SONOMA LOCAL AGENCY FORMATION COMMISSION

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Staff Report

Meeting Date:	April 2, 2025
Agenda No.	Item 4.2
Agenda Item Title:	Fiscal Year 2025-26 Proposed Preliminary Budget and Fee Schedule
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 2025-26 Proposed Budget will take place on April 2, 2025, and the second, on the Final Budget, will occur on June 4, 2025.

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 for the Commission's review and consideration (Attachment 1).

The Fiscal Committee reviewed the proposed budget at a meeting on March 5, and asked staff to prepare some additional analysis to provide background on the budget. These items are addressed after the budget summary presented below.

Budget Summary

<u>Salaries and Benefits</u>

Staff is proposing that the budget include four positions totaling 3.7 Full Time Equivalent (FTE). These positions are 1.0 FTE Executive Officer, 1.0 FTE Senior Analyst, 1.0 FTE Commission Clerk and 0.7 FTE Junior Analyst (vacant). Staff proposes that the budget maintains the allocation for the Junior Analyst position at 0.7 FTE to permit the hiring of additional staff in anticipation of the future retirement of the Executive Officer and Senior Analyst.

The proposed FY 2025-26 expenditure for Salaries and Benefits reflects a 3% increase over last year. This is due to a slight increase in medical insurance, salaries and associated payroll expenses.

In accordance with the Memorandum of Understanding between LAFCO and the County, Commission staff are County employees who work only for Sonoma LAFCO. This fall, the County will begin negotiating with employee unions on new contracts that may involve salary and benefit increases effective in FY 2025-26. LAFCO staff are classified in "Department Head," "Administrative Management," and "Unrepresented" units. Although none of these classifications is represented by a bargaining union, these units are normally offered salary increases and/or benefits additions similar to other unionized units. The salary and benefit costs in the proposed budget, provided by the County, do not reflect any changes due to upcoming contract negotiations.

Services and Supplies

The proposed FY 2025-26 expenditure for Services and Supplies reflects a 13% increase over last year. This increase is primarily due to the increased costs for services provided to LAFCO by the County and the cost of the biennial audit for Fiscal Years ending 2023 and 2024. Accounts with significant changes are addressed below.

County Cost Plan Services (Account 51924)

Sonoma LAFCO contracts with County Administrator's Office to provide professional and support staff, office space, equipment, and supplies, and County Counsel to provide legal services. Most of the expenditures for these services are captured in the budget as an individual line item and are paid in the year the expenses are incurred. However, the actual cost of services to the agency providing the services is not available until after a fiscal year closes. As required by law, the County Auditor must determine, on an annual basis, the difference between these actual costs and the billed costs and allocate the remaining costs to the various departments and agencies receiving the services. These costs are captured in the County Cost Plan Services on the LAFCO budget. The amount varies from year to year as the overall cost of County services fluctuates.

For the FY 2025-26 budget, this means increases for LAFCO to the charges for Auditor Accounting and Payroll Services, Staff Development, Legal Services, ISD Services, and Human Resources Services.

County Cost Plan Charges (From FY 23-24)	AMOUNT
Auditor Services (credited back to LAFCO)	$578
Payroll Services	$3,377
Enterprise Financial Services (Accounting)	$1,107
Benefits (Staff Development)	$3,406
Treasurer, Tax Collector	$62
County Administrator (credited back to LAFCO)	$6,456
County Counsel (indirect costs)	$5,731
Human Resources (Recruitment and Personnel Services)	$4,836
Information Services (Full ISD support)	$7,096
Information Services Communication	$87
Information Services Records Retention	$30
Credit Back	$(7,034)
Total	$25,732

Auditing Services Outside

Staff intends to contract with an auditing firm to conduct the biennial audit of the Fiscal Years ending in 2024 and 2024.

Auditor Services

The cost for Auditor Accounting Services increased in part due to the accounting support necessary for the biennial audit.

Legal Services

Staff anticipates that the need for legal services will continue at the current level. There are pending 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).

Travel and Private Car Expenses

With the questions as to the status of the CALAFCO organization, staff has not budgeted for the Staff or Annual Conference. In the event staff does attend the conferences, travel expenses will be covered by funds from the fund balance.

Information Services

The estimated costs for IT services are increasing due in large part to increased costs of salaries and benefits, costs of implementing Microsoft 365 and the move to Cloud services, and the increased need for 24/7 cybersecurity to protect the County system from various cybersecurity threats. Many of these costs were offset in previous years by use of disaster resiliency funding and salary savings. These funds have been depleted and these costs are reflected in the FY 2025-26 rates. In reviewing the costs to other LAFCOs for similar services, staff believes these costs to be comparable and fair.

Revenues

The actual revenues reflect an increase over the budgeted interest in pooled cash due to the favorable economy and return on investments. Staff proposes that the budgeted amount remain the same for the next fiscal year in anticipation that the current economy will stabilize in the coming months.

Staff is presenting the scenarios for 5%, 10% and 15% increases in apportionments to the funding agencies with projections of the amount needed from the Fund Balance to balance the budget. Staff continues to advise the Committee that while it has a “healthy” fund balance, due in large part to the decreased cost of salaries and benefits from the vacant position, the discrepancy between the total expenditures and total revenues continues to grow at a faster rate than increases in agency apportionments. This will be unsustainable if the vacant position is filled.

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

Fund Balance

While we do not yet have firm projections for end of FY 2024-25 actuals, staff believes that FY 2024-25 actual spending will come in at or slightly above the adopted budget. It is anticipated that the decreased cost of salaries and benefits due to the unfilled position, higher interest on pooled cash and fees collected for proposals and projects will be sufficient to cover the expenditures thereby not requiring use of the fund balance.

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.

Staff continues to advise the Committee that while it has a “healthy” fund balance at this time, if the vacant position is filled, the use of these funds to cover the difference between revenues and expenditures will quickly deplete the fund balance. Staff recommends that the Committee consider the need to significantly increase agency apportionments to reduce the discrepancy between the total expenditures and total revenues in the coming years.

Fiscal Year 2025-26 Preliminary Proposed Budget

Staff has prepared a proposed budget showing a 5%, 10% and 15% increase in the apportionments to our funding agencies, all of which require a significant use of the fund balance. The Fiscal Committee recommends a 5% increase in apportionments.

FY 2025-26 Fee Schedule

Staff is not recommending any changes to the FY 2024-25 Fee Schedule and proposes the FY 2025-26 remain the same.

Fiscal Committee Items

The Fiscal Committee asked staff to begin looking into three areas that might better inform both the Committee and the Commission about this budget and budgeting in future years.

Survey of LAFCOs Regarding Apportionment Increases

Staff requested that LAFCOs throughout the state report the recommended budget and apportionment increases (or decreases, though none were reported) that are being recommended for FY 25/26.

A dozen LAFCOs responded to the survey. The average recommended apportionment increase is 5.68%; the median is 5%. The lowest recommended apportionment increase is 1% and the highest 11.3%. Alameda LAFCO reported that their move to independence from the county resulted in the 11.3% recommended increase.

It should also be noted that several LAFCOs reported higher budget increases but are using reserves to limit apportionment increases.

Impacts of fully staffing at 3.7 FTEs

The Fiscal Committee and staff have discussed what the impacts might be, particularly to apportionments, if Sonoma LAFCO were to staff at the budgeted level of 3.7 Full Time Equivalent positions rather than the 3 FTE we have staffed at for many years.

Although staff has not done a comprehensive analysis of potential impacts, a simple analysis based on these factors was performed:

- An assumption that moving to "full budgeted" staffing would result in full expenditure of the budget, rather than realizing 0.75 FTE cost "savings" each year. In a more comprehensive analysis, staff would estimate actual salary and benefit costs for additional staffing.
- An expectation that overall budgets would increase by a cost-of-living adjustment of 3% per year.
- An expectation that apportionments would increase by 5% per year.
- Use of the Fund Balance to meet revenue shortfalls.

This simple analysis yields the result of the Fund Balance being exhausted in FY 29/30, with a revenue gap of $221,000, or 16% of the budget.

The Commission has set a policy that the Reserve (a portion of the Fund Balance) be maintained at 50% of the current budget. In the simple analysis, the Reserve would drop below the recommended level in FY 26/27.

Potential Cost Savings: Full Independence

Staff has begun gathering the latest budgets from the other eight Bay Area LAFCOs to examine whether there are potential cost savings to managing Sonoma LAFCO fully independently rather than contracting with the County for support services.

Essentially a relatively small subset of expenses, such as IT, human resources, payroll services, and financial management services are potential sources of cost savings.

Other “external” costs, such as office rent, legal services, and professional (consultant) services would likely not be impacted.

Staff notes that the subset of expenses noted above constitute approximately $65,000 of the proposed budget, or about 5.5% of the total budget. Also, as one data point, as reported above, Alameda LAFCO is reporting an increase in expenses as they move to independence.

Staff has prepared a draft resolution for the Commission’s review and consideration (Attachment 3).

Recommendation

Staff recommends that the Commission review the proposed Fiscal Year 2025-26 budget as prepared by staff, make any desired changes, adopt the draft resolution and direct staff to distribute the proposed budget to the funding agencies for review and comment.

Staff is also seeking guidance from the Commission on further recommended study regarding the matters raised by the Fiscal Committee.

Attachments

1. Fiscal Year 2025-26 Preliminary Proposed Budget Spreadsheet
2. Fiscal Year 2025-26 Proposed Fee Schedule
3. Draft Resolution