



Local Agency Formation Commission
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April 18, 2019 (Agenda)

**EXECUTIVE OFFICER'S REPORT
PROPOSED FISCAL YEAR 2019/2020 LAFCO BUDGET
(AGENDA ITEM VI.B.)**

Introduction

In accordance with the Cortese-Knox-Hertzberg Act of 2000, each LAFCO is required to adopt a proposed budget by May 1st of each year. Following adoption by the Commission, the proposed budget will be transmitted to the Board of Supervisors, each City, the City Selection Committee, and to each independent special district. Based upon input from these entities and any modifications desired by the Commission, the Final Budget must be adopted by June 15th. These provisions are contained in Section 56381(a) of the Cortese-Knox-Hertzberg Act.

Total Proposed Budget Cost

Considering current workload, Commission priorities and application trends, Staff has prepared a proposed budget for the 2019/20 fiscal year in the amount of \$171,947. This includes an "appropriations for contingencies" account based on 4% of the total budget, which would require the Commission's prior approval before any funds are spent. This proposed budget is almost \$10,000 greater than the current 2018/19 fiscal year's budget of \$162,265. This is due primarily to a requested \$10,000 increase in consultant costs to prepare an update to the Agricultural Service Providers Municipal Service Review. This increase is partially offset by reducing the number of Commissioners who are budgeted to attend this year's Fall Conference in Sacramento, a savings of \$4,317.

Work Program Priorities

Each year, the primary component of the work program involves governmental reorganization application processing (annexations, detachments, reorganizations, out of boundary service extensions), along with related sphere of influence amendments if necessary. Application activity has been fairly stable, but there have been several larger projects that are more complex to process, including: completion of the Amsterdam Water District formation, approval of the Southeast Gustine Reorganization, and adoption of the Le Grand-Athlone Water District Municipal Service Review and initial review of the 5,800 acre annexation application. This level of application processing is projected to remain stable for the coming fiscal year. The *Proposed Budget Workload Statistics Form* included as part of the attached proposed budget material identifies the historic application history back to FY 2015/16. These figures are consistent with the prior year and are projected to remain relatively stable for the coming fiscal year.

Another special activity in the current fiscal year involved the dissolution of two inactive water districts on the State Controllers list in compliance with recent legislation in SB 448: the Family Farms Water District and the Santa Rita Water District. Depending on the list generated by the

Controller's Office by October 31, 2019, Merced LAFCO may be required to process additional dissolutions in the coming fiscal year. While legislation is pending to reimburse local LAFCOs for this cost, currently each LAFCO must conduct research into these potentially inactive districts and holding two Commission meetings to consider their dissolution.

One additional item mentioned at the March Commission meeting was looking at modifying local LAFCO policies regarding extension of services, typically sewer and/or water, outside a jurisdiction's boundary, as authorized under Government Code section 56133. Potential issues to develop policies for are to identify a reasonable distance services can be extended outside a city or special district boundary, what constitutes an "existing or impending threat to public health or safety," and whether a time limit for a future annexation should be included when the service is extended within the jurisdiction's sphere of influence.

Municipal Service Reviews

Another state mandated LAFCO workload activity involves two provisions in the Cortese-Knox-Hertzberg Act that require a review of Sphere of Influences every five years, and the corresponding review of the related Municipal Service Reviews (MSRs). Section 564125(g) of the Act requires that "...every five years., the commission shall, as necessary review and update each sphere of influence." As a parallel requirement, Section 56430(c) contains a requirement that the commission conduct a service review before the establishment or update of a sphere of influence. Current MSR update activities are described below, along with a reference to performing a cursory review of districts which have no changes and a simple confirming resolution can be adopted the Commission to meet the five-year review requirement.

In the 2018/19 Fiscal Year, an MSR update was adopted for the Le Grand-Athlone Water District, and work has continued on updating the Urban Service District MSRs involving the 15 independent special districts providing sewer and/or water service in unincorporated communities, which was approved by a contract with Economic Planning Systems (EPS) in association with Berkson Associates in the last fiscal year. Updated information and service level data has been received from all but two special districts on the list, and EPS is currently completing a first administrative draft of the MSR document.

In the Proposed Budget, Staff is recommending the allocation of \$35,000 in Account No. 21810 "Professional and Special Services" for anticipated consultant contract payments to update the "Agricultural Irrigation Service Providers MSR." As was discussed by the Commission at the March 21, 2019 Commission meeting, an update to this MSR would be timely given the extensive amount of information generated through the Sustainable Groundwater Management Act (SGMA) and related Groundwater Sustainability Plan activities.

In terms of revenue, one city and one special district-initiated MSR update are anticipated in the next fiscal year, which would be paid for by the jurisdiction requesting it.

Potential Special Studies

Staff is working with District representatives to initiate the dissolution of the Celeste County Water District with payment of standard processing fees.

A new potential funding opportunity may become available to LAFCO for other special district studies and dissolution efforts in disadvantaged communities. Last year CALAFCO helped sponsor AB 2254 (Caballero) to offer grant funding for local LAFCOs to perform special studies, such as consolidations and dissolutions of inactive districts. While this bill was ultimately vetoed by the Governor, it is being reintroduced this legislative session as AB 1253 (Rivas). A parallel effort with this new Bill is to get a specific allocation of funds identified in the State Budget to help ensure the Governor will sign it this year. Should this legislation be adopted, the Commission will be asked to submit a proposal for funding which could be in the range of \$20,000-\$30,000.

In terms of possible grant opportunities, one special district identified in the last couple fiscal years could be targeted: the Celeste County Water District. LAFCO could propose preparation of a special study under section 56378(a) of the Government Code to help dissolve this district located east of the City of Merced along State Highway 140, and identify where remaining district assets could be spent for the benefit of the community. It is assumed that the City of Merced could become the "successor agency" for the sewer and water services. Other grant opportunities could be consolidation efforts initiated by the State Water Resources Control Board – such as the consolidation of the Volta Community Services District with the Santa Nella County Water District which has stalled due to funding limitations.

Training

The other component of the work program involves costs for commissioner and staff training through attendance at conferences sponsored by the California Association of LAFCOs (CALAFCO). Historically funding was allocated for attendance for all eight commissioners and one staff to attend the annual Fall CALAFCO conference. As discussed at the March 21st Commission meeting, this number will be reduced to only four Commissioners (to reflect the highest attendance experienced in the past 10 years), and if additional Commissioners wish to attend this year's conference set for Sacramento, the Commission can approve allocating funds from the Contingencies Account later in the Fiscal Year. Attendance at the spring CALAFCO Staff Workshop, likely to be held in Southern California, is proposed for two staff. These conferences continue to be valuable for staff and Commissioners to learn about Commission process and policies, and new legislation involving the Cotese-Knox-Hertzberg Local Government Reorganization Act and other laws affecting LAFCO.

Staff Support

Staff support is proposed to be relatively the same as in the current fiscal year. Executive Officer costs are budgeted in Account 21810 "Professional and Special Services -Contractual Agreements." An increase in the hourly pay rate of the Executive Officer will occur in July based on the increase in the Consumer Price Index, as the Commission approved through a contract amendment (similar to the arrangement with LAFCO Counsel) in July 2017.

The same estimate of 400 hours over the fiscal year are proposed matching the current fiscal year reflecting continuation of duties in application processing, MSR preparation, CALAFCO coordination activities - including participation on the Legislative Committee - ongoing budgeting and contract oversight, and overall administration. The cost for the current fiscal year was adjusted at final budget with an annual increase based on the consumer price index increase for the prior year

(currently \$115.45/hour). The calculation is based on the May CPI increase, so the current billable amount of \$46,180 is identified in the proposed budget.

In terms of staff support through the Memorandum of Understanding (MOU) with the County, the same level of staff support in Account No. 21840 is assumed with the anticipated increase in actual hours spent in support of LAFCO operations from the Community and Economic Development Department under the "LAFCO Planner" position with more time spent by Tiffany Ho backing up Brian Guerrero. The total hours and costs remain the same as the current fiscal year: \$22,094.

Legal support will continue under contract with the law firm of Best, Best & Krieger, and the total amount budgeted is not changing: \$25,920. The billing rate of \$257 per hour for Partner Attorneys, and \$149 per hour for Paralegals and Clerks will increase as of July 1, 2019, based on the Consumer Price Index.

A Memorandum of Understanding will be presented to the Commission with the Final Budget for subsequent agreement with the Board of Supervisors for the County staff support function. It should be recognized that the total amount of time spent by staff and corresponding costs will depend on the actual workload experienced. While the total costs will not exceed the budgeted amount, the actual expenditures may be lower based on workload.

Total Budget Revenues

Revenue for LAFCO comes from application processing fees and the state mandated subsidy from the County and six cities within the County. In terms of application fees, a total of \$14,174.59 has been received through February 28, 2019, which is about 36% of the anticipated revenue of \$39,170.00 in Account No. 96920, two-thirds of the way into the fiscal year. This is not on pace to reach budget revenue targets although there are several applications pending on the horizon.

The amount of cash retained in the Treasury for LAFCO at the end of each fiscal year is monitored by staff in consultation with the County Auditor's Office. As an independent agency, any revenue received in excess of expenditures by the Commission is retained in interest bearing Account No. 94200, and is available for the following fiscal year. Interest in the first two quarters of the Fiscal Year totaled \$686.64.

An update on the current cash balance will be presented at the public hearing, and the Commission has historically strived to maintain a minimum balance of \$100,000 for unanticipated costs such as litigation. This cash balance will be used to calculate the actual billing amount to be requested from the six cities and county for the current fiscal year, and it typically results in a cost saving to the jurisdictions.

In the Proposed Budget, without consideration of any cash balance, the City and County share of LAFCO operation costs is estimated to be approximately \$67,345, as identified in the enclosed "Line Item Justification Form for Revenue" in Account Numbers 95636 and 95637. Revenue from application fees is estimated to generate \$36,058.

Recommendation

Staff recommends the Commission adopt the Proposed Fiscal Year 2019/20 Budget and direct the Executive Officer to forward this budget to the County, the six cities within the County, and all special districts in conformance with the Cortese-Knox-Hertzberg Act, and to set the final budget hearing for May 16, 2019, along with the corresponding MOU with the County for staff support services.

Respectively submitted,

LOCAL AGENCY FORMATION
COMMISSION OF MERCED COUNTY



Bill Nicholson, Executive Officer

Enclosure - Proposed Fiscal Year 2019/20 Budget

PROPOSED BUDGET STATISTICS & REVENUE

LOCAL AGENCY FORMATION COMMISSION

WORKLOAD STATISTICS FY 2019/20

Application processing workload projections:

<u>APPLICATIONS PROCESS</u>	<u>2015-16 ACTUAL</u>	<u>2016-17 ACTUAL</u>	<u>2017-18 ACTUAL</u>	<u>2018-19 EXTENDED</u>	<u>2019-20 ESTIMATED</u>
Annexations	2	3	2	4	4
Detachments	0	1	1	1	1
Formations	0	0	1	0	1
Reorganizations	1	0	1	1	1
Sphere of Influence	2	5	4	3	3
Consolidations	0	0	0	1	1
Out of Boundary Service Reviews	5	4	2	4	4
Dissolutions	0	0	0	2	2
<u>Municipal Service Reviews</u>					
Cities	0	3	1	1	1
Other Special Districts	1	1	15*	15*	15*
Special Studies	0	0	0	0	3

*Urban Special District MSR Updates initiated in October 2017 to be completed in FY 2019-20 (LAFCO sponsored). Anticipate initiating Agricultural Irrigation Service Providers MSR update in FY 2019-20.

LOCAL AGENCY FORMATION COMMISSION – PROPOSED BUDGET

LINE ITEM JUSTIFICATION FORM FOR REVENUE

BUDGET UNIT #76800

Fund #1220

<u>Account Number, Amount, Description and Justification</u>	<u>Requested 2019-20</u>
<u>94200 – INTEREST</u>	\$1,200
<u>95636 – COUNTY REVENUES</u>	
Represents County share (50%) of non-application supported costs for LAFCO functions.	\$67,345
<u>95637 – CITY REVENUES</u>	
Represents the 50% share of non-application supported costs for LAFCO functions to be provide by the six cities within Merced County (based on Auditor’s formula for each city’s individual share).	\$67,344
<u>96920 – APPLICATION REVENUE¹</u>	
Annexations	4 x \$2,700 = \$10,800
Detachments	1 x \$2,700 = \$2,700
Formations	1 x \$4,370 = \$4,370
Reorganizations	1 x \$2,700 = \$2,700
Sphere of Influence	3 x \$2,700 = \$8,100
Consolidations	1 x \$1,832 = \$1,832
Municipal Service Reviews	2 x \$2,000 = \$4,000
Out of Boundary Services	4 x \$778 = \$3,112
Total	\$36,058
TOTAL REVENUE:	\$171,947

¹ Fees are collected for various LAFCO applications, such as annexations, detachments, reorganizations and Sphere of Influence revisions. LAFCO Sponsored Municipal Service Reviews are not included in revenue projections.

Proposed Budget April 18, 2019

LINE ITEM JUSTIFICATION FORM FOR APPROPRIATIONS LOCAL AGENCY FORMATION COMMISSION

BUDGET UNIT # 76800

FUND # 1220

Account Number, Description & Justification

Amount Requested 2019-20

21500 MEMBERSHIPS

California Association of LAFCOs Annual Dues \$3,261

TOTAL MEMBERSHIPS

\$3,261

21700 - OFFICE EXPENSE-GENERAL

a. Metered Mail	12 x \$40	=	\$480
b. Supplies	12 x \$40	=	\$480
c. Copies/Departmental	12 x \$50	=	\$300
			<u>\$1,260</u>

TOTAL OFFICE EXPENSE-GENERAL

\$1,260

21810 - PROFESSIONAL & SPECIAL SERVICES - CONTRACTUAL AGREEMENTS

A. Contract with Executive Officer \$112.09/hr X 400 hrs	<u>\$46,180</u>
B. Professional consultant costs for updating municipal service review as mandated by the Cortese-Knox-Hertzberg Act with Economic & Planning Systems or other Consultant	<u>\$35,000</u>
	<u>\$81,180</u>

TOTAL PROFESSIONAL & SPECIAL SERVICES - CONTRACTUAL AGREEMENTS

\$81,180

21812 - INFORMATION SERVICES

Cost to televise and broadcast LAFCO meetings (\$519.45 x 10 meetings) \$5,195

TOTAL INFORMATION SERVICES

\$5,195

21834 - PROFESSIONAL & SPECIAL SERVICES - LEGAL SERVICES

LAFCO Legal Counsel Support (Best, Best & Krieger)

Total Contract Amount \$25,920

TOTAL PROFESSIONAL & SPECIAL SERVICES - LEGAL SERVICES

\$25,920

21840 - PROFESSIONAL & SPECIAL SERVICES - ADMINISTRATIVE SERVICES

Allocation of County Planning Department Staff
Time to Support Application Processing AB2838
Implementation and Administration

Personnel Allocation:		Hourly Rate x Hours	Salaries & Benefits
LAFCO Planner	Planner II	\$49.82/hr x 150 hours =	\$7,473
LAFCO Secretary	Office Supervisor	\$67.38/hr x 150 hours =	\$10,107
Planning Technician	Planning Technician	\$53.38/hr x 10 hours =	\$533
			<u>\$18,113</u>

TOTAL PROFESSIONAL & SPECIAL SERVICES - ADMINISTRATIVE SERVICES

\$18,113

21873 - PROFESSIONAL & SPECIAL SERVICES - ENGINEERING SERVICES

Costs for County Surveyor to review and approve boundary maps and legal descriptions 9 applications x \$300 (est. at \$53.51.hr rate) \$2,700

TOTAL PROFESSIONAL & SPECIAL SERVICES - ENGINEERING SERVICES

\$2,700

21900 PUBLICATIONS & LEGAL NOTICES

Estimated 16 notices x \$50 = \$800

TOTAL PUBLICATIONS & LEGAL NOTICES

\$800

22327 - SPECIAL DEPARTMENT EXPENSE - COST ALLOCATION PLAN

Distributed overhead for County Support Costs (payroll, accounts payable, etc.) \$7,305

TOTAL INDIRECT COSTS

\$7,305

22500 - TRANSPORTATION & TRAVEL

Part I - Conferences and Training

76800 - 1 Calif. Assn of LAFCOs Annual Commissioner Conf. (Hyatt Hotel - Sacramento) - 5 attendees

Transportation:	
228 mi. x .58 x 5 vehicles =	\$661
Meals:	
\$37/day x 2 days x 5 =	\$370
Lodging:	
\$170/ni. + 14% tax x 3 ni. X 5 =	\$2,910
Parking:	\$0
Registration:	
\$425 x 5 =	\$2,125
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	\$6,066

76800-2 Calif. Assn. of LAFCOs Annual Staff/Clerk Workshop (Southern California) - 2 attendees

Transportation:	
530 mi. x .58 x 2	\$614
Meals:	
\$37/day x 1 day x 2 =	\$74
Lodging:	
\$125/ni. + 14% tax x 2 ni. x 2 =	\$570
Parking:	
\$10/day Parking x 2 x 1 ni.	\$20
Registration:	
\$225 x 2 =	\$450
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	\$1,728

TOTAL PART I **\$7,794**

PART II - Boards, Commissions & Reimbursements

Commissioner reimbursement per meeting (assumes 2 Commissioners absent)

\$75/meeting x 7 Commissioner x 10 meetings =

\$5,250

\$5,250

TOTAL PART II

PART IV - Other Travel Expenses

One-day Conference & seminars:

1 trip - Sacramento x 2 people	\$300
Registration:	\$40
Meals: Lunch Only	\$13

Parking: \$10
Transportation: 240 Mi. x .580 x 1= \$139

TOTAL PART IV \$502 **\$502**

TOTAL TRANSPORTATION & TRAVEL **\$13,546**

TOTAL BUDGET SUBTOTAL **\$159,269**

74000 - APPROPRIATIONS FOR CONTINGENCIES (4% TOTAL BUDGET AMOUNT)

Contingency for unanticipated expenses.

TOTAL APPROPRIATIONS FOR CONTINGENCIES **\$6,307**

LAFCO BUDGET TOTAL **\$171,947**