



August 14, 2019

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REGULAR MEMBERS

CHAIR
CHERYL BROTHERS
CITY MEMBER

VICE CHAIR
DOUGLASS DAVERT
SPECIAL DISTRICT MEMBER

IMMEDIATE PAST CHAIR
DEREK J. MCGREGOR
PUBLIC MEMBER

LISA BARTLETT
COUNTY MEMBER

DR. ALLAN BERNSTEIN
CITY MEMBER

DONALD P. WAGNER
COUNTY MEMBER

VACANT
SPECIAL DISTRICT MEMBER

TO: Local Agency Formation Commission

FROM: Executive Officer
Assistant Executive Officer

SUBJECT: OC LAFCO Reserves and Projections

BACKGROUND

During the June regular meeting, staff was directed to provide additional information on the policy and strategy for the use of the OC LAFCO reserves. On July 17, the attached memorandum providing an overview of the agency's reserve usage, categories, budget and projections was distributed to the Commission (*Exhibit A*). For reference purposes, the OC LAFCO policy related to cash accounts and reserves is also provided as *Exhibit B*.

RECOMMENDATION

Staff recommends that the Commission:

1. Discuss and provide direction to staff on OC LAFCO reserves and projections.

ALTERNATES

WENDY BUCKNUM
CITY MEMBER

JAMES FISLER
SPECIAL DISTRICT MEMBER

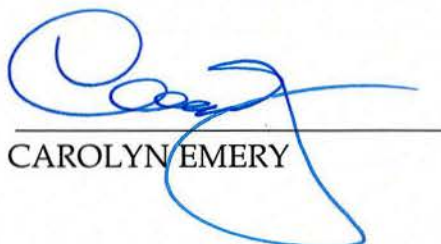
LOU PENROSE
PUBLIC MEMBER

MICHELLE STEEL
COUNTY MEMBER

STAFF

CAROLYN EMERY
EXECUTIVE OFFICER

Respectfully submitted,


CAROLYN EMERY


DEBRA KURITA

EXHIBITS

- A: OC LAFCO Reserves and Projections Memorandum dated July 17, 2019
B: OC LAFCO Bylaws, Policies and Procedures, Section 2, Part 5, Subsection 2.3:
Cash and Cash Management



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COUNTY MEMBER


STAFF

CAROLYN EMERY
EXECUTIVE OFFICER

July 17, 2019

MEMORANDUM

TO: LAFCO Commissioners

FROM: Carolyn Emery 
Executive Officer

SUBJECT: OC LAFCO Reserves and Projections

During the June regular meeting, staff was directed to provide additional information involving the policy and strategy for the use of the OC LAFCO reserves. Subsequently, staff began preparation of the information and met with the Commission's Executive Committee to receive feedback. This report provides the background on the use of agency reserves, a description of the reserve categories, and the budget and reserve projections for FY 20-21 through FY 24-25.

Annually, as part of the budget process, staff and the agency's accountant prepare multi-year expenditure projections and identify the revenues to support the agency's operations. There are three main types of revenues contained in the budget projections: 1) the apportionments from the County, cities and special districts, 2) interest earnings, and 3) drawdowns of unreserved equity. The apportionments from the funding agencies provide the largest revenue source, amounting to approximately 90 percent of the annual revenues. Over the past several years and through the Commission's adopted policy, a drawdown on the unreserved equity has been incorporated into the revenues to keep annual apportionments static. As a result, the apportionments remained the same for eight years beginning with FY 09-10 and experienced modest increases over the past four fiscal years.

Reserve Categories and Amounts

The Commission's Reserve Policy identifies the types of reserves and designates their minimum balances. Unreserved equity is defined as the amount of cash available in the agency's accounts above those minimums. The policy identifies four categories of reserves: contingency, litigation, unfunded liability, and operating. The following chart provides a description of the restrictions on the usage, the year of establishment, and the current designated amounts for each of these reserve categories:

OC LAFCO Reserve Categories

Category	Usage Restrictions	Established	FY 19-20 Amount
Contingency	To cover unforeseen losses or emergency expenditures.	2002	\$100,000
Litigation	To cover costs of legal challenges in court that are not recoverable through an application deposit.	2005	\$ 75,000
Unfunded Liability	To cover compensated absences (i.e., employee earned vacation leave).	2007	\$ 30,000
Operating	To cover three months of operating expenses in the event that operational budget is not fully funded (i.e., non-payment or late payment of apportionments).	2013	\$314,663*

* Operating reserve amount calculated annually based on total budget figure.

For FY 19-20, the amounts in these four categories of reserves total \$519,663, which constitutes 41.3 percent of the annual budget of \$1,258,650. The agency's accountant recently confirmed that this level of reserves is appropriate for OC LAFCO, given the size of its budget and the low risk nature of the agency's operations.

Budget and Reserve Projections

The budget and reserve amounts incorporated in the approved FY 19-20 budget and the projections for FY 20-21 through FY 24-25 are detailed in Attachment 1. The revenue projections for those five future fiscal years assume an annual 4.7 percent increase in the apportionments. For each of those years, the apportionments are projected to be

supplemented with interest earnings and drawdowns on the unreserved equity to balance the budget.

The estimated expenditures for the future fiscal years are based on a variety of factors including current trending, CPI adjustments, projections from the County or OCERS, and existing contractual obligations. Additionally, the salary line item for FY 20-21 reflects an increase of approximately 8.4 percent, which includes equity adjustments for the Analyst positions, consistent with the approved salary schedule, and CPI adjustments for the other OC LAFCO staff positions. For the years beyond FY 20-21, the salary line item assumes a 3.8 percent annual increase, the current CPI. However, this amount would be reviewed annually and adjusted in accordance with the then current CPI.

The budget projections indicate that the unreserved equity will basically be exhausted by the end of FY 24-25. However, it is important to note that the projections are based on the conservative assumption that all budget allocations will be expended by the end of each fiscal year and are in line with the Commission's reserve policy and long-standing practice of drawing down on the unreserved equity amount that is above the approved reserve minimums.

The presentation of agency reserves over eleven fiscal years is visually depicted in Attachment 2, which includes both actual reserve amounts (FY 14-15 through FY 17-18) and projections (FY 18-19 through FY 24-25). The chart illustrates that the reserves grew at the end of each year from FY 14-15 through FY 18-19, although those budgets all assumed a drawdown on unreserved equity. There are a variety of factors that contribute to increasing the unreserved equity including savings from staff attrition, prudent budget management, and the reimbursement of personnel costs from project applications. To illustrate the impact of these reimbursements, the percentage of salaries and benefits funded by special projects for FY 13-14 through FY 17-18 are displayed graphically in Attachment 3.

Conclusion

For the past several years, the Commission has taken the approach of minimizing the fiscal impact on the funding agencies by supplementing the apportionments with a drawdown on the unreserved equity amount that is above the Commission-approved reserve levels. This approach reflects a deliberate effort to apply the funds that have been accumulated as a result of expenditure savings in previous years to the proposed budget for the next fiscal year, while maintaining a prudent level of reserves. In an effort to improve the budget process and provide the funding agencies with budget projections beyond a single fiscal year, staff will begin including additional three-year budget projections during the Commission's consideration of the draft and final budgets.

OC LAFCO Reserves History and Projections

July 17, 2019

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I hope this memorandum provides useful information regarding the agency's current reserves and associated policy and practices. Please let me know if you have any questions or need additional information on this matter.

Attachments:

1. *OC LAFCO Budget Projections for FY 20-21 to FY 24-25*
2. *OC LAFCO Reserves Chart for FY 14-15 to FY 24-25*
3. *OC LAFCO Salaries and Benefits Funded by Special Projects for FY 13-14 to FY 17-18*

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

**EXHIBIT A
ATTACHMENT 1**

BUDGET PROJECTIONS

Beginning Fiscal Year 2019-20

	FY 19/20 Final Budget	FY 20/21 Projected Budget	FY 21/22 Projected Budget	FY 22/23 Projected Budget	FY 23/24 Projected Budget	FY 24/25 Projected Budget
REVENUES						
(Additions)/Uses of Unreserved Equity	\$ 116,150	\$ 147,750	\$ 138,540	\$ 128,030	\$ 106,320	\$ 88,510
4000 LAFCO Apportionment	1,124,500	1,177,400	1,232,700	1,290,700	1,351,300	1,414,800
4200 Interest	18,000	18,000	18,000	18,000	18,000	18,000
4150 Miscellaneous Revenue	-	-	-	-	-	-
REVENUES & USES / (ADDITIONS) TO CASH	1,258,650	1,343,150	1,389,240	1,436,730	1,475,620	1,521,310
EXPENDITURES						
Salaries & Benefits						
5000 Salaries	498,500	540,600	561,100	582,400	604,500	627,500
5010 Hourly Employees	10,000	10,400	10,700	11,000	11,300	11,600
5106 Retirement	176,900	201,500	205,500	207,600	209,700	211,800
5109 Retiree Health Benefits	20,200	21,000	22,300	23,600	25,000	26,500
5108 Health Insurance	56,700	60,100	63,700	67,500	71,600	75,900
5110 Dental Insurance	5,600	5,700	5,800	5,900	6,000	6,100
5112 Life Insurance	600	600	620	640	660	680
5102 Optional Benefit Plan	18,500	18,500	18,500	18,500	18,500	18,500
5104 Deferred Compensation	15,400	16,600	16,900	17,200	17,500	17,900
5116 Medicare	7,400	8,000	8,300	8,600	8,900	9,300
5114 Worker's Compensation	3,800	3,800	3,840	3,880	3,920	3,960
5120 Salary Continuance	1,800	1,950	1,970	1,990	2,010	2,030
5122 Accidental Death Insurance	150	200	210	220	230	240
5125 Executive Car Allowance	7,200	7,200	7,200	7,200	7,200	7,200
Total Salaries & Benefits	822,750	896,150	926,640	956,230	987,020	1,019,210
Office Operations & Supplies						
5150 Information Technology	10,000	10,300	10,600	10,900	11,200	11,500
5151 Internet & Telephone	16,200	16,700	17,200	17,700	18,200	18,700
5200 County Charges	5,500	5,700	5,900	6,100	6,300	6,500
5250 Insurance	16,000	16,500	17,000	17,500	18,000	18,500
5350 Membership/Subscriptions	33,800	34,800	35,800	36,900	38,000	39,100
5450 Office Equipment/Supplies	10,000	9,300	12,500	17,800	13,000	13,400
Professional Services						
5510 Legal	60,000	61,800	63,700	65,600	67,600	69,600
5520 Audit/Accounting	43,100	44,400	45,700	47,100	48,500	50,000
5530 Human Resources	9,000	9,100	9,400	9,700	10,000	10,300
5540 Other Professional	60,000	61,800	63,700	65,600	67,600	69,600
Other Operations						
5535 Mapping	7,200	7,400	7,600	7,800	8,000	8,200
5550 Investment Admin Fees	600	600	600	600	600	600
5560 Banking Fees	-	-	-	-	-	-
5600 Public Noticing / Communications	2,000	2,100	2,200	2,300	2,400	2,500
5610 Unincorporated Areas Program	6,000	6,000	6,000	6,000	6,000	6,000
5650 Rents/Maintenance	79,800	82,200	84,700	87,200	89,800	92,500
5675 Equipment Leases & Maintenance	7,200	7,400	7,600	7,800	8,000	8,200
5700 Commissioner/Staff Expenses	7,000	7,200	7,400	7,600	7,800	8,000
5710 Commission Stipends & Taxes/Fees	16,200	16,700	17,200	17,700	18,200	18,700
5750 Professional Development	22,000	22,000	22,000	22,000	22,000	22,000
5800 Registration/Travel	18,300	18,800	19,400	20,000	20,600	21,200
5850 Commission Meeting Expenses	6,000	6,200	6,400	6,600	6,800	7,000
Subtotal: Operations, Supplies & Services	435,900	447,000	462,600	480,500	488,600	502,100
TOTAL EXPENDITURES	1,258,650	1,343,150	1,389,240	1,436,730	1,475,620	1,521,310
NET BUDGET	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

EXHIBIT A
ATTACHMENT 1

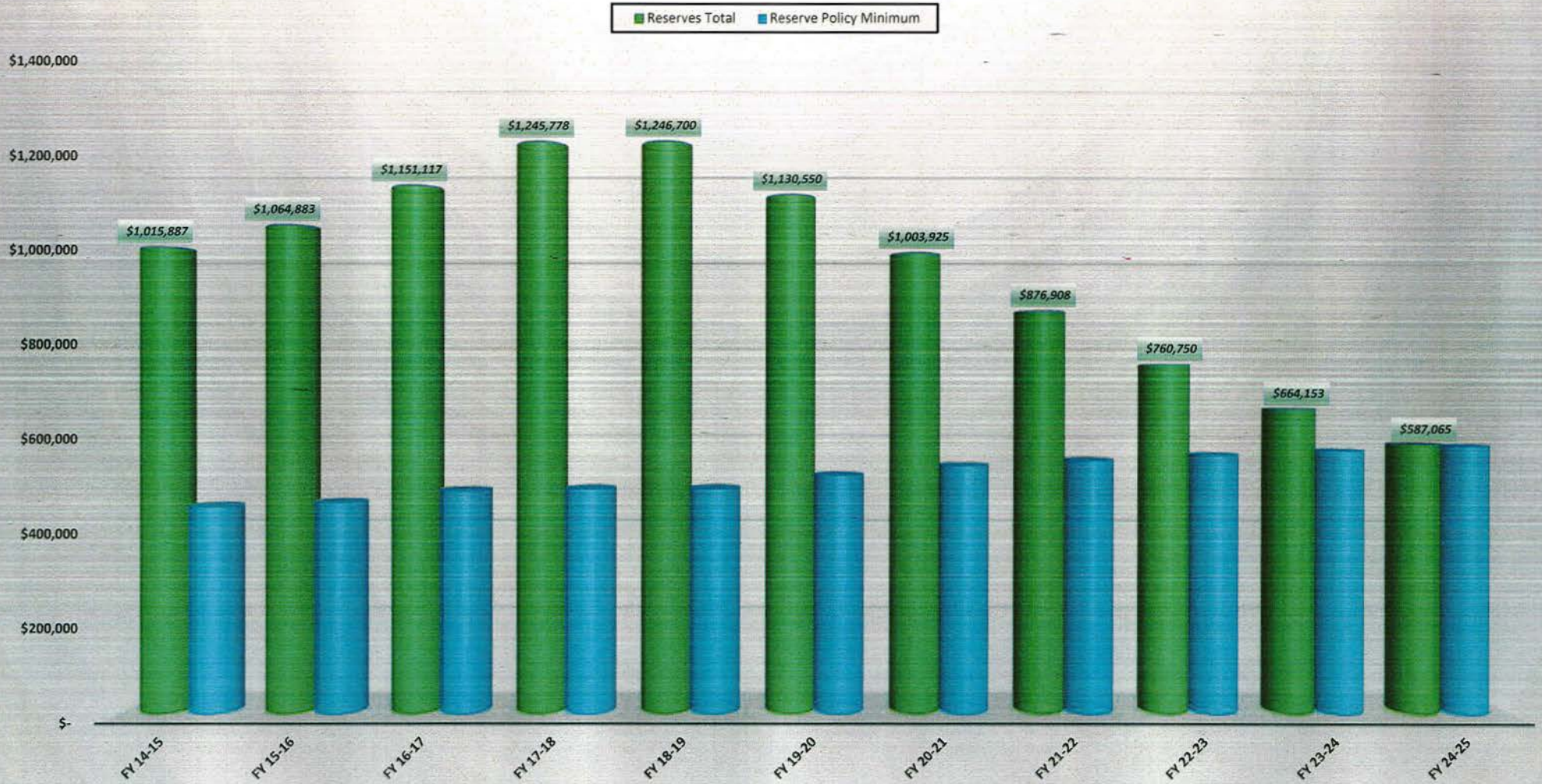
BUDGET PROJECTIONS

Beginning Fiscal Year 2019-20

	FY 19/20 Final Budget	FY 20/21 Projected Budget	FY 21/22 Projected Budget	FY 22/23 Projected Budget	FY 23/24 Projected Budget	FY 24/25 Projected Budget
<u>PROJECTED RESERVES</u>						
1 Contingency reserve	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
2 Reserve for litigation	75,000	75,000	75,000	75,000	75,000	75,000
3 Unfunded liability reserve	30,000	30,000	30,000	30,000	30,000	30,000
4 Reserve - 25% of Budgeted Expenditures	314,663	335,788	347,310	359,183	368,905	380,328
<u>UNRESERVED CASH</u>						
6 Balance at the Beginning of FY	727,038	610,888	463,138	324,598	196,568	90,248
7 Addition (Drawdown) to Unreserved Cash	(116,150)	(147,750)	(138,540)	(128,030)	(106,320)	(88,510)
8 Projected unreserved cash at the End of FY	610,888	463,138	324,598	196,568	90,248	1,738
9 Total Projected Cash Balances at End of FY	<u>\$ 1,130,550</u>	<u>\$ 1,003,925</u>	<u>876,908</u>	<u>760,750</u>	<u>664,153</u>	<u>587,065</u>

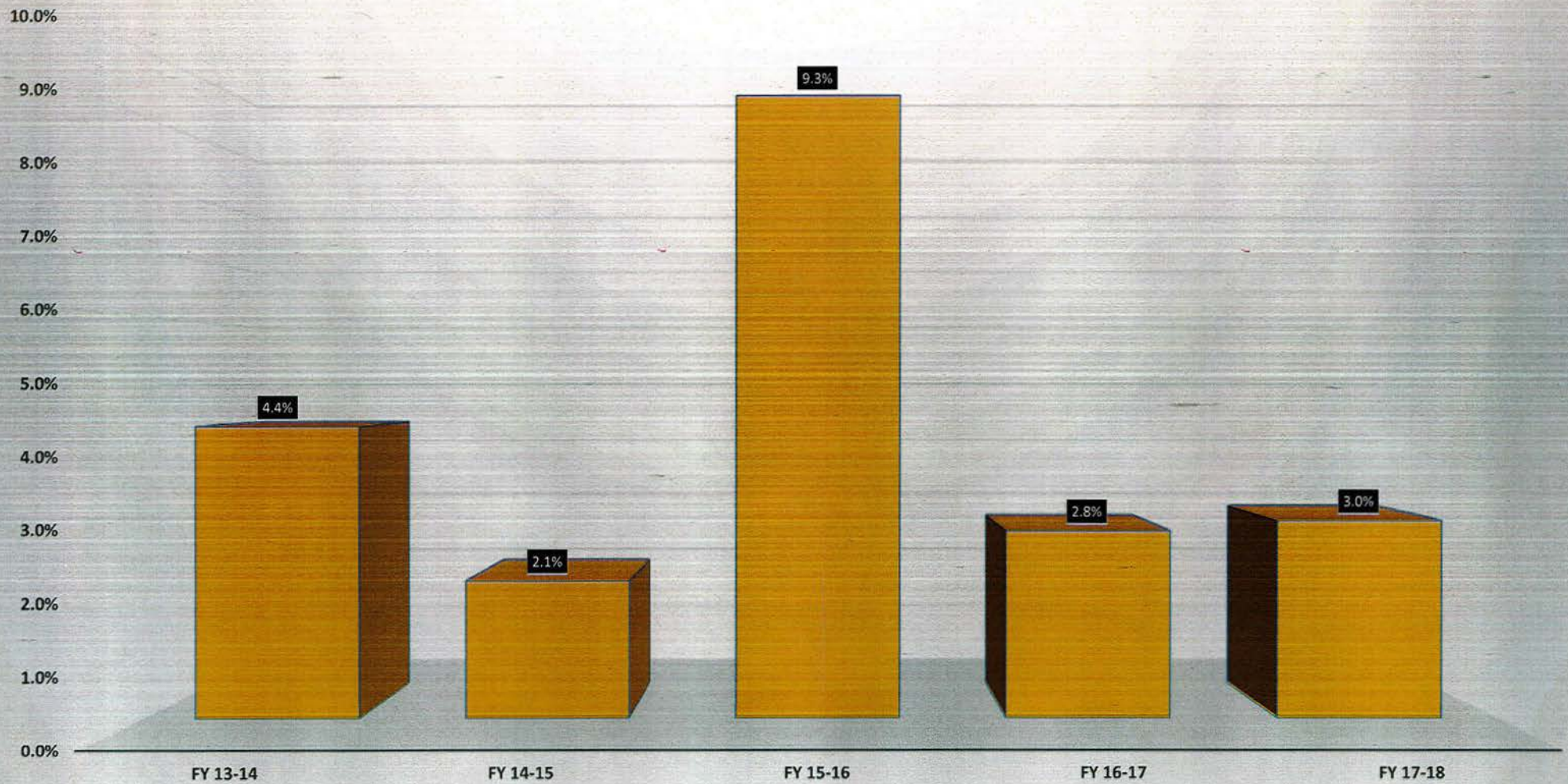
Orange County LAFCO Reserves Fiscal Years 2015-2025

EXHIBIT A
ATTACHMENT 2



Orange County LAFCO
Salaries & Benefits Funded by Special Projects

EXHIBIT A
ATTACHMENT 3



OC LAFCO Bylaws, Policies and Procedures

Section 2: Accounting and Financial Policies and Procedures
Part 5 – Policies Pertaining to Specific Asset and Liability Accounts

2.3 CASH AND CASH MANAGEMENT

A. Cash Accounts

The primary operating account provides for routine business check disbursements. All cash and credit card deposits are made to this account. Bank reconciliations are performed by the County. The following minimum balances shall be maintained in the agency's accounts at all times to ensure there are sufficient funds to cover ongoing operating and payroll expenses:

Savings:	\$205,000
Payroll:	3 Months of Current Payroll Expenses
Checking:	3 Months of Operational Expenses

B. Reserve Policy

OC LAFCO currently has three reserve funds restricted to the agency's Wells Fargo savings account. These funds are as follows: (1) Contingency; (2) Litigation; and (3) Unfunded Liability. These accounts are considered "restricted" accounts and are only used for the specific purposes described below:

1. Contingency Reserves – restricted funds to cover any unforeseen future agency loss and/or urgency which includes but is not limited to property or equipment damage, loss or theft. The minimum balance in the Contingency Reserve Account shall be \$100,000.
2. Litigation Reserves – restricted funds for cost related to agency legal challenges. The minimum balance in the Litigation Reserve Account shall be \$75,000.
3. Unfunded Liability Reserve – restricted funds to offset anticipated agency liabilities including employee vacation and administrative leave payouts. The minimum balance in the Unfunded Liability Reserve Account shall be \$30,000.