



Local Agency Formation Commission
LAFCO of Napa County

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June 7, 2010
Agenda Item No. 6b (Public Hearing)

May 27, 2010

TO: Local Agency Formation Commission

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

SUBJECT: Adoption of a Final Budget for Fiscal Year 2010-2011

The Commission will consider adopting a final budget for 2010-2011 totaling \$413,480. The recommended final budget is nearly identical to the proposed budget adopted by the Commission in April and would reduce expenses by 16.8%. The recommended final budget also continues to incorporate several key changes to the budget process, including the elimination of apportioning annual reserves and contingencies in favor of maintaining three months of operating reserves in the fund balance.

The Local Agency Formation Commission of Napa County (“Commission”) is responsible for annually adopting a proposed budget by May 1st and a final budget by June 15th. 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.

A. Background

Funding Sources

The Commission’s operating expenses are primarily 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 apportioned among the five cities based on a weighted calculation of population and general tax revenues. It has been the practice of the Commission to only budget operating expenses given its prescribed funding sources. It has also been the practice of the Commission to return all of its unspent revenues (contributions, application fees, etc.) to the funding agencies in the form of credits towards their calculated shares of the subsequent fiscal year budget. The Commission’s recent adopted operating expenses along with agency credits and apportionments follow.

Juliana Inman, Chair
Councilmember, City of Napa

Lewis Chilton, Commissioner
Councilmember, Town of Yountville

Joan Bennett, Alternate Commissioner
Councilmember, City of American Canyon

Bill Dodd, Vice Chair
County of Napa Supervisor, 4th District

Brad Wagenknecht, Commissioner
County of Napa Supervisor, 1st 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

	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10
Adopted Expenses	<u>\$436,915</u>	<u>\$456,758</u>	<u>\$466,672</u>	<u>\$552,168</u>	<u>\$496,961</u>
Agency Credits					
County of Napa.....	44,343	72,658	91,669	99,701	94,515
City of Napa.....	30,827	49,793	62,807	65,691	63,508
City of American Canyon..	4,974	9,126	11,909	15,558	14,631
City of St. Helena.....	3,597	5,813	7,188	7,687	6,786
City of Calistoga.....	2,967	4,737	5,612	6,034	5,391
Town of Yountville.....	1,977	3,190	4,154	4,732	4,199
	<u>88,686</u>	<u>145,317</u>	<u>183,338</u>	<u>199,402</u>	<u>189,030</u>
Agency Contributions					
County of Napa.....	174,114	155,720	141,667	176,383	153,966
City of Napa.....	118,873	106,679	90,934	119,820	105,429
City of American Canyon..	22,477	20,542	24,502	27,180	22,011
City of St. Helena.....	13,849	12,095	10,801	12,134	11,135
City of Calistoga.....	11,324	9,243	8,509	9,714	8,743
Town of Yountville.....	7,592	7,160	6,920	7,534	6,648
	<u>348,229</u>	<u>311,411</u>	<u>283,333</u>	<u>352,765</u>	<u>307,931</u>
	<u>\$436,915</u>	<u>\$456,758</u>	<u>\$466,672</u>	<u>\$552,168</u>	<u>\$496,961</u>

2010-2011 Budget Committee

At the December 3, 2009 meeting, Commissioners Chilton and Kelly were appointed to the 2010-2011 Committee. The Committee met on January 13, 2010 to review the Commission’s operating expenses for the upcoming fiscal year. The Committee created a spending baseline to identify agency expenses to maintain the current level of services at next fiscal year’s price for labor and supplies. In reviewing the spending baseline, the Committee considered actual expenses from previous fiscal years and whether adjustments in spending are appropriate to reflect anticipated changes in demand or need. The Committee also focused on whether changes to the overall budget process are warranted to improve the financial management of the agency. Proposed changes to the budget process identified by the Committee include:

- Begin budgeting revenues
- Maintain the fund balance to be equal to three months of operating expenses at the beginning of each fiscal year
- No longer budget an annual operating reserve or consultant contingency in favor of relying on the agency’s fund balance to cover unexpected expenses

Draft Proposed Budget

The Committee incorporated the preceding changes in preparing and presenting a draft proposed budget for 2010-2011 totaling \$413,480 in operating expenses at the Commission's February 1, 2010 meeting. The Commission approved the draft proposed budget as submitted and directed staff to seek comments from the funding agencies in anticipation of considering formal adoption of the item in April. Staff mailed notice to all six funding agencies the following day inviting their review and comment on the approved draft proposed budget. No comments were received.

Proposed Budget

The Committee returned to the Commission at its April 5, 2010 meeting with a proposed budget for adoption. The proposed budget was nearly identical to the earlier approved draft with the exception of minor changes to anticipated revenues. The proposed budget continued to project overall operating expenses at \$413,480. The Commission adopted the proposed budget as submitted and directed staff to seek comments from the funding agencies in anticipation of adopting a final budget in June. No comments were received.

B. Discussion

The Committee returns with a recommended final budget for consideration by the Commission. The recommended final budget is substantially identical to the proposed budget adopted in April with the exception of updating the allocation shares of the six funding agencies based on a revised calculation of expected end-of-year credits as well as incorporating the latest city populations and general tax revenues published by the State. (Allocation shares will be finalized at the end of the fiscal year to reflect actual end-of-year credits. The Commission will amend the final budget at its August meeting to reflect actual allocation amounts as needed.) An expanded discussion of projected expenses and revenues in 2010-2011 follows.

Expenses

The recommended final budget projects operating expenses in 2010-2011 will total \$413,480. This projected amount is unchanged from the earlier adopted proposed budget and represents a decrease of \$83,481 or 16.8% over the current fiscal year. Almost all of the decrease is attributed to the Committee's recommendation to eliminate the annual reserve and consultant contingency. Also attributing to the decrease is a sizeable reduction in the annual service charge by the County for providing information technology services (ITS) based on their own calculation in apportioning user costs.

Notwithstanding the overall decrease in operating expenses, certain account costs are scheduled to increase in 2010-2011. Expenses in the salaries/benefits unit are expected to increase by 2.0% with the majority tied to accommodating recent and pending merit advances for staff consistent with the County's job classification system. Expenses in the services/supplies unit are also expected to increase primarily due to funding a new account to provide capital replacement for the agency's recently purchased electronic document

management system. The aforementioned savings in ITS, though, helps reduce the overall increase in the services/supplies unit to 1.2%.

Expense Unit	Adopted FY09-10	Recommended FY10-11	Change
Salaries/Benefits	<u>288,265</u>	<u>293,973</u>	<u>2.0</u>
Services/Supplies	<u>118,063</u>	<u>119,506</u>	<u>1.2</u>
Contingencies/Reserves	<u>90,633</u>	<u>0</u>	
	<u>\$496,961</u>	<u>\$413,480</u>	<u>(16.8%)</u>

Revenues

The recommended final budget projects nearly nine-tenths of all revenues in 2010-2011 will be drawn from agency contributions and will total \$371,120. This amount represents a 20.5% increase over agency contributions collected for the current fiscal year. The projected increase in agency contributions corresponds with the anticipated decrease in unspent revenues available at the end of this fiscal year to be converted into agency credits. In particular, credits for the current fiscal year totaled \$189,030 while credits for the upcoming fiscal year are expected to equal \$27,359. The cause of the anticipated decrease in credits is two-fold. First, actual salary and benefit costs increased due to the filling of the analyst position after nearly a two-year vacancy. Second, in conjunction with the recommendation to eliminate annual reserve and contingency appropriations, the Committee proposes to hold back \$103,370 in unspent revenues from the credit pool to retain in the fund balance, which equals three months of operating expenses.¹ Expected application fees, interest earnings, and the aforementioned agency credits will provide the remaining revenues necessary to cover anticipated operating expenses.

Revenue Type	Final FY09-10	Recommended FY10-11	Change
A. Agency Contributions			
County of Napa.....	153,966	185,560	20.5
City of Napa.....	105,429	124,721	18.3
City of American Canyon..	22,011	28,633	30.1
City of St. Helena.....	11,135	13,193	18.5
City of Calistoga.....	8,743	11,912	26.9
Town of Yountville.....	6,648	7,917	19.1
	<u>307,931</u>	<u>371,120</u>	<u>20.5</u>
B. Agency Credits	<u>189,030</u>	<u>27,359</u>	<u>(85.5)</u>
C. Application Fees	---	<u>10,000</u>	---
D. Interest	---	<u>5,000</u>	---
	<u>\$496,961</u>	<u>\$413,480</u>	<u>(16.8%)</u>

¹ The Commission's fund balance totaled \$211,870 as of July 1, 2009. The fund balance is expected to decline to \$153,569 and \$126,210 by July 1, 2010 and July 1, 2011, respectively. The Committee believes it is appropriate for the fund balance to gradually lower to eventually equal three months of the agency's operating expenses by July 1, 2012.

C. Analysis

The recommended final budget for 2010-2011 is substantively identical to the proposed budget adopted in April, which generated no comments from the six funding agencies. The recommended final budget accomplishes the Committee's core objectives to (a) provide sufficient resources to maintain current service levels while (b) minimizing impacts on the funding agencies by limiting increases in discretionary expenses. The former accomplishment allows the Commission to preserve present staffing levels, which the Committee believes is merited given the agency's increasing workload. Most notably, along with processing applicant proposals and preparing municipal service reviews and sphere of influence updates, staff has assumed additional duties ranging from implementing an electronic document management system to expanding roles within the statewide association. Any reduction in staffing levels would create a corresponding decrease in fulfilling current duties. Further, while the funding agencies will experience a one-fifth rise in their contributions, the increase marks a natural readjustment given the higher-than-average credit totals received for the current fiscal year due to vacancy of the analyst position for most of 2008-2009.

Additionally, the Committee's proposed changes to the budget process will improve the financial management of the Commission. Budgeting revenues, for example, will provide a transparent connection between operating expenses and funding sources at the time of budget adoption rather than continuing to invoice the funding agencies their calculated contributions in August without public discussion. Eliminating annual appropriations for operating reserves and consultant contingencies in favor of managing the fund balance to maintain three months of operating expenses to cover unexpected events benefits both the Commission and funding agencies. The Commission will benefit from the change by clarifying its financial position at the end of each fiscal year by reducing the amount of cash tied to agency credits remaining in the fund balance. The funding agencies will benefit from the change by enjoying more cost-certainty by receiving a more accurate and relatively stable appropriation charge at the beginning of each fiscal year.

D. Alternatives for Commission Action

The following alternative actions are available to the Commission:

Alternative One: Open the public hearing. At the close of the hearing, adopt by motion the attached draft resolution approving a final budget for 2010-2011 with any desired changes.

Alternative Two: Open the public hearing. If more information is needed, approve by motion the continuance of the hearing to a special meeting calendared no later than June 15, 2010.

E. Recommendation

It is recommended the Commission approve Alternative One. This involves adopting the attached draft resolution approving the recommended final budget for 2010-2011 with any desired changes.

Respectfully submitted on behalf of the Committee,

Keene Simonds
Executive Officer

Attachments:

- 1) Draft Resolution Adopting a Final Budget for FY10-11
- ~~2) Agency Contribution Calculation for FY10-11~~

RESOLUTION NO. ____**RESOLUTION OF
THE LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY
ADOPTING A FINAL BUDGET FOR THE 2010-2011 FISCAL YEAR**

WHEREAS, the Local Agency Formation Commission of Napa County (“Commission”) is required by the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 to adopt a final budget for the next fiscal year; and

WHEREAS, Government Code Section 56381 requires the Commission annually adopt a final budget no later than June 15th; and

WHEREAS, at the direction of the Commission, the Executive Officer circulated for review and comment an adopted proposed budget to the administrative and financial officers of each of the six local agencies that contribute to the Commission budget; and

WHEREAS, the Commission reviewed all substantive written and verbal comments concerning the adopted proposed budget; and

WHEREAS, the Executive Officer prepared a report concerning a final budget, including his recommendations thereon; and

WHEREAS, the Executive Officer’s report was presented to the Commission in the manner provided by law; and

WHEREAS, the Commission heard and fully considered all the evidence presented at its public hearing on a final budget held on June 7, 2010; and

WHEREAS, the Commission determined the final budget projects the staffing and program costs of the Commission as accurately and appropriately as is possible;

NOW, THEREFORE, THE COMMISSION DOES HEREBY RESOLVE, DETERMINE, AND ORDER as follows:

1. The final budget as outlined in Exhibit One is approved.
2. The reduction in overall operating costs will nevertheless continue to allow the Commission to fulfill its regulatory and planning responsibilities as required under Government Code Section 56381(a).

The foregoing resolution was duly and regularly adopted by the Commission at a regular meeting held on June 7, 2010 by the following vote:

AYES: Commissioners _____

NOES: Commissioners _____

ABSTAIN: Commissioners _____

ABSENT: Commissioners _____

ATTEST: Keene Simonds
Executive Officer

RECORDED: Kathy Mabry
Commission Secretary