



To: RCRC Executive Committee
From: Greg Norton, President/CEO
Lisa McCargar, Chief Financial Officer
Date: November 7, 2018
Re: RCRC 2019 Proposed Budget - **ACTION**

Attached is the proposed 2019 Rural County Representatives of California (“RCRC”) Operating Budget. The highlights below demonstrate our continued commitment to our core mission in support of our member counties.

2019 Proposed RCRC Budget Summary

The 2019 proposed RCRC Operating Budget (Attachment 1) results in net favorable revenues over expenditures in the amount of \$108,130. This proposed result is comprised of total revenues of \$9,531,745 and expenditures of \$9,423,615.

The proposed 2019 budget represents a year of planned investment for the organization and is representative of RCRC’s continued efforts to represent and serve member counties. The following sections describe in more detail the highlights of the attached proposed 2019 Budget, and the “**Key Differences Between 2019 and 2018**” section describes the significant changes from 2018.

2019 Proposed RCRC Revenue Highlights

The primary sources of RCRC’s revenues are contract service fees from affiliated entities, contract performance fees from Golden State Finance Authority (“GSFA”), excess revenues/resources transferred from National Homebuyers Fund (“NHF”), member dues, annual meeting sponsorships & registration fees, and interest and earnings from investments. The proposed 2019 RCRC Operating Revenue Budget totals \$9,531,745. The primary sources of revenue include:

- Contract Support Service revenue is received in consideration for management, operations, and administrative staffing and support services provided to the contracted entities. The proposed contract amounts total \$6,994,000. This amount is up significantly from prior year as described below in the “**Key Differences Between 2019 and 2018**” section.

- RCRC’s agreement with GSFA includes a Performance Fee calculation based on net housing and energy program resources generated. The projected Performance Fee for 2019 is \$810,000.
- NHF’s Bylaws require that any “excess revenues/resources” not needed for NHF operations be transferred to RCRC. The proposed excess NHF revenues for transfer in 2019 are \$1,000,000, pending approval by the NHF Board. Payments to RCRC shall be made in equal quarterly amounts of \$250,000 during 2019.
- Additional budgeted operating revenues include \$265,000 in member county dues, \$240,000 in interest and dividend income, and \$180,000 in annual meeting revenue.

2019 Proposed Expenditure Highlights

The proposed 2019 RCRC Expenditure Budget totals \$9,423,615. In addition to providing the core services of legislative and regulatory representation and contract support services for contracted entities, the 2019 proposed expenditure budget includes increased costs in support of affiliated entity planned and proposed programs and activities.

Following is a summary of the primary proposed expenditures:

- The total payroll proposed in the 2019 budget is \$4,787,396 million which includes a budget of 30 full time equivalent employees.
- The total proposed 2019 payroll tax and benefits expense is \$1,222,111. The proposed amount includes expected normal cost contributions of \$465,312 to CalPERS pension on behalf of active employees, \$20,400 required contribution to CalPERS to reduce RCRC’s unfunded liability (see below “**Key Differences Between 2019 and 2018**”), and \$540,000 benefit allowance to employees for coverage of their health, dental and vision benefits.
- For 2019, RCRC expects to incur \$258,000 in Other Post-Employment Benefits (“OPEB”) expense. RCRC recognizes the annual OPEB expense assuming the “pay as you go” financing method. Of this \$258,000, roughly \$33,000 will be paid in cash during 2019 for retired employees’ benefits. The balance represents the increase in the projected liability for future OPEB expenses, a non-cash item.
- In addition to regular operating expenditures, significant items included in the proposed RCRC Operating Budget include:
 - Consultants - \$490,550
 - Rent - \$394,000
 - Sponsorships - \$321,500
 - Computer Hardware and Maintenance/Support - \$221,700 & \$105,000
 - Legal Services - \$170,000
 - Staff Travel - \$232,200
 - Board Member Travel and Reimbursements - \$135,000

- Conference - Annual Meeting - \$215,000

Key Differences between the 2019 and 2018 Budgets

The proposed RCRC 2019 Revenue Budget of \$9,531,745 is up \$1,475,920 (18.3%) from the approved 2018 Budget. The proposed RCRC 2019 Expenditure Budget is \$9,423,615; a \$1,751,200 (22.8%) increase from RCRC's approved 2018 Budget.

It is important to note that the significant increase in both revenues and expenditures relate to management's proposal to expand efforts on behalf of member counties. Specifically, RCRC is increasing efforts and staffing in the governmental affairs, operations, administrative and economic development areas. While some of the additional efforts will occur in an affiliated entity including housing and economic development program activity, RCRC is proposing an increase in its employee base to service these initiatives. As a result, contract service fees charged to the affiliate increase simultaneously with proposed increase in staff committed to these activities.

Following is a summary of the key differences between the proposed 2019 and approved 2018 budgets:

- **Contract Support Service Revenue** – An increase of \$2,184,000 (45.4%) representing proposed increased services and operations support to affiliated entities. The primary increase in support relates to new economic development efforts, additional administrative support and increased operations support,
- **Payroll** – An increase of \$988,465 (26%) due to additional staff and pay adjustments. As described above, the 2018 Budget proposes the addition of staff in the governmental affairs, administrative, operations and economic development areas, which bring the total budgeted FTEs to 30,
- **Payroll Taxes and Benefits** – An increase of \$170,842(16.3%) representing the net effect of reduced CalPERS unfunded liability expenses (down \$166,404), increased health and dental insurance benefit allowances to employees (up \$267,400) and increased payroll taxes on higher payroll (up \$104,794). Monthly benefit allowances to all employees are proposed to increase by \$350 as health premiums rise year after year, and the benefit allowances has not been adjusted in over 10 years.
- **Consultants** – An increase of \$110,550 (29.1%) based on increased activity related to economic development efforts (\$80,000) and IT system upgrade consultants.
- **Computer Maintenance and Support and Computer Hardware** – A net increase of \$122,200 related to the continued upgrade of RCRC's computer servers, many to cloud solutions. The proposed 2019 budget includes a carryover of approximately \$80,000 budgeted in 2018 not yet spent.
- **Rent** – An increase of \$61,000 (18.3%) based on a revised allocation of expense to RCRC. Accounted for in this expense is the projected new lease agreement which is in the final stages of negotiation.

- **Repairs and Maintenance, Office Expense and Equipment Lease** – Increases of \$48,200 (993.8%), \$40,000 (200%) and \$50,000 (200%), respectively due to anticipated costs associated with the new lease remodel. The landlord is covering the majority of the tenant improvements however, computer cabling, other fixtures and new furniture associated with the new floorplan are anticipated.
- **Pension Liability (Use of Reserves)** – A decrease of \$3,117,000 (100%). In 2018, the RCRC Board of Directors approved a one-time payment to CalPERS towards the entity's unfunded pension liability of approximately \$3.6 million. The payment was made in 2018, saving RCRC an estimated \$4.3 million in interest payments over the next 30 years and reducing the annual payment to CalPERS for the unfunded liability. The proposed budget reflects the decrease in the new fresh start pension liability, reducing annual pension payments from approximately \$190,000 per year to approximately \$20,000 per year.

Budgeted Net Revenue

The proposed budget for 2019 will result in net revenues over expenditures of (\$108,130). The budget include noncash items, depreciation of \$40,000, OPEB change in valuation liability of \$225,000 and unrealized gains of \$20,000. Therefore, the proposed 2019 budget is projected to generate net cash resources of \$253,130.

Other Budget Matters

Following are additional matters addressed in the proposed 2019 budget.

- The calculation method for Member County dues was reestablished by the Board in June 2012. Staff recommends the same formula be utilized for 2019 Member dues with amounts updated based on Member County population. The 2019 Member Dues list is included as Attachment 2.
- Annually, RCRC is required to approve a pay rate schedule for all positions that participate in CalPERS. The proposed schedule for 2019 is included as Attachment 3.

Staff Recommendations

Staff recommends that the RCRC Executive Committee approve the following staff recommendations and direct the RCRC President to make the same recommendations to the RCRC Board of Directors:

1. Approve the attached proposed 2019 RCRC Operating Budget.
2. Approve the RCRC contract service fees at the following amounts:
GSFA - \$4,908,000; ESJPA - \$66,000; and NHF - \$2,020,000

3. Approve the RCRC contract Performance Fee from GSFA based on projected GSFA housing and energy program net revenues generated in 2019 in the amount of \$810,000.
4. Approve receipt of excess resources/revenues transferred from NHF, per the NHF Bylaws, in the amount of \$1,000,000, to be transferred in equal quarterly amounts of \$250,000 during 2019.
5. Approve 2019-member county dues calculation at the levels approved by the Board on June 13, 2012. (Attachment 2)
6. Approve the attached proposed 2019 pay rate schedule. (Attachment 3)
7. Approve the proposed outlay for capitalized expenditures in the amount of \$105,000

Attachments

- 2019 RCRC Operating Budget
- 2019 Member Dues
- Proposed 2019 Payrate Schedule