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

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AGENDA ITEM NO. 7

**DATE:** March 18, 2020

**TO:** Fresno Local Agency Formation Commission

**FROM:** David E. Fey, Executive Officer 

**SUBJECT:** Preliminary Budget and Work Plan for Fiscal Year 2020-2021.

**RECOMMENDATION:** Receive Report and Provide Direction.

**Executive Summary**

The fiscal year ("FY") 2020-21 LAFCo preliminary budget estimates are summarized in Attachment "A" and the preliminary 2020-21 work plan is presented in Attachment "B" for the Commission's consideration, comment, and direction to staff.

The FY 2019-20 budget is \$587,979. Staff anticipates that FY 2019-20 revenue will close above expenses and expenses are projected to close below the approved budget. This preliminary estimate will be further refined based on staff's continuing analysis during the budget process.

A proposed budget and work plan will be presented to the Commission at its regular meeting of April 8, 2020, and the final budget and work plan will be presented to the Commission at its May 13, 2020 meeting.

Staff estimates the preliminary FY 2020-21 budget of approximately \$589,236. The preliminary budget continues the Commission's practice of maintaining an operational reserve of \$100,000.

The distribution of the preliminary budget is limited as it is intended to solicit commission comment and direction in support of the proposed budget. However, in accordance with Government Code ("GC") sec. 56381, the proposed and final budgets will be distributed to all local agencies and the County Administrative Officer.

**Overview of Budget Process**

GC 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.

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 section 56381(b)(4) of the GC.

LAFCo's operational expenses are augmented by fees established by the Commission in accordance with CKH sec. 56383 for services rendered to process applications for annexations, detachments, sphere of influence amendments, as well as other LAFCo actions.

#### **Preliminary Summary of FY 19-20 Budget to Close (Attachment "A")**

##### **Revenue**

FY 19-20 anticipated \$587,979 in revenue, comprised of \$198,912 from both the County and the 15 cities, \$70,000 in application fees, and an authorized fund balance contribution of \$120,155. The latter is anticipated to be reduced approximately \$30,000 in proportion to fee revenue received above budgeted amount.

Unbudgeted revenue of \$362 was received from the Firebaugh Canal Water District for noticing expenses associated with the re-activation of the Silver Creek Drainage District and the Firebaugh Resource Conservation District.

##### **Expense - Office Operations**

FY 19-20 budgeted office operations for \$98,481 and are estimated at this point to close at \$91,556 (-\$6,925).

##### **Expense - Personnel**

FY 19-20 personnel expenses were budgeted for \$413,623 and are estimated to close at \$415,623 (+\$2,000).

##### **Expense - Consultant Services**

FY 19-20 Consulting services expenses were budgeted for \$75,874 and are estimated to close at \$65,628 (-\$7,746).

## **Preliminary FY 20-21 Budget (Attachment “A”)**

### **Revenue**

The preliminary FY 2020-21 revenue forecast is \$589,236 with an estimated County and cities' contribution of \$231,768, respectively, \$80,000 in application fees, and a fund balance contribution of \$45,700.

The preliminary FY 2020-21 revenue forecast represents an approximate increase of 2% over the approved FY 2019-20 budget.

### **Expenses – Personnel**

The preliminary personnel expense forecast is \$433,296. This figure reflects merit-based step increases for staff pursuant to the Commission's 2019 Salary Resolution.

This forecast represents an approximate increase of 5% over the approved FY 2019-20 budget.

### ***Budgetary impact of AB 5***

AB 5 went into effect January 1 and clarifies the tests for determining if a person is an employee or independent contractor. AB 5 codifies the decision of the California Supreme Court in *Dynamex Operations West, Inc. v. Superior Court of Los Angeles* (2018) that presumes a worker is an employee unless a hiring entity satisfies a three-factor test and exempts from the test certain professions and business-to-business relationships.

LAFCo's bookkeeper was initially contracted with through Accountemps in 2013. Since that time, she has provided high-quality professional services and supported LAFCo staff's work on two routine financial audits. In late 2019, the Executive Officer contacted Accountemps to convert her from a temporary employee to serve as an independent contractor for LAFCo. Since she has worked for LAFCo for over five years, Accountemps was agreeable to a minimal "conversion charge" in accord with the contract with LAFCo. However, implications of AB 5 indicated that the business relationship may be better served by having the bookkeeper become a part-time employee of LAFCo. This is not expected to have significant impact on next year's budget as it would simply move a consultant service expense to personnel. Staff expects to have additional information in the proposed budget to be presented in April.

### **Expense - Office Operations**

The preliminary office operations expense forecast is \$97,291. This figure reflects the contracted increase to LAFCo's office lease, planned increase in CALAFCO dues, and additional limited expenses by LAFCo's CALAFCO board member Parra.

Staff recommends reducing the \$3,000 "contingency fund expenses" line item to zero. This is a restricted fund that requires Commission authorization and has been in place since 2015 though never expended.

This forecast represents an approximate decrease of 1% under the approved FY 2019-20 budget.

### Expense - Consultant Services

The preliminary consulting services expenses forecast is \$58,650. The overall decrease of approximately 20% compared with the approved FY 2019-20 budget reflects an anticipated decrease in billing for services by the Auditor-Controller, Assessor's staff, and Environmental Health. It also does not include funding for a financial audit. However, that expense will be seen again in FY 2021-22 in conformance with LAFCo's financial and accounting policies.

### **Preliminary FY 2020-21 Work Plan (Attachment "B")**

The preliminary work plan advances the Commission'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 budget represents the funding to accomplish projects important to the Commission.

A preliminary FY 2020-21 work plan is attached as Attachment "B." During the Commission's March 2019 meeting, Chair Santoyo raised the question of identifying the Commission's "core services." The preliminary FY 2020-21 work plan has been prepared with an emphasis on identifying the Commission's core services and preparing a schedule of activities that fulfill these services.

A "core service" is defined as an activity of the Fresno LAFCo which puts into effect the Commission's responsibilities as established by the Legislature in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH):

- to encourage orderly growth and development which are essential to the social, fiscal, and economic well-being of the state;
- to provide for the logical formation and modification of the boundaries of local agencies; and
- to promote orderly development, and balance that development with competing state interests of discouraging urban sprawl, preserving open-space and prime agricultural lands, and efficiently extending government services.

Additional information on the Commission's work plan is presented at the end of Attachment "B."

### **Individuals and Agencies Receiving this Report**

- Ken Price, LAFCo Counsel