
FRESNO LOCAL AGENCY FORMATION COMMISSION (LAFCo)
EXECUTIVE OFFICER'S REPORT

AGENDA ITEM No. 8

DATE: March 12, 2014

TO: Local Agency Formation Commission

FROM: David E. Fey, AICP, Executive Officer

SUBJECT: Consider Approval – Preliminary Budget for Fiscal Year 2014-2015

RECOMMENDATION: Approve or Provide Direction

Accept the preliminary fiscal year (FY) 2014-2015 LAFCo budget estimates as shown on Exhibit "A" and provide direction to staff with respect to any recommended changes that the Commission may desire to incorporate within the proposed budget that will be presented to the Commission April, 9, 2014.

Executive Summary

The preliminary FY 2014-2015 budget proposes a decrease from \$518,486 to \$466,246 (↓ \$52,240 from FY 2013-2014). At this time the overall preliminary budget decreases due to the reduced amount LAFCo will be contributing to its County contract employees' retirement.

These are preliminary estimates that will be further refined based on staff analysis and Commission direction. Staff will present a "Proposed Budget" that reflects the Commission's comments and direction at the April hearing.

Overview of Budget Process

California Government Code Section 56381(a) states, "The commission shall adopt annually, following noticed public hearings, a proposed budget by May 1 and final budget by June 15. At a minimum, the proposed and final budget shall be equal to the budget adopted for the previous fiscal year unless the commission finds that reduced staffing or program costs will nevertheless allow the commission to fulfill the purposes and programs of this chapter."

The Commission's *Financial and Accounting Procedures* stipulate that "In order to get an early start on the budget and allow for careful consideration of the budget options, the Executive Officer will present a preliminary budget to the Commission in March of each year in order to obtain advance direction from the Commission."

The Commission's budget is based on a July 1st to June 30th fiscal year. All Commission recommendations will be incorporated into the proposed budget scheduled to be considered by the Commission at its regular hearing on April 9, 2014.

At today's hearing the Commission will consider and approve a preliminary budget for Fiscal Year 2014-2015 and consider staff's initial estimate to complete the approved FY 2013-2014 budget.

Summary of FY 13-14 Budget

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 provides that the operational costs of LAFCo shall be shared one-half by the County and one-half by cities where only the County and cities are represented on the Commission. In the event that special districts choose to be represented on the Commission, LAFCo funding would then be shared one-third by the County, cities, and the special districts or by an alternative method approved pursuant to section 56381(b)(4) of the California Government Code.

The LAFCo budget is also augmented by fees established by the Commission in accordance with section 56383 of the California Government Code for services rendered to process applications for annexations, reorganizations, and detachments, as well as other LAFCo actions.

Based on the adopted FY 2013-2014 budget, \$220,743 was contributed by the County and Cities (50% each) to offset LAFCo's net operating costs as required by State law. Revenue from application fees deposited during the first seven months of this year amounted to \$38,560, which is \$8,560 above the anticipated revenue for the FY 2013-2014 fiscal year. Staff anticipates FY 2013-2014 will close with a fund balance of approximately \$186,477.

Fresno LAFCo's Challenges for FY 2014-2015 and Beyond

The preliminary budget presents an opportunity to refocus Fresno LAFCo resources and enhance LAFCo's role as an independent public agency whose purposes are to encourage the orderly formation of local governmental agencies, preserve agricultural land resources, and discourage urban sprawl. The following discussion establishes the foundation for these changes and how the preliminary budget proposes to address these issues.

Emerging Function of the Municipal Service Review

Prior to 2000, LAFCo was largely occupied with processing annexations and sphere amendments. While the Great Recession dampened this activity for the time being, the Commission's most prevalent and consistent output since 2000 has been its Municipal Service Reviews (MSRs). MSRs are necessary to amend the sphere of a local agency and are otherwise required to be performed every five years, or as necessary.

It is noted that of the 190 MSRs created by LAFCo for the 15 cities and 115 special districts (some on their second updates), only five were performed to support sphere amendments requested by a local agency, 14 resulted in recommendations for sphere amendments based on the analysis alone, and 171 reaffirmed existing spheres. This indicates that the MSRs are largely initiated by LAFCo rather than as requested by local agencies. LAFCo's initial emphasis to simply complete these documents by the statutory deadline (2008) did not necessarily facilitate outreach and strengthen relationships with local agencies. Consequently, many local agencies were of the opinion that MSR inquiries were an unnecessary intrusion into their business; to others the process was an unbudgeted (and unwelcome) expense.

Consequently, the MSR represents a *process* that is substantially under-valued by local agencies and under-utilized by the Commission.

The fundamental value of the MSR is that it is a ‘governance audit’ required by the Legislature to check on the performance of a local agency. The misperception by local agencies of the MSR process has a potentially detrimental effect on the quality and timeliness of an agency’s cooperation with LAFCo staff. This impacts staff’s ability to create a sufficiently comprehensive document that serves the interests of the legislature, the Commission, the local agency, and ultimately, the public served by the local agency.

Repositioning the Municipal Service Review

How does Fresno LAFCo redirect its resources to create MSRs that are more meaningful? By repositioning LAFCo’s products (its Municipal Service Reviews) and services (actions in response to applications for sphere amendments and reorganizations, etc.), so that MSRs are recognized as a primary activity of the Commission rather than a peripheral activity. SOI and reorganization applications will still be processed in an accurate and timely manner, but staff resources can be directed to address an improved MSR process by:

- Better managing the project’s start-up by establishing earlier outreach and coordination with local agencies;
- Improved data collection process to ensure higher-quality data is available up front to avoid extensive revisions to drafts that were based on out-of-date or inaccurate data provided by the local agency;
- Establishing more productive relationships with local agencies that support more consistent project development;
- Building a better-informed constituency served by the subject agency;
- Developing more useful “products” by enhancing the MSR’s analytical quality and including a wider scope of analysis that takes into account the interrelationship of the subject agency to other agencies; and
- Strengthening the MSR recommendations by requiring applicants, whether by resolution or petition, to provide with their application a report on the progress toward complying with the MSR’s determinations and recommendations

The value of this improved process can be reinvested by assigning LAFCo staff, rather than consultants, to perform the work. As the MSRs are developed by staff, relationships are built between staff and the subject agency. Consultant products may deliver adequate documents, but the relationships built during the process remain with a third party.

Changes to Staffing: LAFCo Analyst

The process just described can only be accomplished by expanding the skill level of staff. Currently the growing list of administrative activities of an independent LAFCo are consuming more of the Clerk to the Commission’s resources that would traditionally be directed to preparing staff reports and analysis. This has led the Clerk to delegate additional work to the LAFCo Technician II. Though this latter position is capable of performing paraprofessional work under general supervision, staff foresees this workload potentially exceeding a Technician’s job classification. The challenge overall is that though staff possesses substantial *technical* expertise, the *analytical* tasks largely rest with the Executive Officer. The skill sets of staff must therefore be reorganized to accommodate the repositioned workload.

Should the Commission support this change, staff recommends that the current LAFCo Technician II position be eliminated and a LAFCo Analyst I/II/III position be approved.

Changes to staffing: Clerk to the Commission

Another change is the anticipated retirement of the Commission's long-serving Clerk. This position is currently held by a County employee via the Commission's Professional Services Agreement (PSA) with Fresno County. Once the current Clerk retires this position will be filled by a new employee of the Commission. Ms. Fleming has been with the Commission since 1991 and represents the most of the institutional knowledge of Fresno LAFCo.

Personnel expenses in the preliminary budget assume that the LAFCo Analyst and Clerk to the Commission are two additional LAFCo employees.

Summary of Recommendations

These scenarios would permit the Executive Officer to devote more of his time to work with local agencies and implement the FY 2014-2015 work plan; it would permit the Clerk to devote time to office administration as well as supporting the analytical work of the Commission; and it would create an analyst position responsible to the Executive Officer for the performance of MSRs and processing applications.

The benefit of the recommendations to the Commission would be:

1. Exercises its full role under the Statute;
2. Increased importance to local agencies by enhancing the efficiency of the MSR processes;
3. Increased value to local agencies of its third-party impartiality;
4. Increased benefit to all local agencies as efficiency and order is improved county-wide;
5. Additional coordination between LAFCo and other agencies to improve the conduct of under-performing special districts.

Summary of Preliminary FY 2014-2015 Revenue and Expenditure Accounts

Based on the preceding discussion, this section presents a comparison of each preliminary account with the adopted FY 2013-2014 budget. The total recommended appropriation for FY 2014-2015 is \$466,246, which is approximately a 9% decrease from the FY 2013-2014 budget.

Summary of Revenue

As noted, revenue to support LAFCo comes from local agencies represented on the Commission and application fees. Based on the preliminary analysis and recommendations, the county/city apportionments are anticipated to be \$178,123, respectively.

Though there are nationwide indications of the economy's recovery, staff is not confident that this improvement has fully made its way to the San Joaquin Valley. As a result of the Great Recession there is a backlog of both tract maps in the County that are annexed but unbuilt and reorganizations approved but not recorded that are expected to continue to depress application activity into calendar year 2015. The Drought may further dampen those developments that contribute to application revenue.

Staff therefore recommends a conservative estimate of \$30,000 in application fees that will be collected in the next fiscal year.

Summary of Expenditure Accounts

The following summaries describe accounts and the recommended FY 2014-2015 budget. The account numbers shown represent the current numbering protocol based on the County's budget practices. Commissioners are advised that the account numbering will likely change with the submittal of the final proposed budget in May as staff develops a budget that reflects an independent LAFCo.

Telephone/Communications (Account Number 7040) Recommended FY 2014-2015 Appropriation - \$1,405(↑)

Telephone/Communications are provided through the Professional Services Agreement (PSA) with Fresno County. The estimate for this account was provided by the County for FY 2014-2015. This estimate is \$297 more than last year's recommended budget appropriation of \$1,108. The projected expense for this account by 6/30/14 is \$1,545.

Liability Insurance (Account Number 7101) Recommended FY 2014-2015 Appropriation - \$13,490(↑)

The estimate for liability insurance was calculated by adding 10% to last year's premium which was \$12,264 as recommended by the insurance company. The projected expense for this account by 6/30/14 is \$12,264.

Maintenance – Equipment (Account Number 7205) Recommended FY 2014-2015 Appropriation - \$600(=)

The recommended appropriation is the same as last year. The projected expense for this account by 6/30/14 is \$417.

Professional Membership Dues (Account Number 7250) Recommended FY 2014-2015 Appropriation - \$6,563(↑)

This account supports Fresno LAFCo's CALAFCO membership dues. From a practical viewpoint, membership offers substantial value for the Commission because it allows access to CALAFCO training, seminars, and annual conferences. It also permits your Executive Officer and Commission Clerk access to the statewide web-based "list-serves" which networks staff with their counterparts in other LAFCOs. This account increased due to a statewide 1.5% increase in CALAFCO membership dues. The projected expense for this account by 6/30/14 is \$6,466.

Office Operational Expenses/Office Supplies (Account Number 7265) Recommended FY 2014-2015 Appropriation - \$4,500(↓)

This figure is a decrease of \$1,500 over the FY 2013-2014 budget based on the average current monthly charges. No significant changes from the current year are anticipated; consequently staff recommends a reduction for FY 2014-2015. The projected expense for this account by 6/30/14 is 3,850.

Postage (Account Number 7268)
Recommended FY 2014-2015 Appropriation - \$4,000(↓)

This account estimates a decrease of \$1,000 from last year's budget based on the average current monthly charge. The projected expense for this account by 6/30/14 is \$1,879.

PeopleSoft Human Service Charge (Account Number 7286)
Recommended FY 2014-2015 Appropriation - \$400(↓)

These charges reflect the expense of administrative/personnel costs for the Commission's two contract employees in accordance with the PSA with Fresno County. This estimate was provided by the County. It is a \$205 decrease over last year. The projected expense for this account by 6/30/14 is \$396.

PeopleSoft Human Resources Financial Charge (Account Number 7287)
Recommended FY 2014-2015 Appropriation - \$660(↓)

This charge reflects the County's cost for payroll for the Commission's two contract employees in accordance with the PSA with Fresno County. This estimate was provided by the County. It is a \$3 decrease over last year. The projected expense for this account by 6/30/14 is \$772.

Professional and Specialized Services (Account Number 7295)
Recommended FY 2014-2015 Appropriation - \$360,732(↓)

This account includes LAFCo staff salaries and benefits (\$267,982), possible sick leave/vacation payout for retiring County employee (\$15,000), LAFCo counsel (\$50,000), a contingency for special counsel (\$6,000), a bi-annual audit to be performed in 2015 (\$7,000), private payroll service for LAFCo's Executive Officer (\$1,500), private bookkeeping service (\$3,000), and services provided in accordance with the PSA with Fresno County: Auditor's Office (\$3,000), administration and personnel services (\$355), Assessor's Office (\$4,500), Health Department (\$1,760), and Elections (\$600). The projected decrease of \$63,251 from the FY 13-14 budget is largely due to the anticipated reduction in retirement contribution for Commission employees once they become LAFCo employees. The projected expense for this account by 6/30/14 is \$372,086.

Data Processing Services (Account Number 7296)
Recommended FY 2014-2015 Appropriation - \$19,221(↑)

Data Processing Services are provided through the PSA with Fresno County. This estimate was provided by the County and reflects an increase of \$2,569 over FY 13-14's estimate of \$16,652. The projected expense for this account by 6/30/14 is \$18,799.

Publications & Legal Notices (Account Number 7325)
Recommended FY 2014-2015 Appropriation - \$3,000(=)

Staff recommends the same amount as last year to account for anticipated additional noticing for FY 2014-2015. The projected expense for this account by 6/30/14 is \$781.

Rents & Leases-Buildings (Account Number 7340)
Recommended FY 14-15 Appropriation - \$30,915(↑)

This amount reflects the expense to lease LAFCo's office space for twelve months. The proposed appropriation includes an additional office space and storage consistent with staffing changes described in this report. The lease contains an annual 8.5% increase; last year's estimate was \$26,248. The projected expense for this account by 6/30/14 is \$25,471.

Postage Equipment Rental (Account Number 7355)
Recommended FY 2014-2015 Appropriation - \$260(↓)

This amount reflects the expense to lease LAFCo's postage meter. The projected expense for this account by 6/30/14 is \$223.

Mileage/Auto Allowance (Account Number 7412)
Recommended FY 2014-2015 Appropriation - \$2,000(=)

This account supports Commissioner's mileage for scheduled Commission meetings and is the same as last year's estimate. The projected expense for this account as of 6/30/14 is \$1,191.

Commissioner Per Diem (Account Number 7415)
Recommended FY 2014-2015 Appropriation - \$4,500(=)

This amount provides per diem for twelve regular meetings. It is the same as last year's appropriation and does not include special meetings. The projected expense for this account by 6/30/14 is \$4,500.

When the Commission considers the final budget in May, staff will recommend approval of a special meeting policy to establish criteria to evaluate third-parties' requests for special meetings or amendments to the approved hearing calendars and provide funding associated with unbudgeted expenses related to amendments or special meetings (additional per diem/mileage, noticing, etc.).

Transportation, Travel & Education, Commissioners & Staff (Account Number 7416)
Recommended FY 2014-2015 Appropriation - \$8,000(↑)

This account supports transportation and training/education expenses for LAFCo-related activities and reflects a \$2,000 increase over last year's budget. Staff recommends an increase in this account to offer additional opportunities for training and workshops for staff and Commissioners. The projected expense for this account by 6/30/14 is \$4,651.

Fixed Assets-Office Furniture, Computers. Etc. (Account Number 8300)
Recommended FY 2014-2015 Appropriation - \$3,000(↑)

This expense would support new office furniture for the additional office space if approved by the Commission. There were no funds budgeted for fixed assets or office furniture during the FY 2013-2014 year.

Contingency Funds (Account Number 8991)
Recommended FY 2014-2015 Appropriation - \$3,000(=)

This amount is the same as last year's recommendation. The projected expense for this account by 6/30/14 is \$3,000.

Reserve Funds

Legal Reserve – Currently the Commission maintains a separate legal reserve account in the amount of \$60,000. Staff recommends that this amount be reduced to \$50,000.

Operating Reserve – Based on recommendations by Fresno County Auditor/Controller-Tax-Collector and LAFCo's independent auditor staff recommends a reserve fund balance in the amount of 20% of the preliminary operating budget (\$93,249).

Summary of Budget Recommendations

Based on a recent review of the Commission's account balance, by 6/30/14, LAFCo's account balance should be \$186,477.

With the projected annual saving LAFCo will realize by having "LAFCo only" employees as opposed to "County" employees, staff recommends that the Commission evaluate offering the following benefits to its employees to make the benefit package more attractive to prospective employees:

- annual vacation/sick leave,
- cost-of-living increases,
- contribution towards health insurance, retirement contribution, disability insurance, and
- short- and long-term life insurance.

Recommended Action

Approve the Preliminary Fiscal Year 2014-2015 Budget, as it balances anticipated costs with projected revenue, supports improvements to LAFCo's capabilities, and maintains a prudent reserve fund (Special Fund) of 20% of the estimated annual budget amount.

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