

MEMORANDUM

TO: Local Agency Formation Commission

FROM: LAFCO Budget Committee

SUBJECT: **Agenda Item 3.1 – Review and Consideration of Proposed Budget for Fiscal Year 2023/24**

DATE: March 29, 2023 for the Meeting of April 6, 2023

Pursuant to Government Code Section §56381, please find attached the Proposed Budget for Fiscal Year 2023/24 as unanimously recommended for adoption by the Budget Committee (Johnson, McGreehan & Betts).

Summary

On March 23, 2023, the Budget Committee met to review and discuss both the current year budget projections and the Preliminary Budget for FY 2023/24. The Committee thoroughly considered the broad spectrum of fundamental responsibilities that LAFCO, as a regulatory body of the state, is expected to address beyond the specific processing of individual applications.

With this perspective in mind, the Committee's review was influenced by the following factors:

1. The Commission's recognition of the ever increasing roles that LAFCO's have in:
 - Assisting local agencies in the understanding of governance options and providing guidance to smaller agencies seeking to enhance their service capabilities;
 - Addressing local government functions and service delivery capabilities;
 - Identifying gaps in the provision of services throughout their counties; and
 - Addressing an increasing number of legislative mandates to consider disadvantaged populations and seek improved options and opportunities for cooperation between agencies to include consolidations and mergers.
2. The Commission's continued desire to maintain a consistent core staff equivalent to 3.5 full-time employees, all of whom are experienced individuals who provide superior service levels and local agency assistance.
3. The Commission's diligent effort over the past 16 years to implement cost saving measures, including employee furloughs, and conservatively maintaining increases in annual member agency apportionments to 3.81 percent. In addition, the Commission has been persistent in that it continues to advise member agencies of its potential necessity to incrementally increase apportionments to meet state mandated functions.

4. The Commission's fundamental interest in balancing its desired capability to meet statutory requirements (mandates) with the ability of contributing agencies to provide adequate levels of funding.

Budget Committee Proposal for FY 2023/24 Budget

Funding Sources

The Proposed FY 2023/24 Budget totals \$881,492 and reflects a three percent increase from the prior years' budget. Sources include:

- Interest - \$15,000 accounting for 2%.
- Member Agency Apportionments - \$790,409 accounting for 90%. While the Commission has intentionally maintained flat member agency apportionments for a number of years during the recession years' ago, it has consistently advised member agencies each year during the budget process and through adopted resolutions, that in order to achieve state mandated responsibilities consistent with GC56381, the potential need to incrementally increase agency apportionments would inevitably be required to meet the Commission's expectations. Although the Budget Committee has recommended a three percent increase in its total budget, it does in fact translate a zero percent increase to member agency apportionments.
- Charges for Services - \$50,083 accounting for 6%.
- Miscellaneous Revenue - \$6,000 accounting for 1%.
- MSR/SOI Trust Fund Transfer, \$20,000 accounting for 2%.

Expenditures

- Salaries and Wages and Benefits - \$649,220 accounting for 74%.
- Services & Supplies - \$177,272 accounting for 20%.
- Appropriations - \$55,000 accounting for 6%.

Under expenditures, the Committee specifically discussed the costs related to the Commission's Contractual Services Agreement with the County under human resources.

- Contractual Services Agreement – Human Resources/Payroll

The Budget Committee identified one Cost Center (Budget Line 53400) and Ledger Account (Professional and Specialized Services) that requires additional resolution/discussion. Specifically, the Spend Category for Human Resources (primarily payroll) provided by the County pursuant to the Contractual Services Agreement (CSA) between the two agencies first adopted in 2001 and revised in 2007 and 2013 without significant changes to responsibilities or costs (**Attachment 2**).

What is the Contractual Services Agreement (CSA)?

The CSA was established in 2001 when the County and LAFCo determined it was best if LAFCo was separated from the County Department of Development Services and functioned as its own department/budget and in separate quarters. The CSA continued in place in 2006 when LAFCo became an independent public agency but still shared considerable functions with the County. The primary purpose of the CSA was to retain the integral and historical relationship between the County and LAFCo, in a number of governance, fiscal, operational, political and other coordination reasons.

The CSA established LAFCo's right to the continued use of certain facilities, continued access to data bases and necessary County information and continue LAFCo's relationship with necessary County departments for various services. In short, the CSA maintained the necessary integrated relationship between LAFCo and the County so that public processes and access to information were not compromised.

How does the CSA relate to the budget issue?

The CSA established what departments LAFCo would continue use and how much those services would cost. However, the single most important language relates to how LAFCo is treated by the County. As stated in Article 2 of the CSA:

ARTICLE 2
SUPPORT SERVICES PROVIDED BY THE COUNTY

*The County agrees to provide the following support services to LAFCo during the term of this Agreement. In providing these contractual services for LAFCo, the County will follow all appropriate governmental standards and procedures. **The departments identified in this agreement will provide professional services to LAFCo on an "as needed" basis and in the same manner as provided to County departments.***

What is the issue now?

The Spend Category for human resources/payroll under the current CSA is \$13,500/year and the County Administrative staff proposes to increase this amount to \$52,000/year.

Why is this happening?

The County indicates the primary reason for the 400% increase in payroll services is the County's recent switch to Workday Enterprise Management software which has required considerably more County staff time to implement as well as all of the end users like LAFCo and other local agencies who utilize certain County functions such as the County Auditor and Treasurer. **The County also indicates that LAFCo was not constructed into Workday as a County department as required by the CSA, therefore the process for preparing payroll is more complicated and labor intensive.**

What is the cost for not being considered a County "department"?

It appears from reviewing County department budgets that Human Resources services cost approximately \$1,200/employee whereas LAFCo's four (4) employees would be

approximately \$13,000/employee. And bear in mind that LAFCo only requires payroll services and no other human resources functions such as recruitments, evaluations, etc.).

How is this action consistent with the CSA?

It is not. LAFCo staff were all county employees prior to independence and LAFCo staff was clearly to be viewed as another county department which is reflected in the Agreement.

Who initiated this action?

The County Administrative staff without review or direction from the County Board of Supervisors (BOS) informed LAFCo that it would unilaterally amend the CSA and terminate human resources services from our current CSA effective June 26, 2023.

The CSA is an agency to agency agreement and addresses a much larger government to government relationship and should not be considered just another vendor contract. It is Staff's strong belief that any amendments to the CSA should be negotiated between the BOS and the Commission and not unilaterally imposed at the administrative staff level.

Are there options?

Yes.

1. Accept the County Administrative staff proposed increase for payroll services and increase the LAFCo budget by \$25,000, from \$27,000 to \$52,000 and spread the new cost across all agency apportionments.
2. Adopt the proposed FY2023/24 LAFCo Budget as shown in Attachment "A" budgeting \$27,000 for human resources/payroll services. Should discussions with the County fail to change the trajectory of this cost issue, LAFCo would be able to borrow from reserves in FY 2023/24 and recover this cost in the FY 2045/25 Budget.
3. Same as 2 above with the direction to Staff to prepare a letter to the Board of Supervisors requesting the Board to accept a compromise to this issue by continuing to find a solution to the Workday structure that honors the CSA and treats LAFCo as a "department" at the same costs. Additionally, LAFCo would agree to a CSA amendment for a 100% increase in payroll costs from the current \$13,000 to \$27,000.
4. Maintain the CSA at its current \$13,000 costs for payroll services.

Notice

Notice of the FY 2023/24 Preliminary Budget Committee meeting held on March 23, 2023 was posted on March 20, 2023 and subsequently circulated to all member agencies, including the Butte County Special District's Association on March 20, 2023.

Public notice for the FY 2023/24 Proposed Budget Hearing (April 6, 2023) was published in the Chico Enterprise Record on March 15, 2023. In addition, the public notice was also posted on March 15, 2023 at Oroville City Hall, LAFCo's office and website.

ACTIONS RECOMMENDED AND REQUESTED BY BUDGET COMMITTEE:

1. Receive comments from the public and affected agencies on the Proposed Budget for FY 2023/24; and
2. Continue to place language within the budget resolution that advises member agencies of the potential need to incrementally increase agency contribution rates in order to achieve the state mandated responsibilities consistent with GC56381; and
3. Approve a five percent cost of living adjustment (COLA), to the currently adopted Salary Plan; and
4. Adopt the proposed FY2023/24 LAFCo Budget as shown in Attachment “1” budgeting \$27,000 for human resources/payroll services. Should discussions with the County fail to change the trajectory of this cost issue, LAFCo would be able to borrow from reserves in FY 2023/24 and recover this cost in the FY 2024/25 Budget.
5. Continue item to the next regularly scheduled Commission meeting on Thursday, May 4, 2023 for final adoption.

- Attachments: 1. Proposed Budget & Narrative for Fiscal Year 2023/24
2. 2013 Contractual Services Agreement



**Butte Local Agency Formation Commission
 Proposed Budget for FY 2023/24**

	2022/23			2023/24		
	Adopted: May 5, 2022			Proposed		
	Base Budget	Special Projects	Total	Base Budget	Special Projects	Total
FUNDING SOURCES						
441000 Interest	15,000	-	15,000	15,000	-	15,000
441001 Unrealized Gain/Loss	-	-	-	-	-	-
453000 Other Government Agencies (County)	355,683	-	355,683	355,683	-	355,683
453000 Other Government Agencies (Cities)	355,683	-	355,683	355,683	-	355,683
453000 Other-In-Lieu Revenue (Special Districts)	79,043	-	79,043	79,043	-	79,043
454000 Other-In-Lieu Revenue	-	-	-	-	-	-
462005 Charges for Services - Other	26,018	-	26,018	50,083	-	50,083
473000 Miscellaneous Revenue	6,000	-	6,000	6,000	-	6,000
473000 Miscellaneous Revenue (SOI Trust Fund)	20,000	-	20,000	20,000	-	20,000
Total Funding Sources	857,427	-	857,427	881,492	-	881,492
EXPENDITURES						
Salaries and Wages						
511000 Regular Wages	380,188	-	380,188	422,000	-	422,000
Total Salaries and Wages	380,188	-	380,188	422,000	-	422,000
Benefits						
512000 Retirement	84,735	-	84,735	94,000	-	94,000
513000 Employee Group Insurance	129,904	-	129,904	97,000	-	97,000
515000 FICA/Medicare/OASDI	29,282	-	29,282	32,300	-	32,300
516000 Other Benefits	4,480	-	4,480	3,920	-	3,920
Total Benefits	248,401	-	248,401	227,220	-	227,220
Total Salaries and Wages and Benefits	628,589	-	628,589	649,220	-	649,220
Services & Supplies						
523000 Communications	3,942	-	3,942	3,942	-	3,942
525000 Household Expense	1,000	-	1,000	1,000	-	1,000
526000 Insurance	6,696	-	6,696	6,551	-	6,551
531000 Memberships	8,025	-	8,025	8,000	-	8,000
533000 Office Supplies	6,000	-	6,000	6,000	-	6,000
534000 Professional & Specialized Services	93,139	-	93,139	94,889	-	94,889
535000 Publication & Legal Notice	3,500	-	3,500	3,500	-	3,500
537000 Rents/Leases Buildings & Improvements	15,996	-	15,996	16,350	-	16,350
539000 Special Departmental Expense	7,000	-	7,000	7,000	-	7,000
540000 Transportation/Travel	22,040	-	22,040	22,040	-	22,040
541000 Utilities	6,500	-	6,500	8,000	-	8,000
Total Services & Supplies	173,838	-	173,838	177,272	-	177,272
Appropriations						
580010 Appropriation Contingency	30,000	-	30,000	30,000	-	30,000
101001 Appropriation Reserve	25,000	-	25,000	25,000	-	25,000
Total Appropriations	55,000	-	55,000	55,000	-	55,000
Total Services & Supplies and Appropriations	228,838	-	228,838	232,272	-	232,272
Total	857,427	-	857,427	881,492	-	881,492

Proposed Budget Narrative for Fiscal Year 2023-2024

April 6, 2023

FUNDING SOURCES:

441000 – Interest	\$15,000
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Interest income is accrued on treasury cash.

453000 – Other Govt. Agencies (County, Cities, Special Districts)	\$790,409
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Allocation and Proportionate Share of Funding Requirement:

Other Governmental Agencies (County @ 45%)	\$355,683
Other Governmental Agencies (Cities @ 45%)	\$355,683
Other-In-Lieu Revenue (Special Districts @ (10%))	\$79,043

Calculations are prepared by the Butte County Auditor. Individual city shares are based on revenue as reported in the most recent edition of the Cities Annual Report published by the State Controller. Individual special district shares are based on revenues as reported in the most recent report of the "Financial Transactions Concerning Special Districts" published by the State Controller.

454000 – Other In Lieu Revenue	\$0
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Other in lieu revenue.

462000 – Charges for Services - Other	\$50,083
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Pursuant to the adopted Fee Schedule, application filing fees are charged to applicants for the processing of applications submitted for sphere of influence amendments, formations of special districts and changes of organization and reorganization. Application processing fees vary widely depending on the complexity of the action requested.

473000 – Miscellaneous Revenue	\$6,000
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CALAFO Stipend.

473000 – Miscellaneous Revenue (SOI Trust Fund)	\$20,000
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Restricted monies held within the Sphere Trust Fund for the explicit purpose of funding Commission directed staff level review and maintenance of municipal service reviews and sphere of influence plans and related actions

EXPENDITURES:

511000 – Regular Help Wages	\$422,000
Salaries reflect base wages pursuant to the adopted Salary Plan.	
512000 thru 516000 – Benefits	\$227,220
CalPERS Retirement, including UAL, GASB and Survivor; ICMA Deferred Compensation & Medicare; State Unemployment Insurance, Employment Training & State Disability Insurance; Health, Dental & Vision; Employee Assistance Program; Flexible Spending Fees and Basic/Long Term Life Insurance.	
523000 – Communications	\$3,942
Communication Services, including Telephone Charges (\$3,102); Cell Phone Allowance (\$840).	
525000 – Household Expense	\$1,000
Toiletries, cleaning supplies, floor tile buffing and other household items.	
526000 – Insurance	\$6,551
Property and General Liability Coverage, provided through Special District Risk Management Authority.	
531000 – Memberships	\$8,000
Memberships to professional organizations, including various publications and subscriptions that support staff development on current issues affecting the agency's responsibilities.	
533000 – Office Supplies	\$6,000
General office supplies, including computer software upgrades.	
534000 – Professional & Specialized Services	\$94,889
Worker's Compensation Insurance (\$3,000); Annual Audit, including CalPERS GASB Reporting (\$10,000); County Auditor-Controller (\$3,401); County Treasurer-Tax Collector (\$350); County Human Resources (\$27,000) ; GIS Mapping (\$18,000); Legal Counsel (\$26,458) and County Information Systems (\$6,680).	
535000 – Publication & Legal Notice	\$3,500
Legal notice publishing, as required by LAFCO Policies and State Law.	
537000 – Rents/Leases Buildings & Improvements	\$16,350
Office Space, pursuant to H.P. Downer Business Center, LLC Lease Agreement (\$15,810); Office Space security (\$540).	
539000 – Special Departmental Expense	\$7,000
Website maintenance, including security updates; professional development/training; County Copier services (\$1,563).	

Expenditures: *Continued*

540000 – Transportation/Travel **\$22,040**

Attendance at conferences, meetings, trainings; and CALAFCO participation (\$11,000); and vehicle expense reimbursements (\$11,040).

541000 – Utilities **\$8,000**

Electricity, natural gas, water, sewer, garbage disposal, janitorial and landscaping.

Appropriations:

Contingency **\$30,000**

Unanticipated costs, i.e., budget shortfall coverage, special studies or legal fees.

Reserve **\$25,000**

Isolated funding for accrued leave liabilities and other post-employment benefits.

**CONTRACTUAL SERVICES AGREEMENT No. 3
Between the
Butte Local Agency Formation Commission and the County of Butte**

TERM

Section 1.1 Term of Agreement

This Agreement shall be effective on July 1, 2013, and continue until amended or terminated. Either party may amend or terminate the Agreement upon not less than 180 days written notice to the other.

**ARTICLE 2
SUPPORT SERVICES PROVIDED BY THE COUNTY**

The County agrees to provide the following support services to LAFCo during the term of this Agreement. In providing these contractual services for LAFCo, the County will follow all appropriate governmental standards and procedures. The departments identified in this agreement will provide professional services to LAFCo on an “as needed” basis **and in the same manner as provided to County departments.**

Section 2.1 Statutory Support Services

The following support services are recognized under this Agreement to be statutory in nature and would be provided by the County without the necessity for a special agreement.

(a) The County shall provide electronic access to property information and property owner information from the assessment rolls as needed for LAFCo responsibilities as identified in the Cortese-Knox-Hertzberg Act of 2000.

(b) The County Auditor/Controller shall collect funds due to LAFCo from the County, cities and special districts as authorized by Government Code Section 56381(c) and hold funds and issue warrants on behalf of LAFCo and provide timely financial reporting to LAFCo of account transactions and balances.

Section 2.2 Cooperative Support Services

(a) LAFCo shall have the right to use the County Board Room and other meeting rooms for LAFCo functions, subject to availability.

(b) LAFCo shall have reasonable access to County files and development information as necessary for LAFCo functions.

(c) County shall provide electronic access to registered voter information as provided for under the Cortese-Knox-Hertzberg Act of 2000.

(d) The County and LAFCo agree that there is mutual information sharing value to both agencies for the County to continue to provide a reasonable workspace within the County’s GIS Division for use by the LAFCo GIS consultant or employee with the understanding that LAFCo GIS consultant or employee shall adhere to any rules, policies or regulations of the

Division and that LAFCo is wholly responsible for the provision of necessary computer hardware for said consultant or employee.

Section 2.3 Compensated Support Services

(a) The County, providing services in accordance with Exhibit A of this Agreement, shall be appropriately compensated by LAFCO.

Section 2.4 Payment for Compensated Support Services

(a) Costs for services provided by County departments will be invoiced to LAFCO regularly

(b) The LAFCO Executive Officer and County Administrative Officer (or designee) shall meet as necessary and confer on costs of County services and establish an estimated cost of services, which will be allocated in the LAFCO (see Exhibit A). If the County wishes to update the estimated cost of services, it shall notify LAFCO prior to March 1, so the new cost can be incorporated into the LAFCO budget on a timely basis.

(c) Services provided in exchange for fixed annual payments will be invoiced on a quarterly basis. So long as the County continues to generate payments on behalf of LAFCO, invoices will be settled via direct journal entry against the LAFCO budget unit maintained in the County Financial System.

**ARTICLE 3
GENERAL PROVISIONS**

Section 3.1 Construction. The parties understand and agree that, unless expressly stated herein, nothing in this Agreement is intended to conflict with or modify the parties' duties and obligations under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. The parties further understand and agree that except as expressly agreed herein, nothing is intended to bind the legislative discretion of either agency.

Section 3.2 Severability. Any provisions of this agreement which are proved to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof, and such remaining provisions shall remain in full force and effect.

Section 3.3 Notices. Any and all notices or other communications required or permitted by this agreement or by law to be served on or given to either party by the other party to this agreement shall be in writing and shall be deemed duly served when personally delivered to the officer designated below, or, in lieu of such personal service, when deposited in the United States mail, first-class postage prepaid and addressed to the designated party and address listed below each party's signature.

Section 3.4 Modifications. Any modification of this agreement will be effective only if it is in writing and signed by the party to be charged.

Section 3.5 Effect of Waiver. The failure of either party to insist on strict compliance with any of the terms, covenants, or conditions of this agreement by the other party shall not be deemed a waiver of that term, covenant, or condition, nor shall any waiver or relinquishment of any right or

power at any one time or times be deemed a waiver or relinquishment of that right or power for all or any other times.

Section 3.7 Entire Agreement. This instrument contains the entire agreement between the parties. Any oral representations or modifications concerning this instrument shall be of no force and effect excepting a subsequent modification in writing signed by the parties.

DATED: March 26, 2013

Designated Officer for Service of Notice:

Address for Service of Notice:

THE COUNTY OF BUTTE

Bill Connelly 26 Mar 2013
Bill Connelly, Chair, Board of Supervisors

Chief Administrative Officer
Butte County Administration Bldg
25 County Center Dr., Suite 200
Oroville, CA 95965

DATED: February 7, 2013

Designated Officer for Service of Notice:

Address for Service of Notice:

BUTTE LAFCO

Carl Levenenz, Chairman

Executive Officer
Butte LAFCo
1453 Downer St., Ste C
Oroville, CA 95965-4950

Approved for fiscal control, subject
to budget appropriation
Auditor's Office

By Rebecca J. Hays 3/13/13

APPROVED AS TO FORM
Butte County Counsel

By Bruce L. Albert

Exhibit A – LAFCO Services

Services to be provided by the County of Butte pursuant to Section 2.3 of the Contractual Services Agreement No. 3, which will be provided by various County departments as shown below:

Services

1. Information Systems \$1,670/employee/Year
 - a. Includes the following services:
 - i. Internet Access
 - ii. Email exchange and single email address (buttecounty.net domain)
 - iii. Intranet
 - iv. Maintenance
 - v. Server Backup
 - vi. Butte County Financial System (currently Pentamation) query access
 - vii. Training Programs (desktop, software)
 - viii. GIS data support
2. Communications/Phone Services \$27/unit/year
 - a. Costs include maintenance, support, and assistance by County Communications staff.
 - b. Currently 1 circuit and 5 phone lines.
 - c. Actual Usage and Telco monthly charges paid against LAFCO budget unit by the Auditor's office.
3. Accounting Services \$3,401/year
 - a. Payment of LAFCO claims, contracts as directed by appropriate LAFCO authorities – County of Butte provides budgetary tracking and information, but assumes no responsibility for budget-checking or potential over-budget conditions.
 - b. Apportionment/Collection of LAFCO Funding in accordance with Government Code Section 56381.
 - c. Billing for County services provided.
 - d. Revenue and Expenditure reporting using the Butte County Financial System.
4. Treasury Services \$35/year
 - a. Cash management
 - b. SOI fund
 - c. Accrued Leave Balance Fund
 - d. Investment management
5. General Services
 - a. Print Shop
 - i. Copiers \$1,563/year
 - ii. Print Shop \$ Actual Use
 - iii. Postage \$ Actual Use
6. Section i2.4 Human Resources \$ 13,500/year
 - a. Payroll Services included in rate above
 - i. The County of Butte provides payroll processing and reporting services only, LAFCO remains the Employer of Record.

- ii. Setup new hires, enter all personnel actions (promotion/demotion, merit increases, additional pays, etc.), process terminations as necessary; including processing final payments, notify providers of any status changes.
 - iii. Direct Deposit.
 - iv. Enter employee requested W-4 changes.
 - v. Payroll Tax Reporting (Federal and State).
 - vi. Annually required State Controller report of wages by classification
 - vii. Provide proposed annual fringe benefit worksheets, coordinate open enrollment and update employee benefit elections and deductions, provide annual PERS Annual Required Contribution (ARC) information, and calculate necessary contribution rate.
 - viii. Year end reporting, W-2 issuance to employees.
 - ix. Deduction Management – collect and distribute deductions and contributions on behalf of LAFCO employees. These currently include health, dental, vision and life benefits, taxes, EAP, Workers' Comp, Deferred Comp, Section 125 Plan, PERS contributions, etc. Perform monthly account reconciliations of deductions and contributions against outside payments to avoid under/overpayment errors.
 - x. Contracting agencies are required to pay CalPERS an administrative fee and PEMHCA (Public Employees' Medical and Hospital Care Act) fee for current retirees. HR identifies and allocates the administration and PEMHCA fees to participating departments/agencies.
- b. Additional Services billed at HR labor rate ~ currently \$85.17/hour
- i. Hourly rate subject to Annual update.
 - ii. Journal/Payroll corrections as a result of LAFCO error in submission.
 - iii. Telephone support/assistance.