



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

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April 4, 2011
Agenda Item No. 6c (Public Hearing)

March 28, 2011

TO: Local Agency Formation Commission

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

SUBJECT: Proposed Budget for Fiscal Year 2011-2012

The Commission will consider adopting a proposed budget setting operating expenses and revenues for the 2011-2012 fiscal year. The proposed budget is identical to a draft approved by the Commission in February and subsequently circulated for review. Budgeted expenses total \$422,522; an amount that represents a 2.2% increase over the current fiscal year. Budgeted revenues total \$395,441 with the remaining shortfall (\$27,081) to be covered by drawing down on agency reserves.

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

Prescriptive Funding Sources

The Commission’s annual 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 to be apportioned among the five cities. The current formula for allocating the cities’ share 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 expenses – is budgeted from application fees and interest earned on the Commission’s fund balance.

The Commission’s unreserved/undesignated fund balance totaled \$168,819 as of July 1, 2010 and is currently projected to decrease by 4.2% to \$161,077 by June 30, 2011.

Lewis Chilton, Vice Chair
Councilmember, Town of Yountville

Juliana Inman, Commissioner
Councilmember, City of Napa

Joan Bennett, Alternate Commissioner
Councilmember, City of American Canyon

Bill Dodd, 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

Recent Changes in the Budgeting Process

In 2010, 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 contribution. 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.

Draft Proposed Budget for 2011-2012

The Committee met on January 12, 2011 to review the Commission's operating expenses for the upcoming fiscal year. The Committee created a spending baseline to identify agency costs to maintain the current level of services at next fiscal year's projected price for labor and supplies. In reviewing the 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. Two specific and interrelated policy objectives guided the Committee's review: (a) allocating sufficient resources to maintain current service levels while (b) limiting cost increases to the funding agencies.

The Committee incorporated the preceding factors in preparing and presenting a draft proposed budget at the Commission's February 7, 2011 meeting. The draft represented a "status-quo" budget in terms of maintaining existing service levels – including preserving present staffing levels – with expenses increasing by 2.2% over the current fiscal year at \$422,522. Revenues in the draft totaled \$395,441 with the remaining shortfall (\$27,081) to be covered by drawing down on agency reserves. Markedly, the reserve amount proposed for use in the draft was calculated by splitting the total increase in agency contributions (\$54,162) over the current fiscal year if no reserves were utilized.

The Commission approved the draft proposed budgeted as submitted at the February 7th meeting and directed staff to seek comments from the funding agencies in anticipation of consideration formal adoption of the item in April. Staff mailed notice to all six funding agencies the following week inviting their review and comment on the approved draft through March 10, 2011. No comments were received.¹

¹ Staff did receive a request for more information concerning the proposed increase in expenses incorporated into the approved draft proposed budget from the City of Calistoga on February 21, 2010. Staff responded immediately and appears to have satisfactorily addressed Calistoga's question with no follow-up inquiries from the City as of the date of this report.

B. Discussion

The Committee returns with a proposed budget for consideration by the Commission as part of a noticed public hearing. The proposed budget is identical to the draft approved by the Commission at its February 7th meeting. A detailed discussion of projected operating expenses and revenues follows.

Operating Expenses

The Committee proposes \$422,522 in budgeted operating expenses. This amount represents an increase of \$9,043 or 2.2% over the current fiscal year. The majority of the increase is attributed to two pass-through costs tied to the Commission’s staff support service agreement with the County involving (a) group insurance and (b) information technology. The former is projected to rise by \$7,694 or 20% and is primarily tied to escalating premium costs with Kaiser. The latter is expected to rise by \$6,191 or 34% as a result of recalculating the Commission’s proportional share of the County’s Information Technology Service (ITS) Department’s budget – which is increasing by 4% – based on the number of employees and personal computers. Significantly, due to a reporting error, the Commission’s ITS share for the current fiscal year was under-billed as a result of calculating only three of the four personal computers. This error has been addressed in recalculating next fiscal year’s Commission share and is primarily responsible for the approximate one-third increase in costs. Other budgeted expense increases include salaries at \$1,300 or 0.7% tied to a scheduled step increase for the analyst position and retirement benefits at \$1,212 or 3.5% due in part to the Commission assuming a larger portion of the California Public Employment Retirement System’s (CalPERS) rate.

Importantly, to reduce the impact of the two pass-through cost increases outlined above, the Committee has identified approximately \$8,000 in discretionary savings. These savings will help absorb close to one-half of all projected increases and involve reducing allocations for legal services, office supplies, and communications; all in amounts the Committee believes can be reasonably absorbed without adversely affecting service levels. The following table summarizes proposed operating expenses in 2011-2012:

Expense Unit	Adopted FY10-11	Proposed FY11-12	Change %
1) Salaries/Benefits	293,973	304,503	3.4
2) Services/Supplies	115,575	114,088	(1.3)
3) Capital Replacement	3,931	3,931	0.0
	\$413,479	\$422,522	2.2

Operating Revenues

The Committee proposes \$395,441 in budgeted operating revenues. Nearly this entire amount – \$383,101 – is proposed to be drawn from new agency contributions, which would mark an increase of \$27,082 or 7.6% increase over the current fiscal year. The rationale for the increase in agency contributions is two-fold. First, as detailed in the preceding section, the Committee is recommending the Commission’s operating expenses increase by \$9,043. Second, the amount of reserves to be drawn down for operating revenues is \$15,379 less than the amount budgeted for the current fiscal year. Markedly, the reserve amount proposed for use for the upcoming fiscal year was calculated by splitting the total difference in agency contributions between the two fiscal years if no reserves were utilized.²

Budgeted application fees and interest earned on the fund balance invested by the County Treasurer represent the remaining portion of budgeted revenues. No changes in application fees have been made relative to the current fiscal year. A small reduction, however, has been made to earned interest to reflect the current return rate on the Commission’s fund balance generated through the current fiscal year. The following table summarizes proposed operating revenues in 2011-2012

Revenue Unit	Adopted Final FY10-11	Proposed FY11-12	Change %
1) Agency Contributions	356,019	383,101	7.6
<i>County of Napa</i>	178,009	191,550	7.6
<i>City of Napa</i>	119,647	128,748	7.6
<i>City of American Canyon</i>	27,468	29,558	7.6
<i>City of St. Helena</i>	12,657	13,619	7.6
<i>City of Calistoga</i>	10,642	11,452	7.6
<i>Town of Yountville</i>	7,596	8,173	7.6
2) Application Fees	10,000	10,000	0.0
3) Interest	5,000	2,340	(53.0)
Total	\$371,019	\$395,441	6.6

C. Analysis

As detailed, the proposed budget for 2011-2012 is identical to the draft approved by the Commission in February and accomplishes the Committee’s core policy goals to (a) provide sufficient resources to maintain current service levels while (b) minimizing impacts on the funding agencies by limiting overall cost-increases. The former accomplishment allows the Commission to preserve present staffing levels that the Committee believes are merited given the agency’s workload ranging from processing proposals to preparing state-mandated studies, all of which are performed in-house. Notably, in 2011-2012, this will include preparing a municipal service review and related sphere of influence updates for the four agencies operating within the central county

² In other words, in the absence of using reserves, the funding agencies’ collective contribution to the Commission in 2011-2012 as proposed would increase from \$383,101 to \$410,182, a difference of \$27,081.

region.³ Staff has also 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.

The Committee also believes the recommendation to reduce agency contributions by drawing down on reserves in the amount of \$27,081 serves two key objectives. First, the reduction memorializes the Commission's commitment to proactively assist the funding agencies by cutting their potential contribution by exactly one-half given the current economic downturn underlying municipal operations. Second, the Commission will be similarly positioned for the following fiscal year to once again drawn down on its reserves, without exceeding the agency's three-month operating fund balance limit if the economic downturn persists.

D. Recommendation

It is recommended for the Commission to take the following actions:

- 1) Adopt the attached draft resolution approving the proposed budget for 2011-2012 with any desired changes;
- 2) Direct the Executive Officer to circulate the adopted proposed budget for final review and comment to each funding agency; and
- 3) Direct the Executive Officer to schedule a public hearing for the Commission to consider adopting a final budget at its June 6, 2011 meeting.

E. Procedures for Consideration

The following procedures are recommended with respect to the Commission's consideration of this item:

- 1) Receive verbal report from the Committee;
- 2) Open the public hearing (required);
- 3) Receive public comments, if any;
- 4) Close the public hearing; and
- 5) Discuss item and consider action on recommendation.

Respectfully submitted on behalf of the Committee,

Keene Simonds
Executive Officer

Attachment:

- 1) Draft Resolution Adopting a Proposed Budget for FY 2011-2012

³ The Central Napa County Study will include reviews of the City of Napa, Napa Sanitation District, Congress Valley Water District, and the Los Carneros Water District.

RESOLUTION NO. ____**RESOLUTION OF
THE LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY
ADOPTING A PROPOSED BUDGET FOR THE 2011-2012 FISCAL YEAR**

WHEREAS, the Local Agency Formation Commission of Napa County (hereinafter referred to as “the Commission”) is required by the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Sections 56000 et seq., hereinafter referred to as “Act”) to adopt a proposed budget for the next fiscal year; and

WHEREAS, Government Code Section 56381 requires the Commission to adopt a proposed budget no later than May 1; and

WHEREAS, at the direction of the Commission, the Executive Officer circulated for review and comment an approved draft 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 draft proposed budget; and

WHEREAS, the Executive Officer prepared a report concerning the proposed 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 the proposed budget held on April 4, 2011; and

WHEREAS, the Commission determined the proposed 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 proposed budget as outlined in Exhibit “A” is approved.
2. The proposed budget provides the Commission sufficient resources to fulfill its regulatory and planning responsibilities in accordance with Government Code Section 56381(a).

The foregoing resolution was duly and regularly adopted by the Commission at a regular meeting held on April 4, 2010 by the following vote:

AYES: Commissioners _____

NOES: Commissioners _____

ABSTAIN: Commissioners _____

ABSENT: Commissioners _____

ATTEST: Keene Simonds
Executive Officer

RECORDED: Kathy Mabry
Commission Secretary