

Lassen Local Agency Formation Commission

DATE: April 11, 2011
TO: Lassen Local Agency Formation Commissioners
FROM: John Benoit, Executive Officer
RE: Budget Justification and Proposed Budget for FY 2011-2012

Budget Justification

While LAFCO is mindful of the budget constraints of the City and County the following proposed activity report reflects substantial limitations in the upcoming fiscal year. The proposed budget suggests using staff as much as possible in the preparation of the MSR's and SOI's including using funds from staff services to augment this activity when LAFCO project activity is less than anticipated has been successful. The four prior budgets lowered the city/county contributions while maintaining a reserve fund of \$25,000 for expenses beyond the control of the Commission. This year the proposal is to leave the contributions the same as this year.

Since the passage of AB-2838, based on the recommendations of the Commission for Local Governance, LAFCO has become an independent agency. Many of the start-up activities have been completed, many more activities need to take place such as the mandated Municipal Service Reviews and Sphere of Influence updates. Funds for the provision of training for commissioners on the requirements of AB-2838 are included.

The legislature continues to empower LAFCO's through legislation since there is no other vehicle available to them.

On November 14th, 2005 Lassen LAFCO adopted expanded budgeting policies as part of its operational bylaws. These policies are as follows:

3.2 Budget

- a) The Commission shall serve as the LAFCO Budget Committee and shall prepare and submit a budget to the Commission for review each spring in coordination with the Lassen County and City of Susanville budgeting process. When the Commission has finalized the budget, the Executive Officer shall promptly send it on to the County and the City as provided by the LAFCO Act, Section 56381.
- b) The Commission may at any time and at its own discretion modify its approved budget.
- c) The LAFCO Executive Officer shall be responsible for managing the day-to-day business of the Commission and for directing expenditures for that purpose within the guidelines established by the adopted budget.
- d) LAFCO's budget for the next fiscal year shall normally be set at level that allows the agency to complete the essential tasks of the approved work program. If the Commission determines that it cannot reasonably require funding at the level

necessary to fund the work program, the Commission shall eliminate or modify items in the work program to reflect the reductions in funding prior to approval of the reduced budget. The proposed and final budget shall be equal to or greater than the budget adopted for the previous fiscal year unless the commission finds that there is a diminished work load and reduced staffing or program costs will nevertheless allow the commission to fulfill its purposes and programs as required by the LAFCO Law.(§56381)

- e) Where feasible, LAFCO shall re-budget rollover from the prior fiscal year to reduce costs to the funding agencies. Alternatively, LAFCO may wish to use rollover monies to fund a Contingency Fund not exceeding 10% of LAFCO's total expenditures for a given fiscal year. Appropriations and Expenditures from the Contingency shall require Commission approval.
- f) Since Government Code 56381 (c) does not expressly require the City of Susanville (City) share of LAFCO's operating expenses to be deposited with the County Auditor. As long as the City is managing LAFCO's finances it is the policy of LAFCO to allow the City to transfer the City's share of LAFCO's operating costs, as apportioned by the County Auditor, to the LAFCO fund account. The City shall notify the auditor of the date and amount of the transfer.

In the sheet attached to the resolution, I have provided a "Proposed" budget based on the costs to provide LAFCO.

The overall goal of this budget is to conduct LAFCO business in a proactive manner involving the Community and to meet the overall requirements of the Cortese-Knox-Hertzberg Act at a reasonable cost.

Summary of the Proposed Budget:

Insurance: LAFCO is required to carry insurance as an independent agency. Fortunately, the Board of Supervisors has approved that LAFCO be covered under the County's insurance program resulting in a savings of about \$1,500.00. LAFCO's share of Insurance costs continue to be \$1,000.00 per year.

Office Expense This covers copy costs, postage, communication and publications. In FY 2003-04 and FY 04-05, FY 05-06, \$2,100 was budgeted for this item. Due to public noticing this budget was increased. Office Expenses since FY 2006-07 and again in this budget have been split into 4 budget categories as follows: General Office Expenses at \$250.00, Copies at \$2,500.00 (increased \$1,300 from FY2009-2010), Communications at \$1,200.00, and Postage at \$650.00.

Memberships In FY 2005-06 \$647.00 was budgeted for CALAFCO dues. Dues for Calafco for rural LAFCO's were \$650.00 for FY 2006-2007 and in 2007-2008 dues were \$675.00. In 2008-2009 they were \$725.00 and in 2011-2012 they will remain at \$725.00. It is important LAFCO remain in its statewide professional organization and participate in LAFCO issues of common concern for the benefit of Lassen LAFCO and its agencies.

Legal Services This year I am recommending we maintain this item at \$3,500.00 so as to not short change LAFCO in the event of a controversy. Fortunately, LAFCO has not needed Counsel present at its meetings and costs have been very minimal. Therefore, a reduction of \$1,000 was justified. In most cases, the need for Counsel to attend a meeting will be directly billable to a project applicant. Since LAFCO has become independent, separate LAFCO Counsel is necessary to represent LAFCO's interest as distinct from the County, independent special districts and the City. Project related legal costs would be billed to the project proponent through LAFCO's adopted fee structure.

Executive Officer Services I am recommending \$36,000 for this item, the same as previous years. Other administrative and activity costs have been placed into the Brown Act Budget Item below as well as MSR and SOI activities. Project activity may consist of a City Annexations now that the City's Municipal Service Review and Sphere of Influence are completed. Also service issues with the Susanville Sanitary District need to be resolved. This category includes general administrative work, project processing, meeting with Special Districts, the Grand Jury and environmental review on Spheres of Influence updates and the staff activities enumerated in the "activities" report. Notwithstanding a very complex reorganization (application), controversial service review, sphere of influence or incorporation project for Lassen LAFCO, this amount should also cover LAFCO administration and potentially also allow time to work to continue on the Municipal Services Reviews and Sphere Studies.

Note: project related cost overruns relating to an application would normally be fee supported if an augmentation is needed in this category. A project proponent will pay all project related costs including legal costs.

Brown Act Compliance I am recommending \$5,000 for this item. This item has been requested by the Commission in previous years to be included in the budget by the Commission. This includes staff and legal time for compliance with the Brown Act and Public Records Act. LAFCO is required to comply with these laws as a part of its normal operation. Funds have been taken from Legal and Executive Officer Services since these could be considered administrative (and) or legal services.

Legal Notices/Publications I am recommending \$600 for this item as with last year. Legal notices are required by state law and must be prepared for Municipal Service Reviews and Sphere of Influence Updates, all public hearings before the commission and protest hearings. Public hearing notices are required for many LAFCO actions.

Transportation/Travel/Conf. Registration I am recommending \$1,600 for this item, (\$1,200 for transportation and Travel and \$400 for conferences and training). This amount will provide for a portion of the Executive Officer's attendance at CALAFCO activities to represent Lassen LAFCO and one Commissioner to attend the annual conference.

Estimated costs for each Commissioner to attend the CALAFCO Annual Conference on August 31st and September 1 and 2 in Napa County is approximately \$1,200 including transportation, lodging, and conference registration.

Since the passage of AB 2838, with the changes in LAFCO, education afforded by the conferences is important to assure Commissioners have the tools needed to carry out their responsibilities. A decision as to whether the Commission desires to have a Commissioner to attend the conference will be required.

Sphere of Influence Updates and Municipal Service Reviews I am recommending \$14,000 to cover the costs of working on Municipal Service Reviews and \$3,000 for Spheres of Influence Updates as required by the LAFCO Act. This amount is the same as this fiscal year. This includes funding for MSR's for three or four small service districts including completing the Sphere analysis for fire districts, if not finished by June 30th.

Mapping LAFCO has set aside funds for mapping Spheres of Influence and District Boundaries. The amount set aside is recommended to be \$3,000 to provide GIS service in a timely manner.

Financial Services LAFCO is no longer in the A-87 program. The total cost of City financial services is projected to be \$1,722.30. An amendment to the City/LAFCO agreement will be necessary should these costs rise.

LAFCO Clerk Services: The City has proposed \$2,377.72 be budgeted for use of city staff for LAFCO minute services. This represents the minimum costs of clerking services to LAFCO to be paid to the City of Susanville. This remains a reasonable amount and is comparable to costs in many other LAFCO's.

Contingency LAFCO established a contingency budget policy in November 2005 which states: *"Where feasible, LAFCO shall re-budget rollover from the prior fiscal year to reduce costs to the funding agencies. Alternatively, LAFCO may wish to use carryover monies to fund a Contingency Fund not exceeding 10% of LAFCO's total expenditures for a given fiscal year."* In the event there is no cash on hand at the commencement of the next fiscal year the LAFCO statute calls for the County Auditor to follow the regulations in the Cortese-Knox Act and advance the Commission for two-months operational costs of LAFCO as of July 1st, 2009. This will not be the case this year.

Gov Code Section 56381(c) in part states *"...Between the beginning of the fiscal year and the time the auditor receives payment from each affected city and district, the board of supervisors shall transmit funds to the commission sufficient to cover the first two months of the commission's operating expenses as specified by the commission. When the city and district payments are received by the commission, the county's portion of the commission's annual operating expenses shall be credited with funds already received from the county"*

The above section also states as follows: *"If, at the end of the fiscal year, the commission has funds in excess of what it needs, the commission may retain those funds and calculate them into the following fiscal year's budget."*

As a practical matter and as stated in LAFCO's policies, the Commission should consider retaining a portion (10%) of its carryover funds from one fiscal year to another to fund a contingency budget and develop a reserve as would any special district in the event of cost overruns such as litigation. As shown in this budget, this figure would be again \$7,712.50.

Anticipated re-budgeting of funds

Notwithstanding unexpected expenses, at current expenditure rates the Commission will be able to re-budget approximately \$60,000.00 from the 2010-11 fiscal year to the 2010-2011 fiscal year (see budget worksheet attached to Resolution 2011-0002).

The Commission should be mindful that as an independent agency if an unexpected lawsuit were to occur (where no specific project proponent is paying legal costs or refuses to pay legal costs) legal costs could be around \$25,000 to \$50,000 and up depending upon the nature of the case.

If this were to happen to Lassen LAFCO, other than having a reserve fund established, the Commission would have to ask the City or the County for a loan. The County and the City would not be obligated to immediately grant a loan to LAFCO. Therefore, a carryover set aside of \$25,000 is recommended to continue since only \$3,500 is budgeted under legal services for LAFCO. Staff recommends this fund be placed in a separate trust account from LAFCO's operations budget.

In FY 2009-2010 the LAFCO reserve fund was first budgeted at \$25,000. I recommend LAFCO reserve fund remain at \$25,000.00. Increasing the reserve to \$50,000.00 would be ideal, however, the City and County budgets are declining and the reserve should remain at \$25,000.

Costs to City and County

Assuming a carryover of \$60,000 is realized, a 10 percent LAFCO contingency is funded at \$7,712.50 and a reserve fund of \$25,000 remains, the amount to be apportioned between the City and County would be **\$49,837.52** for FY 2011-2012, which remains the same as this fiscal year but lower than the \$59,745 for FY 2006-2007 fiscal year and the 2009-2010 cost of \$54,245.27.