Summary of Discussion Relating to Funding MSRs from the October Staff Report

Funding Mechanism: Financing Each MSR

Current Practice

Currently the agency is absorbing almost all of the costs associated with the MSRs. The 2004 *West County Parks and Rec MSR* and the 2006 *Countywide Fire Suppression and Emergency Medical Services MSR* (*Fire MSR*) were completed in-house, but were partially paid for by applicants whose petitions were dependent on the completion of these studies. All subsequent MSRs were fully funded by LAFCO. In Fiscal Year 2006-2007, the Commission utilized its budgetary carryover and salary savings to fund the *Water, Wastewater and Power MSR*, *Streets and Highways MSR*, and most of *General Government Services I MSR* while the *Cemetery Services MSR* was initiated as part of staff's work plan. For Fiscal Year 2007-2008, the Commission raised the agency contributions to complete the MSR program by funding the remainder of *General Government Services I*, fully funding *General Government Services II MSR* and adding the *Resource Conservation Districts MSR* to its work plan.

While all of the costs were absorbed by the agency, the matter in which they were budgeted differed. Funds for outsourcing MSRs had their own budget line item. The costs for the MSRs conducted in-house were absorbed by the personnel salary budget line item.

Discussion

Staff is currently researching whether the MSR requirement is an unfunded mandate and, if so, whether LAFCO could be reimbursed by the State. At this point, it is unknown whether this LAFCO would qualify for reimbursement; however, the fate of Senate Bill 167 (Negrete-McLeod) may be somewhat indicative of the State's inclination on reimbursement. This bill would have provided funding to LAFCOs to conduct MSRs and sphere of influence updates for the next cycle. This piece of legislation's fate is uncertain; it has been called a "two-year bill" but is considered dead by most Capitol insiders. Because of its introduction, the State is de facto admitting there is no funding mechanism currently in place for MSR/SOIs; on the other hand, its lack of momentum may signal that the State has no interest in funding these studies. Nevertheless, staff continues to explore this option until the State denies funding.

Other LAFCOs have taken the position that it is unlikely that the State would reimburse their agencies for this cost. Consequently, they instituted various funding mechanisms for this current cycle and, from all accounts, will retain them for the next cycle.

- Butte LAFCO – This Commission instituted an "MSR/SOI fee" into their fee schedule, similar to a "general plan fee" most counties and cities charge their applicants to fund their general plans. The calculation for determining these fees is to project the total costs, divide those costs by five years and divide the yearly cost by the workload (the yearly average number of proposals). A surcharge similar to this was recommended in 2004 for this LAFCO but was not pursued.

- Santa Cruz LAFCO – The Commission determined the reasonable level of an "MSR reserve" to fund the hiring of consultants for their reviews or any other study that may be needed. Santa Cruz LAFCO allocates funds every year to build up to the designated level across a five-year span. When this reserved is used, any monies left over are re-allocated to serve as the foundation for the next five-year reserve buildup.
- Stanislaus LAFCO – Cities may be required to prepare and fund their own MSR/SOIs on behalf of LAFCO.
- Yolo LAFCO – Any project requiring altering the scheduled date of an MSR/SOI may be required to pay for the full cost of that study.

Analysis

The "total cost" of the MSRs would have to be defined: would this number only encompass how much it costs to outsource them or the total cost of the MSR project (consultant costs for outsourced studies plus staff costs for preparing them in-house)? If the latter, the Commission would have to determine whether it would budget for the in-house studies separately or continue the practice of absorbing it as part of personnel costs.

Setting that issue aside, while each of these funding mechanisms help offset the total cost of the MSR project, none of these mechanisms hold the "magic bullet" for funding these reports. In addition, all of these mechanisms have fiscal impacts to someone. The Santa Cruz and Stanislaus LAFCOs methods rely on agencies bearing the cost of the MSRs, whether indirectly through the LAFCO budget or directly by requiring cities to prepare the project on LAFCO's behalf. The Butte and Yolo LAFCOs methods hinge on new development to pay for the project; albeit, the former approach is structured so that all applicants pay an incremental amount. The current methodology of partial funding coming from applicants shifts the burden to a few project proponents annexing to a small number of active districts. On the other hand, those who fell in this category had large, well-funded projects.

Recommendation

Staff recommends that the Commission direct staff to calculate the total costs to complete all MSRs, regardless of whether they were conducted in-house or outsourced. The calculation of the in-house costs are possible because of the manner in which staff currently tracks its time. Staff recommends that the Commission institute a separate budget line item for MSRs for budgetary transparency purposes. In-house MSRs will be billed against that line item. However, another option would be to have two line items, one for in-house MSRs and a second for outsourced MSRs. Staff also recommends the adoption of a modified Butte-Santa Cruz-Yolo LAFCOs approach:

- The Commission retains the discretion to require developers with proposals that necessitate "bumping up" an MSR/SOI ahead of schedule… to pay for the full costs. A fee for an MSR/SOI request has already been established in the LAFCO fee schedule; however, staff recommends tying this requirement with the MSR schedule… with said fee.

- An incremental MSR/SOI fee is set and adopted for projects impacting active agencies, such as EID, Cameron Park and El Dorado Hills CSDs, fire districts and the City of Placerville. The logic is that these agencies have sufficient activity to generate enough fees to adequately fund for their MSRs. MSR/SOI fees generated from petitions to these agencies will only be utilized on the studies for these agencies.
    - Potential drawback: Any decrease in activity to any designated agency would undermine the Commission's ability to fund the MSR.
- The Commission establishes a fund to cover the MSRs for the less active districts. A funding level target is set and budgeted for each year so that reserves are built up incrementally. The issue of whether to set one of two funds would have to be addressed, however, since the "in-house fund" would be utilized to bill staff time against MSRs completed in-house. If the Commission decides that the costs for in-house MSRs should be absorbed by the personnel cost budget line item, then setting up a funding level will determine the number and/or the types of MSRs that will be outsourced.
    - Potential drawback: LAFCO receives funding from contributions from almost all agencies in the county. Setting up a fund for less-active districts could create a situation where active agencies are indirectly contributing to this fund. On the other hand, more active districts would have their MSRs partially or fully funded by private parties.

Staff does not recommend adopting a policy similar to Stanislaus LAFCO that requires cities to fund their own MSRs. Among other reasons, staff believes that the circumstances behind that policy were unique to Stanislaus County; consequently, that environment would be difficult to replicate here. If the Commission considers the Stanislaus approach, then staff advises that large districts also be subject to this requirement along with the cities. Staff cautions that the potential drawback to the MSR fund discussed immediately above is also valid for this approach.