance for deposited but unused application fees that are to be used strictly for annexations and other project specific LAFCO activities. The proposed budget would correct this and require that any such funds balances be set aside for the dedicated project uses.

Similarly, the Fiscal Committee has had the foresight to recommend that Shasta LAFCO begin to build a reserve for staged future MSR/SOL updates (e.g., starting in FY 2017-18 and finishing in 2019-2020). This would enable LAFCO to complete the 5-year updates advised by the Legislature without the extraordinary and somewhat chaotic process that was undertaken during the past 22-months, and without related financial disruption.

Active Budget Management – The Fiscal Committee and staff, in preparing and evaluating Shasta LAFCO financial data, is confident that the past year data on which the Proposed FY 2015/16 Budget projections are based is now accurate. With the exception of some payables that had not been timely processed to a show a full and accurate picture of LAFCO accounts payable under former executive management, and notwithstanding inexplicably late and incomplete reporting to the Commission on the actual financial status of Shasta LAFCO, the Fiscal Committee and staff are confident that existing LAFCO accounting information supporting the Proposed 2015/16 Budget is sound and can be fully relied on.

Accordingly, there is no identifiable factual basis for the former executive officer's recent contention that there could be as much as a \$60,000 short-fall in the FY 2015/16 Budget, requiring LAFCO to significantly increase its funding requests from the County, the cities and the affected local special districts. Furthermore, with active fiscal management of the kind the Fiscal Committee, existing staff and the full Commission have undertaken during the past four weeks, and with the implementation of proper internal controls for managing applicant funded application-based work budgets and agency disbursements without delay as planned, the Proposed FY 2015/16 Budget can be properly managed to ensure that expenditures are kept fully within proposed revenues.

Conclusion & Recommendations

There are many related issues and options associated with the Proposed FY 2015-16 Budget but the LAFCO Fiscal Committee and Office Manager Kathy Bull should be commended for digging into, verifying the accuracy of and updating available LAFCO financial data, and to project a realistic and manageable cash flow plan for the balance of FY 2014/15 on which the proposed budget is based. As a result, the Proposed FY 2015/16 Budget can be adopted and

implemented without increasing contributions from affected local agencies next fiscal year, while meeting all essential LAFCO functions.

It is therefore recommended that the Commission consider the proposed actions as above outlined.

Sincerely,



James M. Underwood, General Counsel

Attachments: (1) Fiscal Committee's Proposed FY 2015/16 Budget;
(2) Conceptual Contract Executive Officer Contract Budget

**PROPOSED FY 2015/16 BUDGET
SHASTA LOCAL AGENCY FORMATION COMMISSION**

Categories	Adopted FY 2014- 2015 Budget	Fiscal Year FY 2014/15 Estimated Actual	PROPOSED BUDGET FY 2015-2016	INCREASE/ (DECREASE) FROM FY 2014/15 EST. ACTUAL	PERCENTAGE OF FY 2014/15 EST. ACTUAL	Deferred from FY 2014-2015	Notes & Comments
EXPENSES							
Salaries & Benefits							
Payroll Salaries							
Regular Hours	\$ -	\$ -	\$ -	\$ -	%	\$ -	
Admin PT*	0	0	0	0		0	All LAFCO staff will continue to be independent contractors so there are no salary and benefit costs at this time.
Bereavement*	0	0	0	0		0	
PTO*	0	0	0	0		0	
Payroll Salaries Sub Total	0	0	0	0		0	
Employer Expense							
Employer Taxes	0	0	0	0		0	Any such expenses are to be paid by the independent contractors so there are no LAFCO benefits or payroll costs at this time.
Employer Share Health/Dental	0	0	0	0		0	
Payroll Processing	0	0	0	0		0	
Retirement - PERS	0	0	0	0		0	
Retirement - PERS - Past Employee	0	0	0	0		0	
Worker's Comp Exposure	0	(38)	0	0		0	
Employer Expense Sub Total	\$ -	\$ (38)	\$ -	\$ -		0	
Payroll - Other							
Payroll - Other Sub Total	\$ -	\$ -	\$ -	\$ -		0	
Total Salaries & Benefits	\$ -	\$ (38)	\$ -	\$ -	0.0%	0	
Services and Supplies							
Contract Employment Services							
Contractor Executive Officer	53,340	48,350	50,000	1,650	103.4%	0	This assumes a part-time EO contract in FY 2015/16 not to exceed \$50,000. See attached Conceptual Proposed FY 2015-16 Executive Officer & Staff Support Budget details.
Payroll - Temporary LAFCO Personnel	58325	68193	27872	(40321)	40.9%	0	This assumes part-time (.6 FTE) temporary staff support in FY 2015/16. See attached proposed Staff Support Cash Flow & FY 2015-16 Budget details.
Contract Employment Services - Sub Total	\$ 111,665	\$ 116,543	\$ 77,872	\$ (38,671)	66.8%	0	
Office Services & Supplies							
Bank & Transfer Fees	100	423	468	45.00	110.6%	0	
Communications	2300	2253	2040	(213.00)	90.5%	0	
Info Tech Tools & Equip	650	43	300	257.00	697.7%	0	
Memberships	3500	3466	3500	34.00	101.0%	0	CALAFCO and SDRMA memberships.
Mileage Reimbursement	700	207	240	33.00	115.9%	0	
Office Cleaning	0	0	1140	1140.00		0	This is a new proposed budget item for monthly LAFCO office cleaning.
Office Expense	300	1358	500	(858.00)	36.8%	0	
Office Furnishings	0	972	0	(972.00)	0.0%	0	
Office Supplies	2000	3521	1500	(2021.00)	42.6%	0	
Postage & Shipping	900	983	675	(308.00)	68.7%	0	
Printing	300	320	200	(120.00)	62.5%	0	
Office Services Supplies - Sub-Total	\$ 10,750	\$ 13,546	\$ 10,563	\$ (2,983)	78.0%	0	

**PROPOSED FY 2015/16 BUDGET
SHASTA LOCAL AGENCY FORMATION COMMISSION**

Professional Services							
Miscellaneous Professional Services							
Consulting - Misc.	0	2300	0	0	0.0%	0	The FY 2014-15 expenditure was not an Adopted Budget approved expenditure.
Contract EO- Application Work	8400	6163	4566	0	74.1%	0	All such expenses are to be 100% application fee funded. See fund balances below.
Elections	250	0	0	0		0	
Engineering	250	0	0	0		0	
Fiscal/Audit Services	10000	4579	10000	5421	218.4%	0	The proposed audit scope assumes a FY 2012/13 Balance Sheet audit, a full audit of FY 2013/14, and a separate disbursements audit for FY 2013/14 through March 2015.
InfoTech Services	1250	2780	250	(2530)	9.0%	0	
InfoTech - Website	650	1519	950	(569)	62.5%	0	
Planning and GIS	2000	508	750	242	147.6%	0	
Other Professional Services	0	0	0	0		0	
Miscellaneous Services - Sub-Total	\$ 22,800	\$ 17,849	\$ 16,516	\$ (1,333)	92.5%	0	
Legal Counsel							
Misc. Legal Services	18000	17992	17980	12	99.9%		
Expenses Deferred from FY 2014/15	0	0	29443	29443		29443	Deferred from FY 2014/15 by agreement of LAFCO Gen. Counsel. See attached FY 2014-15 General Counsel Cash Flow Budget.
Legal Counsel Sub Total	18000	17992	47423	29431	263.6%	29443	
Professional Services Sub Total	\$ 40,800	\$ 35,841	\$ 63,939	\$ 28,098	178.4%	\$ 29,443	
Rents, Leases & Misc.							
Property & General Liability	1700	1630	1700	70	104.3%	0	
Publications/Legal Notices - Regular	1500	912	1000	88	109.6%	0	
Rents & Leases Equipment - Postage Meter	400	752	400	(352)	53.2%	0	
Rents & Leases Equipment - Copier	3800	5570	4452	(1118)	79.9%	0	Based on a proposed restructured service agreement.
Rents & Leases Equipment - Copy Coverage Charges from FY 2014-15	0	0	2137	2137		2186	Estimate of FY 2014-15 "extra charges" based on FY2014-14 amended lease terms, with deferred charges.
Rents & Leases of Structures	12000	11552	12000	448	103.9%	0	
Small Tools & Equipment	350	277	0	(277)	0.0%	0	
Software	350	803	0	(803)	0.0%	0	
Rents, Leases & Misc. Sub Total	\$ 20,100	\$ 21,496	\$ 21,689	\$ 193	100.9%	2186	
MSR/SOI Expenses							
CDFW Fees	4000	0	0	0		0	
GIS Services	3000	7721	1561	0		1561	Deferred from FY 2014/15.
Mileage Reimbursement	0	429	0	0		0	
Postage	600	57	0	0		0	
Printing	135	749	0	0		0	
Public Hearing Notice	1050	1478	0	0		0	
Office Supplies	500	1143	0	0		0	
Transport/Train/Lodge - Staff	0	4422	0	0		0	See proposed audit comments above regarding proposed FY 2014-15 disbursements audit.
MSR/SOI Expenses Sub-total	\$ 9,285	\$ 15,999	\$ 1,561	\$ -		1561	
Transportation/Travel & Utilities							
Transportation/Travel - Staff	2000	3396	0	0		0	
Transportation/Travel - Commissioner	0	439	0	0		0	
Utilities	1500	2252	1800	452	79.9%	0	
Trans./Travel & Utilities Sub Total	\$ 3,500	\$ 6,087	\$ 1,800	\$ (4,287)	29.6%	0	

**PROPOSED FY 2015/16 BUDGET
SHASTA LOCAL AGENCY FORMATION COMMISSION**

Application Services & Supplies							
Professional Services						0	
Support Services						0	
Supplies						0	
Applications Sub-Total	\$ -	\$ -	\$ -	\$ -		0	
Total Services & Supplies	\$ 196,100	\$ 209,512	\$ 177,424	\$ (17,650)	84.7%	33190	
Appropriation for Contingency	0	0	0	0			
TOTAL EXPENSES	\$ 196,100	\$ 209,473	\$ 177,424	\$ (32,049)	84.7%	33190	
REVENUES							
Interest	450	115	150	35	130%		
Intergovernmental Revenue							
Contribution from Cities	62000	62000	62000	0		There will be no increased local agency contributions with the Proposed Budget.	
Contribution from Shasta County	62000	62000	62000	0		There will be no increased local agency contributions with the Proposed Budget.	
Contribution from Special Districts	62000	62000	62000	0		There will be no increased local agency contributions with the Proposed Budget.	
Total Intergovernmental Revenue	\$ 186,000	\$ 186,000	\$ 186,000	\$ -			
Miscellaneous Revenue	50	0	0	0			
Fees Received - Applications	9600	4700	0	0		A review of current fee policies & procedures is recommended in FY 2015-16.	
TOTAL REVENUES	\$ 196,100	\$ 190,815	\$ 186,150	\$ (4,665)	97.6%		
EXPENSES (OVER)/UNDER REVENUES	\$ -	\$ (18,658)	\$ 8,726	\$ 27,384			
BALANCE OF ACCOUNTS							
ACCOUNTS		ADOPTED FY 2014/2015 BUDGET	ACTUAL ESTIMATED FY 2014/2015	FY 2015/16 FUND BALANCES	INCREASE/ (DECREASE)	PERCENTAGE CHANGED	
Beginning Balance							
Prior Deposited Application Fees Balance				\$ 4,566			This balance, which includes monies received from Mayers, Deschutes, Mountain Gate, must conform to previously deposited but unexpended application fees from prior years.
Future MSR/SOI Update Reserve				0	0		This is a new proposed reserve fund for staged future MSR/SOI updates.
Unrestricted Funds				5451			The proposed budget would result in this projected unrestricted fund balance.
Beginning Balance Sub-total			\$ 13,689	\$ 10,017			
Ending Balance							
Prior Deposited Application Fees Balance				\$ -	\$ -		Application fee balances are to be maintained here for specific projects work.
Future MSR/SOI Update Reserve				0	0		This is a new proposed reserve fund for staged future MSR/SOI updates.
Unrestricted Funds				10017	10017		
Ending Balance Sub-total			\$ 1,291	\$ 10,017	\$ 8,726	776.0%	This projected Ending Fund Balance would serve as a 5.4% contingency fund.

**CONCEPTUAL SHASTA LAFCO CONTRACT EXECUTIVE OFFICER
FY 2015-16 BUDGET**

Consulting Assumptions		Principal Consultant		Contract Analyst		TOTAL
Monthly Hours						
General		10		35		45
Monthly Meeting		4		4		8
Monthly Hours Sub-Total		14		39		53
Cost Per Hour		\$ 104		\$ 68		\$ 78 (Ave.)
Est. Cost Per Month		\$ 1,456		\$ 2,652		\$ 4,108
Est. Cost Per Year		\$ 17,472		\$ 31,824		\$ 49,296