

EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF MARCH 28, 2018

REGULAR MEETING

TO: Shiva Frentzen, Chair, and
Members of the El Dorado County Local Agency Formation
Commission

FROM: José C. Henríquez, Executive Officer 

**AGENDA ITEM #10: APPROVE CHANGES TO THE BUDGETARY CREATION
PROCESS**

RECOMMENDATION

Staff recommends that the Commission approve the manner in which applicant fees are calculated in the budget. Specifically, the new process calls for utilizing earned applicant fees in the budget, collected across a calendar year, approximately six months after collection.

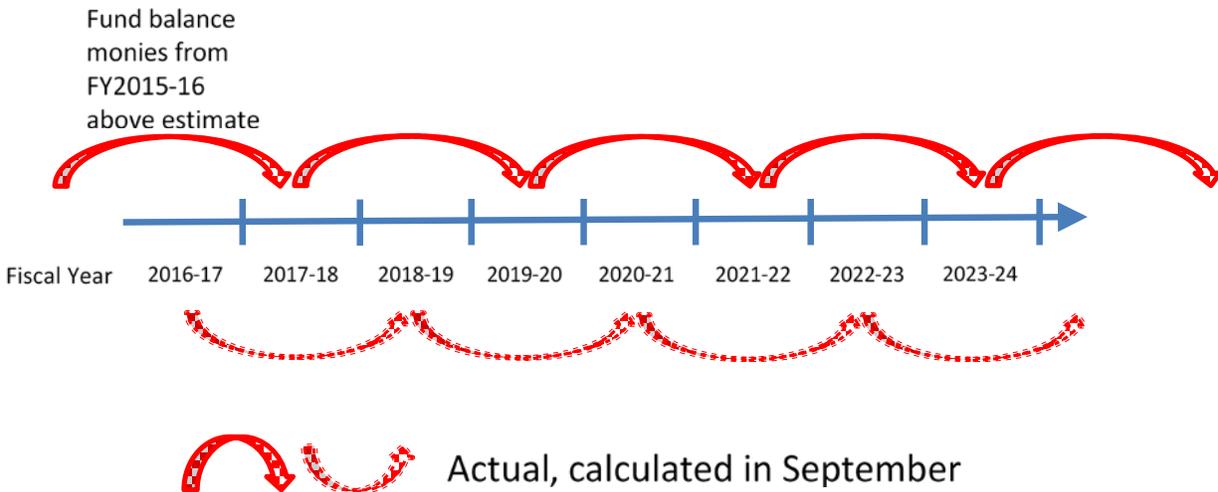
REASON FOR RECOMMENDED ACTION

Staff's proposal would ensure that real, known numbers are used for applicant fees, eliminating forecasting errors. A similar process was adopted for carryover funds in 2016.

BACKGROUND

This agency's budget relies on four main sources of revenue: applicant fees, fund balance, agency contributions and interest revenues. Of these, fee revenues and interest revenues are the only ones that are forecast for purposes of planning the budget. Overall, applicants fee revenues comprise a small proportion of the budget (for example, this year it is a little over 1%).

The carryover balanced used to be forecast as well, but the Commission took the opportunity in 2016 of a much larger than expected fund balance to start using hard numbers for the revenues. As the Commission is aware, the current practice is to save the fund balance shortly after its calculation and to use it in the fiscal year following its calculation. This allows for the budget to use actual dollars instead of forecast amounts. Graphically, the practice looks like this:



The Commission approved this proposal in September 2016 and in December 2016 adopted changes to Sections 2.1 and 2.10 of its Policies and Guidelines to make this proposal work.

In its September report, staff also discussed adopting a similar proposal for applicant fees; however, staff stopped short of recommending that the Commission approve it at the time because there was too much uncertainty surrounding the amount to be collected from applicants.

Process

Staff believes there is an opportunity to implement this process, to become effective July 1, 2019. This is because in this fiscal year, LAFCO has collected over \$9,000 in earned revenue from three petitions approved at least five years ago that are finally closing (Diamante, Porter and Malcolm Dixon) and one proposal that was held because of negotiations between the applicant and the annexing district (Deubel). To fully understand staff's proposal, two pieces of information have to be kept in mind:

1. The FY2017-18 budget assumed collecting \$6,777 in applicant fees this fiscal year; and
2. The budget ad hoc committee forecast collecting a similar amount in next year's budget (FY2018-19)

Staff proposes to do the following:

- a. For this fiscal year, subtract \$6,777 from the collected fees (currently at \$15,186) since that amount is what this year's budget assumed would be collected for the entire fiscal year. This leaves \$8,409 left over.
- b. Of the remaining \$8,409, subtract \$6,777 because that is the amount of earned fees next year's budget assumes would be collected during FY2018-19. This leaves \$1,632 left over.
- c. Deposit \$1,632 amount, and any other earned fees collected between now and December 31, 2018, into the Commission's reserves. This amount is what will be used as applicant fee revenue when crafting the FY2019-20 budget.

- d. Any funds collected between January 1 and December 31, 2019 will be used as applicant fee revenue in FY2020-21, and so on.

While applicant fee revenues have historically never been more than 6% of the total revenues, this process gives the Commission the ability to move away from forecasting any substantial monies from its budget. Indeed, even if LAFCO collects no more applicant fees between now and the end of the year, the \$1,632 represents real dollars and is worth more than a larger, forecasted revenues that may or may not materialize.

Should this proposal be adopted, it would leave interest revenues as the only forecasted revenues. Staff is comfortable with this as this amount is usually trivial.

Proposed Policies

To ensure transparency and accountability, staff recommends that in order to implement this proposal, the Commission define the revenues eligible for this policy and state how they may be used. The relevant sections of the current Policies and Guidelines are provided as attachments for the Commission's reference and convenience. The first proposed policy change is to add subsection 2.2.6:

- 2.2.6 *Earned Applicant Fees:*** *For purposes of this section and Policies and Guidelines Section 2.10, earned applicant fees is defined as the payments made by applicants for services rendered by LAFCO staff over a given period of time. Once earned, LAFCO staff will consider these applicant payments as discretionary revenue. Any earned fees collected within a calendar year will be shown as a revenue source for the following fiscal year beginning on July 1 on the year. After these earned fees are collected, the LAFCO Executive Officer must provide a periodic report detailing the collected earned fees to the Commission and to LAFCO's auditors. The LAFCO Executive Officer shall deposit these funds consistent with Policy 2.10.*

The second proposed policy adds Subsection 2.10.5(e). It authorizes the use of the LAFCO account with CalTRUST as a place to deposit the earned fees until these funds are needed:

- 2.10.5(e) *Unassigned: Earned Applicant Fees,*** *as defined in Policy 2.1, can be deposited into LAFCO's short-term CalTRUST account between the time the earned fees are collected within a calendar year and until they are to be used as revenue for the following fiscal year beginning with July 1.*

Should the Commission approve staff's recommendation, the initial deposit of \$8,409 into CalTRUST will occur this month. LAFCO staff will also deposit any earned fees between now and December 31st. On the last week of June 2018, LAFCO staff will withdraw \$6,777 to be used in FY2018-19. In subsequent years, earned fees will be deposited periodically throughout a calendar year as they are collected. An account will be kept so that in January of the following calendar year, the budget ad hoc committee knows how much revenue it has for crafting a budget. The withdrawal of the funds to use for the following fiscal year will occur at the last week of June so that LAFCO has the funds at the beginning of the fiscal year.

Attachment:

Attachment A: Policies & Guidelines, Section 2.2 and Section 2.10