

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

AGENDA ITEM NO. 6

DATE: May 6, 2015

TO: Local Agency Formation Commission

FROM: David E. Fey, AICP, Executive Officer 

SUBJECT: Consider Approval: Final Budget and Work Plan for Fiscal Year 2015-2016

RECOMMENDATION: Approve the Final FY 2015-2016 LAFCo Budget estimates and Work Plan as shown on the attached Exhibit "A" and Exhibit "B".

Executive Summary

The Commission approved the Proposed FY 2015-2016 budget on April 1st. Based on feedback from the RFP for LAFCo's biannual audit, staff is recommending an increase from \$7,000 to \$10,000 for account No. 53200 (Independent Financial Audit). The FY 2014-2015 budget will still close substantially below the original projection, largely due to lower expenditures for LAFCo legal counsel and employee benefits.

The Final FY 2015-2016 budget is currently estimated to be \$447,603 an approximate decrease of \$44,630 from FY 2014-2015. This budget projects that current approved staffing remains the same. The proposed budget is attached as Exhibit "A."

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 have been incorporated into the final budget.

Summary of FY 2014-2015 Budget

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH) authorizes the operational costs of LAFCo to 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 CKH.

LAFCo's operational expenses are 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.

The approved FY 2014-2015 budget of \$491,963 projected application fee revenue of \$30,000; to date, fee revenue has exceeded that projection by approximately \$29,000. That annual budget also authorized use of an available fund balance of \$53,452 to reduce the County and city contributions to \$197,805 each to fully fund LAFCo's operating costs as authorized by State law.

Due to higher application fee revenue and lower expenditures for office operations, LAFCo legal counsel and personnel, staff anticipates that the FY 2014-2015 budget will close below its original projection.

Staff recommends establishing an available fund balance of approximately \$125,000 with which to fund LAFCo expenses in the first quarter of FY 2015 until County and city contributions are received.

Pursuant to GC §56381, staff recommends the proposed budget and recommends a finding that reduced program costs will nevertheless allow the Commission to fulfill the purposes and programs as described in the CKH. The finding is based on the fact that the proposed budget's continued work plan, including the MSR program, continues outreach and technical assistance to local agencies, and maintains fiscal resilience in the form of reserve funds (described later in this report).

Fresno LAFCo's Challenges for FY 2015-2016 and Beyond

The final budget supports the LAFCo's role as an independent planning and regulatory agency whose purposes are to encourage the orderly formation of local governmental agencies, preserve agricultural land resources, and discourage urban sprawl.

The Commission's work plan contains projects and activities that fulfill its goals and objectives. For example, the work plan supports an assertive Municipal Service Review program by funding an analyst position whose primary duty is the timely completion of the MSR program.

A final FY 2015-2016 work plan, attached as Exhibit "B," is presented for the Commission's consideration. It contains ongoing assignments such as the MSR program, application processing and consultation and facilitation to local agencies and the public. It also proposes a Local Agency Workshop as an annual familiarization and facilitation event for local agencies, interested parties and other stakeholders that will be invited to participate in the discussion.

Summary of Final FY 2015-2016 Revenue and Expenditure Accounts

This section presents a comparison of each account with the adopted FY 2014-2015 budget. The total recommended expenditure for FY 2015-2016 is \$447,603, which is approximately \$44,360 less than FY 2014-2015.

Based on current data, and projecting \$40,000 in application fees and an estimated \$35,190 in available fund balance to reduce the gross operating budget, the county/city apportionments are anticipated to be approximately \$186,206, respectively.

Summary of Revenue

As noted, the majority of LAFCo funding comes from local agencies represented on the Commission with incidental revenue from application fees.

Revenue (Account Number 10000) for FY 2015-2016 is projected to be approximately \$447,603 largely comprised from county/city contributions which are anticipated to be approximately \$186,206, respectively, a decrease of approximately \$11,600 from FY 2014-2015. Application fee revenue is projected to be \$40,000. No MSR preparation fee revenue is projected at this time. This could change during the fiscal year if a local agency requested an unscheduled MSR that would have to be performed by a consultant under contract with LAFCo.

Summary of Expenditures

Based on expenditures for the first nine months of the fiscal year and the anticipated expenses for the remaining three months, staff is proposing the expenditures for FY 2015-2016 as follows:

Expenditure – Office Operations (Account Number 51000) FY 2014-2015 approved approximately \$107,114; recommended final FY 2015-2016 \$99,845, a decrease of approximately \$7,270, reflecting reduced Data Processing charges by Fresno County pursuant to the County/LAFCo Professional Services Agreement (PSA), and lower projected expenditures for Commission and staff education/training.

Expenditure – Personnel (Account Number 52000) FY 2014-2015 approved approximately \$311,500; recommended final FY 2015-2016 of \$289,958, a decrease of approximately \$21,531. Much of this decrease is attributable to projected Commission expense of \$15,000 to pay-out accumulated vacation leave for retiring County employee working for LAFCo under the PSA which eventually was not spent, the County finding the funding elsewhere.

Expenditure – Consulting Services (Account Number 53000) FY 2014-2015 approved \$73,360; recommended final FY 2015-2016 of \$57,800, a decrease of approximately \$15,560 reflecting an anticipated continuation of the trend of reduced expenditures for LAFCo Counsel.

Summary of Reserves

As noted during staff's presentation of the proposed FY 2015-2016 budget in April, LAFCo's annual budgets since at least FY 2007-2008 have declined from approximately \$800,000 to the

current final budget of \$447,603. Earlier budgets included additional staffing and consulting expenses to respond to the high workload from annexation applications and the requirement to complete all municipal service reviews in a year's timeframe, and unusually high litigation expenses. As the LAFCo's operational expenses have declined, it was deemed necessary to provide sufficient fiscal resilience by establishing and maintaining reserve and contingency funds. These are summarized as follows:

Special Counsel Reserve (\$2K) is the practice of maintaining minimal funding to cover minor expenses when a conflict of interest arises with LAFCo counsel.

Contingency Reserve Fund (\$3K) as described in the Fresno LAFCo's Financial and Accounting Procedures covers emergencies and other unforeseen costs not budgeted but deemed necessary for the continued operation of the Commission. Expenditures from this fund must receive prior approval of the Commission. Emergency expense can be authorized with the approval of the Executive Officer and at least one commissioner for an amount totaling less than \$5K during a monthly period.

Legal Reserve (\$50K) as described in the Fresno LAFCo's Financial and Accounting Procedures is intended to fund significant litigation expenses that are not otherwise funded by an indemnification agreement with a third party. Expenditures from this fund must receive prior approval of the Commission.

Operational Reserve (\$100K) was approved with the Commission's FY 2014-2015 budget. These funds are available to respond to major unplanned expenses, including opportunities for major capital expenditures, or for exigent increased staffing levels. Expenditures from this fund must receive prior approval of the Commission.

Reserve Fund Balance (\$125K) is the Commission's practice of maintaining a minimal fund balance with which to start each new fiscal year prior to receipt of funds from the cities and County. It is recommended to be approximately the equivalent of three months expenses (\$40K per month).

Summary of Budget Recommendations

Based on a recent review of the Commission's account balance, at the conclusion of the current fiscal year LAFCo's fund balance should be \$160,190. Staff recommends that \$35,190 of this be used to reduce the County/city contributions.

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FRESNO LAFCO FINAL FY15-16 BUDGET SUMMARY

Revised: 4/20/15; Inclusive of 3/15 Financial Statement

Revised: 4/20/15; Inclusive of 3/15 Financial Statement									
		Approved 2014/2015			Actual to Date		Estimate to Close FY 14/15		Final 15/16 Budget
#	REVENUE SUMMARY	Budget							
10100	ALLOCATION COUNTY	197,805		197,805		197,805		186,206	
10200	ALLOCATION CITIES	197,805		197,805		197,805		186,206	
10300	APPLICATION FEES	30,000		59,532		60,000		40,000	
10400	MSR PREPARATION	0		10,726		10,726		0	
10500	CONTRIBUTION FROM LEGAL RESERVE	10,000		10,000		10,000		0	
10600	MSR CONSULTANT CONTRACTS	0		0		0		0	
10700	MSR CONTRACT ADMINISTRATION	2,901		0		0		0	
10800	SPECIAL HEARINGS	0		0		0		0	
10900	MISC. RECEIPTS	0		0		1,000		0	
	AVAILABLE FUND BALANCE	53,452		0		0		35,190	
	Total	491,963		475,868		477,336		447,603	
#	EXPENDITURE SUMMARY	Approved 2014/2015 Budget	Actual to Date	Estimate to Close FY 14/15	Final 15/16 Budget				
51000	EXPENDITURE - OFFICE OPERATIONS	107,114	72,819	97,041	99,845				
52000	EXPENDITURE - PERSONNEL	311,489	203,897	280,585	289,958				
53000	EXPENDITURE - CONSULTING SERVICES	73,360	21,342	27,156	57,800				
	Total	491,963	298,057	404,783	447,603				

REVENUE

Revised: 4/20/15; Inclusive of 3/15 Financial Statement

10000	REVENUE - DESCRIPTION	Approved			Final 15/16 Budget
		2014/2015 Budget	Actual to Date	Estimate to Close FY 14/15	
10100	ALLOCATION COUNTY	197,805	197,805	197,805	186,206
10200	ALLOCATION CITIES	197,805	197,805	197,805	186,206
10300	APPLICATION FEES	30,000	58,932	60,000	40,000
10400	MSR PREPARATION	0	10,726	10,726	0
10500	CONTRIBUTION FROM LEGAL RESERVE	10,000	10,000	10,000	0
10600	MSR CONSULTANT CONTRACTS	0	0	0	0
10700	MSR CONTRACT ADMINISTRATION	2,901	0	0	0
10800	SPECIAL HEARINGS	0	0	0	0
10900	MISC. RECEIPTS	0	600	1,000	
	AVAILABLE FUND BALANCE	56,353	0	0	35,190
Total Revenue		494,864	475,868	477,336	447,603

EXPENDITURE - OFFICE OPERATIONS

Revised 4/20/15; Inclusive of 3/15 Financial Statement

EXPENDITURE - OFFICE OPERATIONS		Approved 14/15 Budget	Actual to date	Estimate to Close FY14-15	Final 15/16 Budget
51000	EXPENDITURE - OFFICE OPERATIONS				
51010	Office Operations Expense	6,000	3,541	4,721	5,200
51020	Office Lease	30,915	22,097	29,462	32,290
51030	Telecommunications	1,405	980	1,306	3,005
51040	Liability Insurance	13,490	12,230	16,307	13,500
51060	Copier Maintenance-Equipment	700	0	0	600
51080	Postage	4,000	1,537	2,049	3,500
51090	PeopleSoft HR Service	400	130	173	0
51100	PeopleSoft Financial Charges	660	378	504	600
51110	Data Processing Charges	19,221	13,458	17,944	11,844
51120	Publication & Legal Notices	3,000	787	1,049	2,000
51130	Postage Equipment Rental	260	202	270	312
51140	Staff Mileage	0	0	0	540
51150	Commission Hrg Expenses	6,500	5,510	7,346	6,000
51160	Commission and Staff Education	8,000	4,051	5,401	6,000
51170	Contingency Fund Expenses	3,000	50	17	3,000
51180	Professional Memberships	6,563	6,663	8,883	7,454
51190	Fixed Assets (Office Furniture)	3,000	1,207	1,610	3,000
51195	Fixed Asset (Office Furniture) Depreciation	0	0	0	1,000
Total Office Operations		107,114	72,819	97,041	99,845

EXPENDITURE - PERSONNEL

Revised: 4/20/15, Inclusive of 3/15 Financial Statement

		Approved		Estimate		
		14/15	Actual to	to Close		Final 15/16
52000	EXPENDITURE - PERSONNEL	Budget	Date	FY 14/15	Budget	
52100	Executive Officer					
52110	Salary	100,000	70,032	95,000	100,000	
52120	Car Allowance	6,000	4,250	6,000	6,000	
52130	Worker's Comp	720	542	600	600	
52140	Unemployment Insurance	846	450	846	460	
52150	Retirement Contribution	7,500	5,344	7,500	10,000	
52160	OASDI Contribution	7,300	4,208	7,300	5,595	
52170	Health Insurance Contribution	8,430	6,551	8,734	8,430	
52180	Life Insurance.	292	36	36	93	
52195	Benefit Administration	110	0	0	120	
	Subtotal	131,198	91,413	126,386	131,298	
52200	Clerk					
52210	Salary	62,000	47,944	62,000	62,000	
52215	Vacation/Sick Leave Payout	15,000	0	0	0	
52230	Workers Comp Contribution	720	542	600	600	
52240	Unemployment Insurance	846	479	630	363	
52250	Retirement Contribution	4,650	0	0	6,200	
52260	OASDI Contribution	4,743	2,445	3,731	3,087	
52270	Health Insurance Contribution	8,290	6,025	8,789	8,300	
52280	Life Insurance	292	42	42	93	
52295	Benefit Administration	110	9,562	9,562	120	
	Subtotal	96,651	67,039	85,353	80,763	
52300	LAFco Analyst II					
52410	Salary	55,000	35,338	55,000	55,000	
52430	Workers Comp Contribution	720	542	600	600	
52440	Unemployment Insurance	846	1,040	1,191	151	
52450	Retirement Contribution	4,125	0	0	5,500	
52460	OASDI Contribution	4,257	3,498	4,156	658	
52470	Health Insurance Contribution	8,290	4,963	7,726	5,820	
52480	Life Insurance	292	63	63	48	
52495	Benefit Administration	110	0	110	120	
	Subtotal	73,640	45,444	68,846	67,897	
52500	Extra Help	5,000	0	0	10,000	
52600	Intern	5,000	0	0	0	
	Total Personnel	311,489	203,897	280,585	289,958	

Expenditure - Consulting Services

Revised: 4/20/15; Inclusive of 3/15 Financial Statement

EXPENDITURE - CONSULTING SERVICES		14/15 Budget	Actual to Date	Estimate to Close FY 14/15	Final 15/16 Budget
53100	Payroll Services	1,500	1,904	2,900	3,000
53200	Independent Financial Audit	7,000	0	0	10,000
53300	Bookkeeping Service	3,000	1,671	2,500	2,500
53310	General Accounting/Auditor	3,000	1,809	2,800	3,000
53400	Fresno County Assessor	4,500	3,025	4,500	4,500
53500	LAFCo Counsel	50,000	11,385	12,000	30,000
53600	Fresno County Elections	600	492	656	1,000
53700	Fresno County Health	1,760	1,056	1,800	1,800
53800	Special Counsel	2,000	0	0	2,000
Total Consultant Expenses		73,360	21,342	27,156	57,800

FINAL 2015-16 LAFCO WORK PLAN
May 6, 2015

Introduction

Fresno LAFCo's Financial and Accounting Procedures specify that before July 1st, the LAFCo Executive Officer shall prepare for the Commission's review and approval an annual work plan. The work plan is prepared in conjunction with the annual budget. The work plan identifies the purposes and plans of State Law and local policy, including requirements for service reviews, sphere of influence updates, and other mandated functions.

This work plan reflects the Fresno LAFCo's policies and procedures and the current and the dynamic needs of the local agencies in Fresno County. The work plan is composed of projects to be undertaken directly by LAFCo staff during the year.

The work plan is developed to advance the state's interests, the Commission's issues and goals.

I. The scope of the work plan is developed to be consistent with the legislature's findings and declarations:

- It is the policy of the state to encourage orderly growth and development which are essential to the social, fiscal, and economic well-being of the state.
- The logical formation and determination of local agency boundaries is an important factor in promoting orderly development and in balancing that development with sometimes competing state interests of discouraging urban sprawl, preserving open-space and prime agricultural lands, and efficiently extending government services.
- Providing housing for persons and families of all incomes is an important factor in promoting orderly development.
- This policy should be effected by the logical formation and modification of the boundaries of local agencies, with a preference granted to accommodating additional growth within, or through the expansion of, the boundaries of those local agencies which can best accommodate and provide necessary governmental services and housing for persons and families of all incomes in the most efficient manner feasible.
- The Legislature also finds that, whether governmental services are proposed to be provided by a single-purpose agency, several agencies, or a multipurpose agency, responsibility should be given to the agency or agencies that can best provide government services.

II. The projects are identified to address important issues identified by the Commission in its initial Policies, Standards, and Procedures Document, adopted in 1986 or as revised:

Fresno LAFCo identified the following list of problems and needs locally, which pertain to the Commission's responsibilities, and developed policies, standards, and procedures in this document in order to help resolve the problems and meet needs within the Commission's jurisdiction:

1. Proliferation of overlapping and competing local agencies
2. Need for more cooperation/coordination among local agencies
3. Inadequate level or range of services in county/community
4. Inadequate revenue base or adverse fiscal impacts for local agencies
5. Illogical, gerrymandered agency boundaries, islands, surrounded areas
6. Illogical agency service areas
7. Conflicts between urban and rural/agricultural land uses
8. Premature proposals and lack of development proposals
9. Phasing of agency expansion/growth
10. Determining environmental effects of proposals
11. Determining consistency with city or county general plans
12. Urban sprawl and leap frog urban development
13. Guiding urban growth away from prime agricultural lands
14. Defining agricultural lands and open space lands
15. Opposition of proposals by residents and popularity of proposals by landowners/developers
16. Provision of adequate noticing of LAFCO hearing and conducting authority hearing.

On February 18, 2015, the following *Special District Issues, 2015* were presented to the Commission:

1. No adopted annual budget, by-laws, or procedures.
2. No services.
3. District board nonfeasance.
4. Grand Jury Reports
5. Lack of staff or staff lacks T/M/F expertise.
6. Board members fulfill both policy and operational functions.
7. Lack of coordination of similar services between and among different special districts.
8. Lack of transparency and/or Brown Act compliance.
9. Changing demographics, antiquated mission.
10. Not cooperative with LAFCo on the MSR.

III. The work plan is refined to conform with Commission goals:

1. Encouraging Orderly Formation and Development of Agencies
(Government Code Section 56301)
2. Encouraging Consistency with Spheres of Influence and Recommended Reorganization Of Agencies: (Government Code Section 56425)
 - a. 102-04 Transition Agreements
3. Encouraging Orderly Urban Development and Preservation of Open Space Patterns: (Government Code Section 56300)
4. Encouraging Conservation of Prime Agricultural Lands and Open Space Areas: (Government Code Section 56377)
5. Providing Public Access to the Commission via the Internet
6. LAFCo Disadvantaged Communities Policy

Final 2015-16 Work Plan

Municipal Service Review Program

Issues addressed: 2-4, 6, 8, 9, 11-13

Special District Issues: 1-10

Compatible with Goals: 1-6

Pursuant to Commission direction and policy for an assertive MSR program, staff has presented a schedule of MSR updates for all local agencies.

Application processing (Pre-applications / Applications)

Issues addressed: 1-15.

Compatible with Goals: 1-6

Annexations, detachments, extensions of service, spheres of influence updates, and other district modifications that are requested by local agencies and the public, as well as any activities initiated by the Commission will be processed in accordance with statute and policy.

Consultation and facilitation to local agencies and the public

Issues addressed: 1-15

Special District Issues: 1-10

Compatible with Goals: 1, 3, 6

This project accounts for the many requests for information, interpretation, advice, and project facilitation that arise.

**Inter-agency Coordination Regarding Inactive
and/or Unresponsive Special Districts**

Issues addressed: 2, 3, 4

Special District Issues: 1-10

Compatible with Goals: 1, 3, 6

This project will consist of outreach to other agencies including but not limited to Fresno County Clerk/Registrar of Voters and the Clerk to the Fresno County Board of Supervisors, and various state agencies, to identify inactive/unresponsive special districts, consolidation of inter-agency communication to the districts, and staff resources used to either bring district activities to acceptable level or to explore and recommend district modification to the Commission.

Local Agency Spring Workshop

Issues Addressed: 3, 4, 9

Compatible with Goals: 1, 3, 6

This workshop will explain the role of LAFCo, Spheres of influence, Reorganizations, MSRs, and the Annexation Program to local agency staff, consultants, and other interested parties.

The workshop will describe the application process, critical timelines, the public hearing and conducting authority process. Staff will also walk through the sphere of influence update process and describe the function of Municipal Service Reviews. Workshop will also include a "CEQA for Special District Works" briefing.

Update of LAFCo Policies and Procedures

Issues Addressed: 2, 3, 7, 8, 11, 12, 13, 14, 15, 16

Compatible with Goals: 1-5

This was a 2014-15 project and during that year the Commission approved MSR policies, DUC implementation guidelines and annexation program guidelines.

This project for FY 15-16 is a comprehensive examination and update of Fresno LAFCo's current Policies and Procedures manual to clarify procedural and policy language, and bring the manual into full conformance with CKH. In consultation with the Commission, This project will also strive to make the document more easily understandable by local agencies and the general public.

Application Fee Analysis

Issues Addressed: 2, 3, 7, 8, 11, 12, 13, 14, 15, 16

Compatible with Goals: 1-5

This project will evaluate the Commission's application fees: do the current fees balance expenses associated with application processing; the state of subsidiary expenses (such as services provided through the Professional Services Agreement with Fresno County); the fiscal implications of waiving application fees.

Fire Transition Policy Review and Assessment

(Initially approved with the 2014-15 work plan)

Issues Addressed: 2, 8, 9

Compatible with Goals: 1, 3

A Fire Transition Policy has been in place in one form or another since the late 1970s. It was substantially revised recently to address implementation issues raised by cities. This project would review the implementation of the amended policy and outreach to local agencies to evaluate the state of fire departments, their mutual support capacities, explore options to address service transition and seek to build consensus of the policy's efficacy among local agencies.

This project will benefit from the anticipated Fresno County Fire Protection District's 2015 Strategic Plan.

Assess Agricultural Preservation Policies

(Initially approved with the 2014-15 work plan)

Issues addressed: 1, 2, 3, 6, 7, 9, 10, 12, 13, 14

Goals Addressed: 1, 2, 3, 4

Preserving open-space and prime agricultural lands is of paramount importance to the Commission. LAFCo's statutory foundation puts it in a position to develop policies that permit it to influence orderly growth without being involved in actual land uses.

This project will evaluate the effectiveness of past LAFCo policy efforts, efforts of other agencies in Fresno County, and provide recommendations on an appropriate level of commission policy, whether project-by-project or on a sphere of influence basis. This work will benefit from the work of the Fresno COG Ag Mitigation Committee.

Project: LAFCo Subcommittees (as needed)

Issues Addressed: 1-16

Compatible with Goals: 1-5

This project shall explore the benefits of establishing standing committees composed of members and alternate members to address specific administrative, policy, budgetary issues and develop recommendations in conjunction with the Executive Officer.

Each subcommittee formed at the direction of the Commission will first meet to agree upon its objectives, metrics to determine when objectives are achieved, meeting frequency and other logistics, and an anticipated close of its business and presentation of its recommendation to the Commission