

March 6, 2019

TO: Member LAFCos

Dear Member LAFCos:

Over the last several years the CALAFCO Board of Directors has continued to develop member services to meet the changing needs of LAFCo commissioners, staff and stakeholders. Over its 48-year existence, CALAFCO has matured from a volunteer organization to a professional educational organization.

At the CALAFCO Annual Meeting in Yosemite last fall, the Board explained that additional revenues must be raised to close the ongoing structural deficit, which the association has operated with since its inception. As many of you heard, CALAFCO has had an unhealthy reliance on Conference revenue to balance the budget which is not a sound fiscal practice. Approximately \$69,000 in additional revenue is needed next fiscal year just to close the structural deficit. Failing to close this deficit jeopardizes CALAFCO's ability to maintain the existing level of services provided.

During the regional roundtables at the 2018 Conference, members provided the Board valuable feedback about the structural deficit and the dues structure. At the Board's recent strategic planning workshop and meeting, they deliberated at length about these two matters. It is clear the current dues structure no longer reflects the diversity of our membership and our structural deficit continues to grow as core revenue does not meet operational expenses.

During the recent Board strategic planning workshop, the Board-appointed ad hoc financial committee (who have been meeting for more than a year) presented the Board several options to close the deficit and offered a recommendation. After long (almost half-day) discussion, followed by another round of discussions at the Board meeting the next day, the Board made two critical decisions.

The first decision is a short-term action strategy to close the structural deficit. The Board unanimously approved a one-time cost sharing option to close the structural deficit. This option will take effect FY 2019-20. The cost sharing option includes a 16.25% dues increase to all member LAFCos, which will generate an additional \$33,452. The other \$35,591 necessary to close the structural deficit will be covered by using a substantial portion of the net profit received from the 2018 Annual Conference.

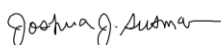
Just as important, the Board is committed to a long-term strategy of revising the current dues structure into a more sustainable and equitable model. As a result, the Board directed the ad hoc finance committee to bring a proposal to the Board at their May 10 meeting for a new dues structure to move the organization forward. This new dues structure will use the current FY 2018-19 dues as the baseline (rather than the increased dues for next FY).

A new dues structure requires the approval of the membership as it is a change in the Bylaws. It is the intention of the Board to place this item on the agenda for membership approval at the October 31, 2019 Annual Membership Business Meeting. Once the draft proposal is approved at its May 10 meeting, the Board will distribute the draft dues structure to the membership with ample time for review and discussion before the Annual Membership Business Meeting.

We understand raising dues at any time is a difficult proposition. Our work at CALAFCO strives to support the success and meet the needs of all member LAFCos, large and small. We are committed to continually enhancing the services of CALAFCO and fulfilling our mandate "to assist member LAFCos with educational and technical resources that otherwise would not be available." We hope you will agree when we discuss this at our annual membership meeting at this year's Conference.

We and the rest of the Board are available to answer any questions you may have. You are encouraged to seek out the feedback of your regional Board members.

On behalf of the CALAFCO Board of Directors,



Josh Susman
Chair of the Board



Pamela Miller
Executive Director

Cc: CALAFCO Board of Directors
enclosures

CALAFCO BULLETIN

Membership Dues Increase Questions & Answers



Question: *What's the issue?*

Answer: The issue is that CALAFCO has operated for many years with a structural deficit. The structural deficit is defined as the member LAFCo dues do not cover the operational costs of the organization. The organization continues an unhealthy and unstable fiscal reliance on net profits from the Annual Conference and a year-end net balance carryover to balance the budget.

Question: *How did the structural deficit happen?*

Answer: For many, many years CALAFCO's member LAFCo dues have not covered the operational costs of the organization. Overall, the cost of doing business is increasing and we are not accounting for the additional inflow of sustainable revenue to keep up with rising costs and expansion of services. As a result, the deficit grows.

Question: *How has CALAFCO been able to sustain itself if the structural deficit has been ongoing?*

Answer: In previous years, the organization relied on Fund Reserves and Conference net profit. Recently we have been using Conference net profits and end-of-year savings (net balance) to avoid having to use reserves. However, for FY 2018-19, the Board adopted an unbalanced budget, relying on Fund Reserves for the first time in a long time.

As recently as FY 2004-05 the organization ended the year with a deficit. The dues restructuring beginning FY 2005-06 helped close a portion of the structural deficit. The Board has been successful over the past 12 years in building a healthy Fund Reserve. Today the Fund Reserve balance is \$162,754, which represents approximately 60% of the operating costs of the organization. Some years CALAFCO has a strong net profit on the Conference, which sustains the budget for a few years. Further, CALAFCO has been budgeting a Conference net profit much higher than policy calls for in order to balance the budget. Last year we did not meet that target and this year our Annual Conference was at one time in jeopardy of happening due to the fires in the area.

Question: *How was the cost sharing solution and dues increase developed?*

Answer: In October 2016 the Board formed an ad hoc finance committee (with equitable regional representation as well as urban-suburban-rural representatives). After 15 months of work the committee made recommendations to the Board at the recent strategic planning workshop. To close the structural deficit short-term, the committee provided the Board four (4) options. In addition, CALAFCO has been reducing costs with minimal to no impact to the level of service being provided wherever possible. After lengthy consideration, the Board unanimously approved a hybrid of one of the options. The approved option calls for a 16.25% increase from member LAFCOs and the other portion of the deficit to be filled using net profits from the 2018 Annual Conference. These profits would have otherwise been budgeted for transfer to the Reserve Fund and/or used for special projects for the association.

As the cost-sharing strategy is a one-year only solution, the Board instructed the ad hoc committee to work on a long-term solution that calls for a revision of the current dues structure.

Question: *What is the current dues structure based on and will that change?*

Answer: The current dues structure is codified in the CALAFCO Bylaws and was approved by the membership in 2006. It is based on the county population categories by the California State Association of Counties (CSAC) as urban, suburban and rural. As stated above, the ad hoc committee is working on a new dues structure that goes beyond the current three (3) categories. It is anticipated the new structure will have more categories and will create greater equity in terms of the categories and their associated populations. The financial situation was discussed at the 2018 Annual Conference and in response to information gathered from the membership at the regional roundtables, the Board is intent on presenting all member LAFCOs with a sustainable and equitable solution.

At its May 10 meeting the Board plans to review and discuss this new draft structure, then distribute the draft recommended dues structure to the membership with ample time for review and discussion before the Annual Membership Business Meeting on October 31, 2019. If approved at this Annual Business Meeting, the new dues structure would take effect FY 2020-21 and serve to finally close the structural deficit.

As directed by the Board, the baseline for the new dues structure will be the current FY 2018-19 dues amount. What this means for you is the lower amount of what your LAFCo is paying now (versus what you will pay in FY 2019-20) will be the minimum baseline for calculating the new dues.

Question: *How do we know there will not be more dues increases in the future?*

Answer: Of course no one can predict the future economy. The goal of the Board is to permanently close the structural deficit and it believes this two-part strategy will accomplish that. Further, setting sights into the future, the hope is eventually there is enough sustainable revenue to again increase member services.

Question: *Who can I talk to if I have questions?*

Answer: If you have questions you are encouraged to contact Pamela Miller, CALAFCO's Executive Director at pmiller@calafco.org or 916-442-6536. You can also contact the CALAFCO Board Chair Josh Susman at jsusman@calafco.org. You are highly encouraged to reach out to any of your regional Board members. All of their names and contact information can be found on the CALAFCO website at www.calafco.org.

CALAFCO LAFCo Dues FY 2019-2020

As adopted by the Board March 1, 2019

County	DOF Population Jan 2018	Category	2016-2017 Dues	7.0% Increase	2017-2018 Dues	2.9% Increase	2018-2019 Dues	16.25% Increase	2019-2020 Dues
ALAMEDA	1,660,202	Urban	8,107	567	8,674	252	8,926	1,450	10,376
ALPINE	1,154	Rural	840	59	899	26	925	150	1,075
AMADOR	38,094	Rural	840	59	899	26	925	150	1,075
BUTTE	227,621	Suburban	2,548	178	2,726	79	2,805	456	3,261
CALAVERAS	45,157	Rural	840	59	899	26	925	150	1,075
COLUSA	22,098	Rural	840	59	899	26	925	150	1,075
CONTRA COSTA	1,149,363	Urban	8,107	567	8,674	252	8,926	1,450	10,376
DEL NORTE	27,221	Rural	840	59	899	26	925	150	1,075
EL DORADO	188,399	Suburban	2,548	178	2,726	79	2,805	456	3,261
FRESNO	1,007,229	Urban	7,163	501	7,664	222	7,887	1,282	9,169
GLENN	28,796	Rural	840	59	899	26	925	150	1,075
HUMBOLDT	136,002	Suburban	2,548	178	2,726	79	2,805	456	3,261
IMPERIAL	190,624	Suburban	2,548	178	2,726	79	2,805	456	3,261
INYO	18,577	Rural	840	59	899	26	925	150	1,075
KERN	905,801	Urban	6,105	427	6,532	189	6,722	1,092	7,814
KINGS	151,662	Suburban	2,548	178	2,726	79	2,805	456	3,261
LAKE	65,081	Rural	840	59	899	26	925	150	1,075
LASSEN	30,911	Rural	840	59	899	26	925	150	1,075
LOS ANGELES	10,283,729	Urban	8,107	567	8,674	252	8,926	1,450	10,376
MADERA	158,894	Suburban	2,548	178	2,726	79	2,805	456	3,261
MARIN	263,886	Suburban	2,548	178	2,726	79	2,805	456	3,261
MARIPOSA	18,129	Rural	840	59	899	26	925	150	1,075
MENDOCINO	89,299	Rural	840	59	899	26	925	150	1,075
MERCED	279,977	Suburban	2,548	178	2,726	79	2,805	456	3,261
MODOC	9,612	Rural	840	59	899	26	925	150	1,075
MONO	13,822	Rural	840	59	899	26	925	150	1,075
MONTEREY	443,281	Suburban	3,446	241	3,687	107	3,794	617	4,411
NAPA	141,294	Suburban	2,548	178	2,726	79	2,805	456	3,261
NEVADA	99,155	Rural	840	59	899	26	925	150	1,075
ORANGE	3,221,103	Urban	8,107	567	8,674	252	8,926	1,450	10,376
PLACER	389,532	Suburban	2,548	178	2,726	79	2,805	456	3,261
PLUMAS	19,773	Rural	840	59	899	26	925	150	1,075
RIVERSIDE	2,415,955	Urban	8,107	567	8,674	252	8,926	1,450	10,376
SACRAMENTO	1,529,501	Urban	8,107	567	8,674	252	8,926	1,450	10,376
SAN BENITO	57,088	Rural	840	59	899	26	925	150	1,075
SAN BERNARDINO	2,174,938	Urban	8,107	567	8,674	252	8,926	1,450	10,376
SAN DIEGO	3,337,456	Urban	8,107	567	8,674	252	8,926	1,450	10,376
SAN FRANCISCO	883,963	Urban	6,481	454	6,935	201	7,136	1,160	8,296
SAN JOAQUIN	758,744	Suburban	5,297	371	5,668	164	5,832	948	6,780
SAN LUIS OBISPO	280,101	Suburban	2,548	178	2,726	79	2,805	456	3,261
SAN MATEO	774,155	Urban	5,864	410	6,274	182	6,456	1,049	7,505
SANTA BARBARA	453,457	Suburban	3,399	238	3,637	105	3,742	608	4,350
SANTA CLARA	1,956,598	Urban	8,107	567	8,674	252	8,926	1,450	10,376
SANTA CRUZ	276,864	Suburban	2,548	178	2,726	79	2,805	456	3,261
SHASTA	178,271	Suburban	2,548	178	2,726	79	2,805	456	3,261
SIERRA	3,207	Rural	840	59	899	26	925	150	1,075
SISKIYOU	44,612	Rural	840	59	899	26	925	150	1,075
SOLANO	439,793	Suburban	3,419	239	3,658	106	3,764	612	4,376
SONOMA	503,332	Suburban	3,879	272	4,151	120	4,271	694	4,965
STANISLAUS	555,624	Suburban	4,090	286	4,376	127	4,503	732	5,235
SUTTER	97,238	Rural	840	59	899	26	925	150	1,075
TEHAMA	64,039	Rural	840	59	899	26	925	150	1,075
TRINITY	13,635	Rural	840	59	899	26	925	150	1,075
TULARE	475,834	Suburban	3,323	233	3,556	103	3,659	595	4,254
TUOLUMNE	54,740	Rural	840	59	899	26	925	150	1,075
VENTURA	859,073	Urban	6,591	461	7,052	205	7,257	1,179	8,436
YOLO	221,270	Suburban	2,548	178	2,726	79	2,805	456	3,261
YUBA	74,727	Rural	840	59	899	26	925	150	1,075
TOTAL	39,809,693		\$187,012	\$13,091	\$200,103	\$5,803	\$205,906	\$33,452	\$239,358