

SONOMA LOCAL AGENCY FORMATION COMMISSION

111 SANTA ROSA AVENUE, STE. 240, SANTA ROSA, CA 95404

(707) 565-2577

www.sonomalafco.org

Staff Report

Meeting Date: April 3, 2024
Agenda No. Item 4.1
Agenda Item Title: Fiscal Year 2024-25 Proposed Preliminary Budget
Environmental Determination: Not a Project under CEQA
Staff Contacts: Mark Bramfitt and Cynthia Olson

Analysis

Background

As required by state law, each year the Commission conducts two noticed public hearings on its upcoming year's budget. This year, the first hearing on the Fiscal Year 2024-25 Proposed Budget will take place on April 3, 2024, and the second, on the Final Budget, will occur on June 5, 2024.

The Commission's expenditures consist of Salaries and Benefits and Services and Supplies. Revenues consist primarily of apportionments from funding agencies: County, cities, and independent special districts. Other sources of revenue are the interest from invested funds and fees for services. These fees are reflected in the Commission's revenue accounts actuals but are not forecasted in the proposed budget.

The proposed FY 2024-25 budget features:

- Budgeting of 3.7 Full Time Equivalent (FTE) staffing levels across four allocated positions. Presently, these positions are filled at 3.0 FTEs.
- An 11% increase in Salaries and Benefits.
- An 11% increase in Services and Supplies primarily in Auditor Services, Legal Services, Professional Services and Travel Expense.
- Use of \$244,255 from the Fund Balance from a projected balance of \$820,078.

The Budget Committee met on March 6 to discuss staff's preliminary proposal and to provide feedback. After review and discussion, the Budget Committee recommends that the Commission adopt the Proposed FY 2024-25 Budget with a 5% increase to agency apportionments and use of Fund Balance monies to fill the gap between projected revenues and expenditures.

Salaries and Benefits (S&B)

Staff is proposing that the budget include four positions totaling 3.7 FTEs. These positions are 1.0 FTE Executive Officer, 1.0 FTE Senior Administrative Analyst, 1.0 FTE Commission Clerk and 0.7 FTE Administrative Analyst (vacant). Staff proposes that the budget maintains the allocation for the Administrative Analyst III position at 0.7 FTE to allow the Executive Officer the flexibility to hire additional staff as needed to handle increases in the Commission's workload. The amount budgeted for this position is \$168,562.

The proposed FY 2024-25 expenditure for salary and benefits reflects a 11% increase over last year. The increase is due in large part to increases in medical insurance premiums, merit increases for the Commission Clerk and Senior, COLA increases for all staff and lump sum payment of staff development funds in July 2024. The amount also

reflects increases of retirement funding, taxes and other costs associated with increases in staff salaries.

Services and Supplies

The proposed FY 2024-25 expenditure for services and supplies reflects a 11% increase over last year.

Auditor Services

The Auditor has determined that the fees for services would be higher in FY 2024-25 due in part to increased labor costs of providing services.

Contracted Services

In FY 2023-24, the Commission authorized using contracted consultant services to prepare a study of Disadvantaged Unincorporated Communities (DUC Study), a Municipal Service Review (MSR) and Sphere of Influence (SOI) Study for the City of Santa Rosa and a MSR for the Valley of the Moon Water District (VOMWD). Staff anticipates that that the three reports will be completely expensed in FY 2024-25. The amounts over the proposed budgeted amount will be covered by the funds from the fund balance. The cost of the VOMWD was paid by the applicants and is included in Professional Services Revenue.

Staff anticipates that there may be other projects coming to the Commission in FY 2024-25 that would require consulting services. These could include the following:

- A MSR and SOI Study for the Town of Windsor Water District
- Municipal Services Review for one or more sanitation districts and cities.

The amounts over the proposed budget will be covered by the funds from the fund balance.

Legal Services

Our use of legal counsel has increased as we handle more complex projects requiring legal review and consultation including the review and development of Commission policies. Staff also receives assistance from Counsel with regards to the review and drafting of documents related to the California Environmental Quality Act (CEQA). Staff intends to continue to use Counsel for this purpose but may need to contract with a CEQA consultant should Counsel become unavailable.

FY 2023-24 legal fees are higher than budgeted due in part to the costs of defending Sonoma LAFCO in the current litigation.

Travel and Private Car Expenses

The cost of the CALAFCO Annual Staff Workshop and Annual Conference are substantially higher than the previous year. Staff anticipates that in addition to staff, several commissioners will attend the Conference and has budgeted accordingly.

County Services

The cost of County Services varies year to year based on the County's determination of LAFCO's fair share of the county overhead costs for contracted services. The increase reflects in large part the increase in labor costs for the various departments included in the calculation.

Revenues

The actual revenues reflect an increase over the budgeted interest in pooled cash due to the current economy and return on investments. Staff proposes an increase over the previous year budgeted amount in anticipation of continued favorable return on investments.

Staff proposes a minimum of a 5% increase in apportionments to the funding agencies to cover at least a portion of the 11% increase in expenditures. The Commission may choose to cover any costs over the budgeted amount by use of the Fund Balance.

Fund Balance

While we do not yet have firm projections for end of FY 2023-24 actuals, staff believes that FY 2023-24 actual spending will come in at or slightly below the adopted budget. It is anticipated that the decreased cost of salaries and benefits for the unfilled position, higher than expected interest on pooled case and fees collected for proposals and projects will offset the increased costs for legal fees, professional services and county services.

In December 2022, the Commission adopted a Fiscal Reserve Policy that states in part: *The Commission will retain reserve funds of approximately 50% of the annual budget for employee severance payments, liability insurance deductibles and unforeseen operating costs including legal proceedings or adjustment of apportionments.*

Therefore, of the projected \$820,078 remaining in the fund balance at the close of the fiscal year, approximately \$410,039 is to be held in reserve with the remaining funds to cover the discrepancy between the proposed revenues and expenditures in the FY 2024-25 budget as well as any expenses incurred above those amounts currently budgeted.

Staff continues to advise the Commission that while it has a "healthy" fund balance, due in large part to the decreased cost of salaries and benefits from vacant positions, the discrepancy between the total expenditures and total revenues continues to grow at a faster rate than increases in agency apportionments.

Staff does not believe the use of the fund balance to offset this discrepancy is a long-term solution and recommends that the Commission continue to increase apportionments, as necessary, to reduce the discrepancy should all the allocated positions become filled.

Fiscal Year 2024-25 Preliminary Proposed Budget

Staff has prepared a proposed budget showing a 5% increase in the apportionments to our funding agencies requiring use of \$244,255 from the Fund Balance.

Recommendation

Staff recommends that the Committee review the preliminary FY 2024-25 budget as prepared by staff, make any desired changes, and direct staff to distribute the Proposed Budget to our funding agencies for review and comment.

Attachments

1. Fiscal Year 2024-25 Preliminary Proposed Budget Spreadsheet
2. Draft Resolution