

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

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April 2, 2003

TO: Sacramento Local Agency Formation Commission
FROM: Peter Brundage
RE: **LAFCo Proposed FY 2003-04 Budget**

RECOMMENDATION

1. Receive and file the Proposed FY 2003-04 Budget and Workplan.
2. Direct staff to circulate the Proposed Budget to cities, special districts and the County as set forth in Government Code Section 56381(a).
3. Direct staff to allocate the proposed share of cost to affected agencies based on the methodology set forth in Government Code Section 56381(b) (1) with the following adjustment.

The FY 2002-03 Budget included a reserve in the amount of \$80,000. This money was to be used as a one-time transition fund to reduce the 1/3 share of cost to be paid by special districts in the event Assembly Bill 1948 was adopted. As a result of this adjustment, the share of cost for special districts will not equal 1/3 of the total Share of Cost.

4. Direct staff to bring back the FY 2003-04 Proposed Budget in May as required by Government Code 56381 for approval.

FY 2003-04
Proposed Share of Cost Reallocation

| <u>Cities</u> | <u>County of Sacramento</u> | <u>Special Districts</u> | <u>Total</u> |
|---------------|-----------------------------|-----------------------------|-----------------------------|
| \$233,333 | \$233,333 | \$233,334 | \$700,000 |
| | | <u>(80,000)¹</u> | <u>(80,000)²</u> |
| \$233,333 | \$233,333 | \$153,334 | \$620,000 |
| <u>-0-</u> | <u>-0-</u> | <u>80,000³</u> | <u>80,000⁴</u> |
| \$233,333 | \$233,333 | \$233,334 | \$700,000 |

DISCUSSION

FY 2002-03 Final Budget Adjustment

Last year the Commission adopted a final budget based on a estimated year end carryover of \$344,850. The final budget authorizing \$820,000 in appropriations was adopted in June. Year end fund balance is not available until late July or early August.

LAFCo's final carryover for FY 2002-03 was \$240,353, or \$104,497 less than projected. As a result of the reduced carryover, the FY 2002-03 budget was reduced to \$715,503.

| | |
|---------------------------------|----------------|
| FY 2002-03 Final Budget | \$820,000 |
| Less Carryover Reduction | <u>104,497</u> |
| FY 2002-03 Revised Final Budget | \$715,503 |

This provided sufficient funds for operations but it eliminated contingency funds of \$70,000 and other accounts were reduced by \$34,497.

Carryover was less than estimated primarily because of higher costs related to the Rancho Cordova Incorporation proposal that were incurred near the end of FY 2002-03. There were a number of fiscal and environmental updates related to numerous boundary changes prior to approval.

The attached proposed Budget and Workplan for FY 2003-04 are a preliminary update for Commission review and comment. The Commission must adopt a Budget by May 1st and a Final Budget by June 15th.

¹ Less reserve set aside.

² Ibid.

³ Amount financed from FY 02-03 carryover.

⁴ Ibid.

The FY 2003-04 Proposed Budget should be provided to the affected agencies so they can incorporate their share of cost into their budgets. This preliminary budget should allow agencies to estimate their respective contribution for the next fiscal year.

Budget History

The following table summarizes LAFCo Budget for the last three years for comparison purposes.

| | FY 2001-02 | Proposed FY 2002-03 | Final FY 2002-03 | Proposed FY 2003-04 |
|----------------|-------------------|--------------------------------|-----------------------------|--------------------------------|
| Appropriation | \$820,000 | \$820,000 | \$715,503 | \$815,000 |
| Less Carryover | \$100,000 | \$344,858 | \$240,850 ⁵ | \$ 80,000 ⁶ |
| Revenue | \$15,000 | \$40,000 | \$39,503 | \$35,000 |
| Share of Cost | <u>\$704,227</u> | <u>\$435,150</u> | <u>\$435,150</u> | <u>\$700,000</u> |
| Total Funds | \$820,000 | \$820,000 | \$715,503 | \$815,000 |
| Balance | -0- | -0- | -0- | -0- |

⁵ The actual carryover for Fiscal Year 2002-03 was \$104,497 lower than expected. In other words, year end expenditures for FY 01-02 were higher than estimated. The higher costs were primarily attributable to processing the Rancho Cordova Incorporation proposal (fiscal analysis and legal fees). The higher costs, in turn, lowered the projected carryover for FY 2003-04. This situation has a ripple effect because carryover (savings) is used to finance subsequent years. The lower carryover has a negative impact because the short fall must be made up by increasing revenue and/or share of cost from affected agencies in subsequent years.

⁶ Excludes \$80,000 to be used to reduce special districts' share of cost under AB 1948. (See following discussion.)

**Summary of
Estimated Year End Budget for FY 2002-03**

| | |
|--|------------------------|
| Estimated Year End Expenditures | \$531,582 |
| Revenue | (16,079) |
| Share of Cost | (435,150) |
| FY 02-03 Carryover Savings | <u>(\$240,353)</u> |
| FY 03-04 Projected Carryover Savings | \$160,000 ⁷ |
| Reserved to Reduce Special Districts' Share of Cost | <u>\$80,000</u> |
| Available Carryover/ Fund Balance | \$80,000 |

Assembly Bill 1948

Chapter 493, amending Government Code Section 56381, was approved September 12, 2002. This bill revised Government Code Section 56381 methodology for calculation of special districts' share of cost. It provides that no independent special district shall be apportioned more than fifty percent (50%) of the special districts' one-third (1/3) share of LAFCo's net cost.

As you recall, the Sacramento Municipal Utility District (SMUD) is an independent special district that contributes to LAFCo. SMUD has paid over 80 percent of the special district's 1/3 share of cost for LAFCo operations during the previous two years. Effective FY 2003-04, SMUD's contribution will be capped at 50 percent of the special districts' 1/3 share as provided under AB 1948.

During the preparation of the FY 2002-03 budget, AB 1948 had not yet been adopted. However, \$80,000 was put into a reserve fund to provide one-time transition funds for special districts in the event AB 1948 was adopted. The adoption of AB 1948 results in a permanent increase to all special districts (except SMUD) because they now must cover 50% of the special district 1/3 share of cost. Therefore, \$80,000 of the projected year end carryover (fund balance) is recommended to reduce the special districts' share of cost for FY 2003-04.

⁷ \$80,000 of the estimated FY 03-04 carryover will be used to reduce the special districts' 1/3 share of cost as a one time transition adjustment because AB 1948 was adopted which caps SMUD's contribution to 50% versus 80%.

This action has a direct impact on the share of cost for the cities and the County. In essence, the final estimated carryover will be reduced by \$80,000.

Summary of Proposed FY 2003-04 LAFCo Budget

| | |
|-------------------|--------------------------------|
| Appropriations | \$815,000 |
| Revenue | (\$ 35,000) |
| Carryover Savings | <u>(\$ 80,000)⁸</u> |
| Share of Cost | \$700,000 |

Summary of Share of Cost FY 2003-04

| | <u>County</u> | <u>Cities</u> | <u>Special Districts</u> | <u>Total</u> |
|---------------------------------------|-------------------------|-------------------------|------------------------------|------------------------------|
| Before 1/3 Adjustment | \$233,333 | \$233,333 | \$233,334 | \$700,000 |
| AB 1948 ⁹ After Adjustment | <u>-0-</u> \$233,333 | <u>-0-</u> \$233,333 | <u>(80,000)</u> \$153,334 | <u>(80,000)</u> \$620,000 |

**Estimated
Summary of Available Funds for FY 2003-04**

| | |
|---|---------------|
| Share of Cost | \$630,000 |
| Share of Cost Reserve | 80,000 |
| Fund Balance (Carryover and Reserve) | 80,000 |
| Revenue | <u>35,000</u> |
| Total Funds | \$815,000 |

⁸ \$80,000 designated to reduce special districts' costs because AB 1948 capped SMUD's contribution to 50% of the 1/3 special district share.

⁹ Share of Cost Adjustment (one time transition adjustment for special districts due to adoption of AB 1948).

Allocation Methodology for Cities and Special Districts

Allocation of the share of cost for cities and special districts is based on methodology set forth in Government Code Section 56381. Basically, share of cost is allocated to each affected agency based on its share general purpose revenue compared to the total general purpose revenue of a given category. In Sacramento County, the City of Sacramento and SMUD's share of cost is capped at 50 percent. Allocation tables will be provided to the affected agencies as soon as official reports are made available from the State Controller's Office. In addition, the new City of Rancho Cordova will be included in the cities' 1/3 share of cost for LAFCo.

Proposed Staffing for FY 2003-04

I recommend the following staffing for next fiscal year.

| <u>FTE</u> | <u>Positions</u> |
|-------------------|---|
| 1.0 | Executive Officer |
| 1.0 | Senior Analyst/ Assistant Executive Officer |
| 1.0 | ASO I / Commission Clerk |
| <u>0.0</u> | Other Part Time and Miscellaneous Temps |
| 3.0 | Total |

LAFCo will be staffed with 3.0 full time permanent staff employees. Funding has been budgeted to hire part-time and temporary help from on-call agencies. [\$38,000]

LAFCo will continue to use outside legal counsel on a contractual basis. In addition, LAFCo will continue to use environmental consultants and financial consultants on an as needed basis. Funds have been included in the Other Professional Services account for these purposes.

| | |
|-----------------------------|------------------|
| Legal Services | \$ 75,000 |
| Other Professional Services | <u>\$117,000</u> |
| | \$192,000 |

FY 2003-04 Proposed Work Plan
(Preliminary Estimate)

Estimate Cost

| | |
|---|------------------|
| Municipal Service Reviews and Sphere of Influence Updates: | |
| City of Elk Grove SOI | \$50,000 |
| City of Citrus Heights SOI | \$50,000 |
| Sacramento Regional County Sanitation District | \$80,000 |
| County Sanitation District No. 1 | \$20,000 |
| Complete Cemetery District MSR/SOI's: | |
| Elk Grove-Cosumnes Cemetery | \$10,000 |
| Fair Oaks Cemetery | \$10,000 |
| Florin-Elder Creek Cemetery | \$10,000 |
| Galt-Arno Cemetery | \$10,000 |
| Sylvan Cemetery | \$10,000 |
| Reclamation District No. 1000 MSR | \$25,000 |
| Complete Park District MSR/SOI's: | |
| Arcade Creek | \$20,000 |
| Arden Manor | \$20,000 |
| Cordova | \$20,000 |
| Elk Grove | \$20,000 |
| Fair Oaks | \$20,000 |
| Fulton-El Camino | \$20,000 |
| Mission Oaks | \$20,000 |
| North Highlands | \$20,000 |
| Rio Linda | \$20,000 |
| Southgate | \$20,000 |
| Sunrise | \$20,000 |
| Orangevale | \$20,000 |
| County Service Areas (Parks) | \$20,000 |
| Policy Review Update | \$50,000 |
| General Administration | |
| (Public Inquiry, Customer Service) | \$100,000 |
| Contingency | \$50,000 |
| Projected Carryover | <u>\$80,000</u> |
| TOTAL APPROPRIATIONS | \$815,000 |

SUMMARY OF PROPOSED FY 2003-04 BUDGET

EXPENDITURES

| | | | |
|------|---|---------------|------------------|
| 1000 | Salaries and Benefits | \$350,000 | |
| | Commission Stipends | <u>16,000</u> | |
| | Total 1000 Accounts | \$366,000 | \$366,000 |
| 2000 | Advertising & Legal Notices | \$ 10,000 | |
| | Books & Periodicals | 1,000 | |
| | Business & Conference Expense | 15,000 | |
| | Education & Training | 2,500 | |
| | Employee Transportation | 500 | |
| | Memberships | 3,500 | |
| | Office Supplies | 7,500 | |
| | Mail & Messenger Services | 2,500 | |
| | Copier Lease | 20,000 | |
| | Other Professional/ Consultant Services [EIR, Fiscal, Engineers] | 117,000 | |
| | Commission Counsel | 75,000 | |
| | Printing Services | 3,500 | |
| | Public Works [Surveyor, etc] | 4,000 | |
| | Cable Broadcast | 12,000 | |
| | Insurance | 11,000 | |
| | Annual Audit | 11,000 | |
| | Security Services | 7,000 | |
| | Cartography | 5,000 | |
| | Computer & Web Site | 25,000 | |
| | Office Rent | 57,000 | |
| | Telephone | 6,000 | |
| | Furniture | 3,000 | |
| | Contingency (5%) | <u>50,000</u> | |
| | Total 2000 Accounts | \$449,000 | <u>\$449,000</u> |
| | TOTAL COSTS | | \$815,000 |

REVENUE

| | | |
|----------------------|------------------|------------------|
| Interest Earnings | \$10,000 | |
| Project Revenue | 25,000 | |
| Carry Over | 150,000 | |
| Share of Cost | <u>630,000</u> | |
| Total Revenue | \$815,000 | \$815,000 |
| Over/ Under | | -0- |

Budget Analysis

Staff recommends a status quo budget from previous years that includes a \$5,000 reduction. It also shifts approximately \$78,000 from salaries and benefits to the 2000 expenditure accounts. It is staff's recommendation not to hire permanent staff but when needed, utilize on-call and temporary help together with consultants.

The following are the major expenditure accounts and proposed amounts.

| | | |
|-----------------------------|----------------|---------------|
| 1000 Salary & Benefits | | |
| Current Staff | \$312,000 | Fixed |
| Part Time Staff | 38,000 | Variable |
| (Discretionary) | | |
| Commission Stipends | <u>16,000</u> | Variable |
| | \$366,000 | |
| 2000 Expenditures | | |
| Copier Lease | \$ 20,000 | Fixed |
| Legal Counsel | 75,000 | Variable |
| Office Lease | 57,000 | Fixed |
| Contingency | 50,000 | Discretionary |
| Other Professional Services | <u>117,000</u> | Variable |
| (Discretionary) | \$319,000 | |
| Total Major Accounts | \$685,000 | |

Comparison of Selected Expenditures Accounts
Between FY 2002-03 and FY 2003-04¹⁰

| | <u>Proposed</u> <u>FY 2003-04</u> | <u>Expended</u> <u>FY 2002-03¹¹</u> |
|-----------------------------|--|---|
| Part Time Staffing | \$38,000 | \$4,050 |
| Other Professional Services | \$117,000 | \$20,000 |
| Contingencies | <u>\$50,000</u> | <u>\$70,000¹²</u> |
| Total Non Designated | \$205,000 | \$94,050 |

Carry Over/ Fund Balance

LAFCo carry over, or fund balance, has fluctuated over the last several years for a number of reasons. It increased because staff positions were not immediately filled and fund balance subsequently was reduced by higher costs related to the incorporation of Rancho Cordova and the one-time funding for transition funds related to AB 1948. Various start up costs and one-time set up costs have already been incurred. It is staff's desire to try and stabilize annual operating costs if possible so that assessments to affected agencies will stabilize.

¹⁰ Summary of expenditure accounts that are open ended and used only on an as needed basis. Expenditures are not predictable.

¹¹ As of March 20, 2003.

¹² AB 1948 Reserve for Special Districts: one time transition funding.

CONCLUSION

The cost of doing business is partially impacted by new legal requirements, increased notification requirements, and the potential need to rely on consultants and professionals which have expertise in specialized fields. Depending on the type, complexity and controversy of the projects, costs can fluctuate dramatically from year to year, even with fee recovery.

The FY 2003-04 Proposed Budget provides adequate funding for the projected work load and includes a contingency for unexpected expenditures. Therefore, I recommend that your Commission direct staff to circulate the draft FY 2003-04 Proposed Budget for review and comment.

Respectfully submitted,

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

Peter Brundage
Executive Officer

PB:Maf
(FY 2003-04 Proposed Budget)