

Agenda Item #7 Attachment G

Issues raised by the Commission at the February 22, 2006 Meeting

Relating to Collected Fees

- Fees are collected from applicants, yet the budget projects \$0.00 for Fiscal 2006-07.
- Proposal is to pretend that LAFCO is not collecting fees until the end of the year and to show it as revenue gained from some imaginary place. The public needs to see that the intent is to collect fees and show it on the budget.
- State budget law requires that if an agency collects fees, it should show such fees as anticipated revenue. This understates proposed revenues.

Response: The intent of the proposal to show \$0.00 for fees to be collected during Fiscal Year 2006-07 was to stabilize fees as a revenue source for the Commission's budget, allowing for future budgets to have more certainty about its incoming revenues and for a more conservative forecast of its funds. The proposal entailed using the fees collected and earned during the current fiscal year to be used as revenue for the next fiscal year. However, using this proposal is not standard practice and would prevent the Commission from using the budget as a tool to gauge agency performance. Consequently, the proposal has been withdrawn and is no longer part of the budget.

Related to Unearned Fees

- Fees should be charged to each application and there should be an account for that application and LAFCO should charge against that application. Revenues collected from fees should not be co-mingled with the rest of the work. There should be an account of the work performed for that petition.
- There has got to be a nexus: if there is a product an agency collects fees, it must be spent on that annexation, report or whatever. To just blankedly collect it and keep it, held to spend it next year and spend it, it does not appear that there is a nexus. We need to collect the fee and use it on the product.

Response: Fees are charged by an agency to recover the reasonable cost for providing a service. State Law indicates that there must be a nexus between the fees and the costs it tries to recover and a nexus between the fees charged and the amount of time actually spent providing that service. Once those fees are collected and earned, an agency may use those revenues as it sees fit: it may be spent on items unrelated to the original application or use it as part of a carry over balance into the following year. There is no legal requirement that the earned revenue must be used in the same fiscal year in which it was collected.

The key point is "earning" those fee revenues. The first comment is correct in that the fees cannot be co-mingled with other revenues if LAFCO staff has not worked the necessary hours those fees are supposed to pay. For example, current LAFCO practice is to collect a deposit of 50% of the initial fee for a service at the time an application is submitted. When the deposit is received,

those fees are “unearned” because LAFCO staff has not worked on that project. As work on that application is performed, the hours are tracked and periodically “billed” against that initial deposit. At the end of the LAFCO process, the applicant is billed for the actual hours worked on that project minus any deposits the applicant has already paid. By the time the applicant submits the final payment, it is assumed that the final payment is “earned” because the hours spent on that project have already occurred.

Related to Carryover

- LAFCO is not an independent agency. It is a dependent agency that collects its revenues from other agencies. LAFCO derives its budget from collected fees and from funds provided by County, cities and special districts. There is no reason for the agency to be sitting on \$150,000 in carryover. That money should not be charged to the funding agencies.

Response: By definition in State Law, LAFCO is an independent inter-governmental agency, created by the State Legislature and partially funded by the County, cities and special districts of El Dorado County. It is not a County department, a city agency or a special district.

However, like any other agency in the public or private sector, a LAFCO can experience a situation where it ends its fiscal year with more money than it spent. These carryovers are the result of management efficiencies, low cost procurement policies and/or funds that were simply unspent for some reason. Unlike private sector agencies, which would use these funds as profit, governmental entities use the carryover funds as “carry forward”, supplementing its revenue streams for the next fiscal year. As it pertains to LAFCO, a carry forward balance is not charged to the funding agencies. In fact, a carry forward balance is to the benefit of the funding agencies because it lowers the amount that agencies must contribute to the LAFCO budget.

- The budget is showing \$102,000 as carryover for next year and LAFCO is still charging an additional \$336,000 to the funding agencies. The budget should be reduced so that the funding agencies are not charged as much. \$102,000 of public funds are being “placed in a drawer” someplace not being used. LAFCO should reduce how much it charges the funding agencies by \$102,000. LAFCO already has \$20,000 as part of its contingency.

Response: The reference to \$102,000 relates to the draft budget having a line item titled, “Fund Balance” with an amount of \$102,000. This amount was not for LAFCO to have \$102,000 left over in its budget at the end of FY 2006-07. Instead, this amount was the estimated carry forward balance from FY 2005-06 that will be used by the agency as part of its revenues for FY 2006-07. Consequently, the agency contribution for FY 2006-07 would not be \$336,000 plus \$102,000.

On the other hand, the comment of the purpose behind the line item is noted. The Ad Hoc Committee has renamed this line item in the Proposed Budget so

that its meaning is clearer. In addition, because the fee proposal referenced in the first item above will no longer be used, the entire estimated carry forward balance of \$166,569 is now shown on this line item.

- What about the plan to refund or lower the contribution amounts to the funding agencies in order to reduce the standing carryover.

Response: As noted above, carryover balances lower the agency contributions because the carry forward balances are used as revenues for the next fiscal year. The Commission could, at its discretion, refund the carry forward balance of \$166,500 back to the agencies at the end of this fiscal year; however, that means LAFCO now no longer has that money for next year. That would mean that the agencies would have to increase their contribution amounts by \$166,500 to make up the difference.

- Is there a policy in the future to establish a cap on the carryover?

Response: The Commission has the discretion to establish such a cap, but there are consequences that the Commission would have to consider as it weighs such a proposal. Most notably, would establishing a cap induce a "use it or lose it" mentality where additional expenses are incurred in an attempt to finish the fiscal year under the cap? A more effective tool would be for the Commission to monitor expenses on a monthly basis, encourage the use of competitive bidding and low cost procurement procedures and authorize the Ad Hoc Committee to scrutinize the budgeting methodologies to ensure actual costs are used when a new budget is being drawn up.

- Suppose that the LAFCO budget is lowered by the carryover amount and suppose that LAFCO has these MSRs to do and this is July or August after LAFCO has already billed the County, districts and the cities. The agency now has a budget that is short: How does the Commission rectify that with the cities and special districts? Does it go out there and bill them? If the carryover is wiped this out and reduce the agency contributions, what happens in the mid-term and LAFCO's pressured by the State to complete this project? How do LAFCOs handle it when their budget's short because of unexpected things and they can't be billed to a special project, like the incorporation?

Response: GC 56381(c) states that "If, during the fiscal year, the commission is without adequate funds to operate, the board of supervisors may loan the commission funds. The commission shall appropriate sufficient funds in its budget for the subsequent fiscal year to repay the loan." The County, however, is under no obligation to provide the loan.

Related to Agency Contributions

- The biggest concern in the past few years has been that the agency contributions have been going up. If LAFCO is rolling over \$162,000, it seems like LAFCO could have reduced the agency contribution amount by \$50,000.

Response: It is true that over the past few years agency contributions were going up. Staff's analysis of past budgets indicates that most of these increases were not because of increased spending on programs but instead due to either costs beyond the agency's control (changes in contributions for health and retirement benefits) or automatic increases in salary because of staff tenure and seniority. Because of the turnover in staff, the agency will realize some salary savings for the next fiscal year in this area. But like the discussion over the carryover amounts, the Commission can, at its discretion, refund some of the salary savings back to the agencies at the end of the fiscal year. Doing so, however, will result in a gap in revenues available for the next year.

Related to Work Plan

- No work plan is included in this budget. The public doesn't know what's included in this half-a-million dollar budget.

Response: A work plan was not included in the packet because the Commission was not taking action on the budget in February. A Proposed Work Plan is included in the March packet and will be discussed on Agenda Item #6.

Miscellaneous

- Attachment A does not match Attachment B. If I look under Attachment A under the second summary, "Total salary expense balance" and I look at attachment B, "subtotal expenses" those are not comparable quantities. subtotal expenses"

Response: Comment was noted and the reports were recreated for the March packet to make the line items match between Attachments A (Cash Forecast for FY 2005-06) and B (Proposed Budget)

- Why is there extra staff needed in terms of projected project. The planning department is planning a projected drop in projects. There is strong concern about cost for retirement. Staff continues to increasing, not too sure about whether there is increase in workload correspondingly.

Response: The part-time administrative assistant will be needed to relieve the Commission Clerk from the routine, administrative duties of her function. That will result in the Clerk being able to perform at a higher level within her job classification; thus enabling her to perform and complete several of the projects identified in the Proposed Work Plan for FY 2006-07.

As noted in the Proposed Work Plan, LAFCO anticipates processing ten applications in addition to eight petitions staff is currently processing and will most likely carry over into the next fiscal year. Half of the current and anticipated projects are not related to County-initiated proposals. The two multi-year projects identified in the Work Plan are also not County-driven. So while applications to the County Planning Department may decrease, there is an increase in demand for LAFCO services by other agencies.

Issues raised by Joe Harn, County Auditor-Controller

- A concern expressed about the budget is the lack of budgeting any fee revenue. He indicated that, at best, is an unusual practice. As an example he indicated that if he were the chief of Rescue FPD and LAFCO was going to bill him based on the percentage of what LAFCO needed on its budget, LAFCO would need a good justification.

Response: This comment relates to the proposal for budgeting \$0.00 for fees collected in FY 2006-07 and was used as part of re-evaluation of that proposal. As noted above, that proposal has been withdrawn and is not used in the Proposed Budget.

- With a budget this small, and given LAFCO recognizes fees on a cash basis of accounting, the more important question is whether LAFCO accounts for unearned fees? In other words, on 6/30 LAFCO has collected \$150,000 in fees but hasn't delivered any product, or hasn't hired consultants in the next fiscal year or hasn't earned the fees yet. With a budget this size, confusion can be created if LAFCO records \$102,000 in fee revenue and hasn't earned them.

Response: This comment relates to the unearned fee discussion above. LAFCO staff tracks the hours worked on individual application and keeps accounts on all deposited fees. These accounting measures are in place to ensure that unearned fees are not co-mingled with other revenues. As of March 1, 2006, LAFCO has approximately \$10,748 of unearned fees; however, staff anticipates that these fees will be earned and will end up being part of the carry forward by the end of the fiscal year. The \$10,748 amount equates to slightly less than 80 hours of work at the current \$135 hourly rate. Most of the unearned fee amount is tied up in three large, complex and active applications that require a significant amount of research and coordination.

- The County Planning Department does not recognize the revenue until they finished with the application. Mr. Harn's concern is that LAFCO is recognizing the revenue but hasn't done the work yet. The Planning Department collects fees in advance upfront, but they don't recognize the revenue until the work's done.

Response: The process used by the County Planning Department is similar to the LAFCO process in that the revenue is not counted until the work is performed. In this case, as noted above, LAFCO staff anticipates most, if not all, current unearned revenue will be earned by June 30, 2006. Any fee that was collected but not earned by July 1, 2006 will not be used as carry forward.