

SONOMA LOCAL AGENCY FORMATION COMMISSION

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Staff Report

Meeting Date: March 6, 2024

Agenda No. Item 4

Agenda Item Title: Fiscal Year 2024-25 Proposed Preliminary Budget and Fee Schedule

Environmental Determination: Not a Project under CEQA

Staff Contacts: Mark Bramfitt and Cynthia Olson

Analysis

Background

The meeting of the Budget Committee is an opportunity for staff to provide information about initial estimates for Fiscal Year 2024-25 and receive feedback from Committee members on the budget proposal.

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 but are not forecasted in the proposed budget.

Staff has prepared a preliminary budget for the next fiscal year that is 3% and 5% higher than the current year budget.

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 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 proposed FY 2024-25 expenditure for S&B reflects a 11% increase over last year. The increase is due in large part to increases in medical insurance premiums, a 5% merit increases for the Commission Clerk and Senior Analyst at the later period of FY 2023-24, a 4% COLA increase for all staff and lump sum payment of staff development funds in July 2024 as well the increase of those costs associated with increases in 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 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 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 the total for 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.

Staff has budgeted \$50,000 for a total of two studies. The amounts over the proposed budgeted amount 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 in part due to the costs of defending Sonoma LAFCO in the current litigation. Staff anticipates the case will be finalized before FY 2024-25.

Office Lease

The lease on the office space expired in April 2023. Staff was able to secure a five-year extension of the lease for a reduced rental rate as reflected in the proposed budget.

Travel and Private Car Expenses

The cost of the Annual Staff Workshop and 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

County Services varies year to year based on the County's determination of LAFCO's fair share of county overhead costs to provide services. The increase reflects in large part the increase in costs from 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 proposed a minimum of a 5% increase in apportionments to the funding agencies to cover at least a portion of the 11% increase in expenditures. Any costs over the budgeted amount can be covered by 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 above the adopted budget. It is anticipated that the decreased cost of salaries and benefits cost for unfilled positions, higher than expected interest on pooled case and fees collected for proposals and projects will offset the increased costs for legal fee, 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 \$821,078 remaining in the fund balance at the close of the fiscal year, approximately \$410,539 is to be held in reserve with the remaining funds to cover the discrepancy between the proposed revenues and expenditures in the 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 S&B 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 if all the positions become filled.

Fiscal Year 2024-25 Preliminary Proposed Budget

Staff has prepared a proposed budget showing a 3% and 5% increase in the apportionments to our funding agencies, all of which require a significant use of the fund balance.

FY 2024-25 Fee Schedule

Staff is not recommending any changes to the FY 2023-34 Fee Schedule and proposes the FY 2024-25 remain the same.

Recommendation

Staff recommends that the Committee review the preliminary Fiscal Year 2024-25 budget as prepared by staff, make any desired changes, and provide guidance that staff will use in preparing the Proposed Budget to be presented to the Commission at the April 3, 2023, meeting.

Attachments

1. Fiscal Year 2024-25 Preliminary Proposed Budget Spreadsheet
2. Fiscal Year 2024-25 Proposed Fee Schedule