



Local Agency Formation Commission of Napa County
Subdivision of the State of California

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We Manage Local Government Boundaries, Evaluate Municipal Services, and Protect Agriculture

Agenda Item 7c (Discussion)

TO: Local Agency Formation Commission

PREPARED BY: Brendon Freeman, Executive Officer *BF*

MEETING DATE: October 4, 2021

SUBJECT: Discussion of Budget Alternatives

RECOMMENDATION

This item is for discussion purposes only. No formal action is required as part of this item. It is recommended the Commission discuss the budget alternatives described in this report and provide feedback to staff with respect to any appropriate future actions.

BACKGROUND AND SUMMARY

The Commission's annual budget is adopted consistent with the *Budget Policy* ("the Policy"), included as Attachment One. The Commission appointed Commissioners Mohler and Gregory to serve with the Executive Officer on the Fiscal Year 2021-22 Budget Committee ("the Committee").

Under the Policy, the Commission is directed to maintain its undesignated/unreserved fund balance ("reserves") equal to no less than 33.3% of budgeted operating expenses. Based on projected future budgets using reasonable baseline assumptions for revenues and expenses, it is anticipated the Commission's reserves will fall below the minimum 33.3% threshold by fiscal year 2023-24 and will not return to consistency with the Policy until fiscal year 2027-28.

On June 7, 2021, the Commission adopted a final budget for fiscal year 2021-22. Subsequent to the adoption of the final budget, staff was alerted that actual expenses associated with staff salaries and benefits would be \$15,825 higher than expected. Toward this end, some expenses associated with staff salaries and benefits occasionally change after the adoption of the budget. The Commission does not budget for contingencies and instead relies on drawing down reserves to cover any unexpected cost increases.

Margie Mohler, Vice Chair
Councilmember, Town of Yountville

Mariam Aboudamous, Commissioner
Councilmember, City of American Canyon

Beth Painter, Alternate Commissioner
Councilmember, City of Napa

Diane Dillon, Chair
County of Napa Supervisor, 3rd District

Brad Wagenknecht, Commissioner
County of Napa Supervisor, 1st District

Ryan Gregory, Alternate Commissioner
County of Napa Supervisor, 2nd District

Kenneth Leary, Commissioner
Representative of the General Public

Eve Kahn, Alternate Commissioner
Representative of the General Public

Brendon Freeman
Executive Officer

On August 2, 2021, the Commission approved a budget adjustment to increase appropriations for operating expenses by \$15,825 and offset the amount by drawing down the Commission's reserves. The adjusted budget is included as Attachment Two. The Commission also re-established the Committee for purposes of identifying strategies to balance the budget while maintaining adequate reserves.

Committee Actions

The Committee met on August 18, 2021 and identified budget alternatives for the Commission's consideration. The Committee also discussed the Commission's existing support services agreement (SSA) with the County of Napa, which limits the Commission's ability to choose its own staff position classifications and salary ranges, and assigned Committee member Gregory to attend a future meeting with LAFCO staff and County staff. Further, the Committee discussed the adequacy of the Policy directive to maintain reserves equal to no less than 33.3% of budgeted expenses.

The following is a summary of the budget alternatives identified by the Committee:

- 1) Increase agency contributions in fiscal year 2022-23 and future fiscal years (recommended):
The majority of the Commission's operating revenues are generated by agency contributions provided by the County and the five cities and town. Agency contributions have risen by approximately 2.4% annually over the last 10 years. The Committee recommends drawing down reserves in the current fiscal year (2021-22) consistent with the aforementioned August 2nd budget adjustment. An increase in agency contributions for fiscal year 2022-23 will balance the budget, maintain adequate reserves, and eliminate the Commission's practice of budgeting for intentional shortfalls by drawing down reserves. Agency contributions could increase 10% in fiscal year 2022-23 depending on projected expenses and revenue.
- 2) Request supplemental agency contributions in fiscal year 2021-22 and increase contributions in future fiscal years:
The Committee considered requesting supplemental agency contributions in the current fiscal year and the remainder in fiscal year 2022-23 to balance the budget and maintain adequate reserves. This would serve to frontload some of the burden on the funding agencies and prevent the need for a significant increase in agency contributions in a single year. However, the Committee recommends alternative one over this approach.
- 3) Reduce various expense accounts:
The Committee considered the merits of reducing expenses tied to some combination of staff salaries and benefits, legal services, Commissioner per diems, conferences, trainings, and scheduled Commission meetings. The Committee agreed none of these options are desirable and does not recommend this alternative.

It is important to note that CALAFCO recently canceled its annual conference, which was not known at the time of the Committee meeting. The conference cancellation will result in a cost savings totaling approximately \$7,000 to \$8,000 based on planned attendance by members of the Commission and staff. This will result in agency contributions increasing in future fiscal years by less than anticipated in the alternatives listed on the prior page.

The Commission is invited to discuss the budget alternatives and provide feedback to staff as appropriate. This may involve directing staff to return at future meetings with additional information or taking future actions related to the budget.

It should also be noted LAFCO staff met with County staff on September 1, 2021 to discuss the aforementioned SSA. Committee member Gregory attended the meeting. Staff from both agencies agreed to continue working on amendments to the SSA in the near term, including possible changes to LAFCO staff job descriptions, classifications, and salary ranges. Updates will be provided to the Commission as progress is made.

ATTACHMENTS

- 1) Budget Policy
- 2) Adjusted Budget for FY 21-22 (Adjusted on August 2, 2021)



LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Budget Policy

(Adopted: August 9, 2001; Last Amended: November 18, 2019)

I. Background

The Cortese-Knox-Hertzberg Local Government Reorganization (CKH) Act of 2000 includes provisions for establishing a budget and for the receipt of funds. [Government Code \(G.C.\) §56381](#) establishes that the Commission shall annually adopt a budget for the purpose of fulfilling its duties under CKH.

II. Purpose

It is the intent of the Commission to adopt a policy for budget purposes which establishes procedures for compiling, adopting and administering the budget. The Commission is committed to providing transparency of its operations including its fiscal activities. The Commission follows recognized accounting principles and best practices in recognition of its responsibility to the public.

III. Preparation of Annual Budget

- A) An annual budget shall be prepared, adopted and administered in accordance with [\(G.C.\) §56381](#).
- B) The Commission should annually consider the Fee Schedule, including any anticipated changes, and Work Program in conjunction with the budget process.
- C) The Commission is committed to ensuring the agency is appropriately funded each fiscal year to effectively meet its prescribed regulatory and planning responsibilities. The Commission is also committed to controlling operating expenses to reduce the financial obligations on the County of Napa, the cities and town, hereafter referred to as the “funding agencies,” whenever possible and appropriate.
- D) The budget shall include an undesignated/unreserved fund balance equal to a minimum of one-third (i.e., four months) of annually budgeted operating expenses.
- E) The Commission shall establish an ad-hoc budget committee at the last meeting of each calendar year comprising of two Commissioners which will terminate with the adoption of the final budget. Commissioners appointed to a budget committee shall receive a regular per diem payment for each meeting attended.
- F) The adopted final budget should be posted on the Commission’s website for public viewing for a minimum of five years.
- G) The Executive Officer shall provide quarterly budget reports to the Commission for informational purposes.

IV. Budget Contributions and Collection of Funds

[G.C. §56381](#) establishes that the Commission shall adopt annually a budget for the purpose of fulfilling its duties under CKH. It further establishes that the County Auditor shall apportion the operating expenses from this budget in the manner prescribed by [G.C. §56381\(b\)](#), or in a manner mutually agreed upon by the agencies responsible for the funding of the Commission's budget [G.C. §56381\(c\)](#) states that:

After apportioning the costs as required in subdivision (b), the auditor shall request payment from the Board of Supervisors and from each city no later than July 1 of each year for the amount that entity owes and the actual administrative costs incurred by the auditor in apportioning costs and requesting payment from each entity. If the County or a city does not remit its required payment within 60 days, the Commission may determine an appropriate method of collecting the required payment, including a request to the auditor to collect an equivalent amount from the property tax, or any fee or eligible revenue owed to the County or city. The auditor shall provide written notice to the County or city prior to appropriating a share of the property tax or other revenue to the Commission for the payment due the Commission pursuant to this section.

It is the intent of the Commission that all agencies provide the costs apportioned to them from the LAFCO budget. Pursuant to [G.C. §56381\(c\)](#), the policy of the Commission is:

- A) If the County or a city or a town does not remit its required payment within 45 days of the July 1 deadline, the County Auditor shall send written notice to the agency in question that pursuant to [G.C. §56381\(c\)](#) and this policy, the Auditor has the authority to collect the amount of the Commission's operating expenses apportioned to that agency after 60 days from the July 1 deadline.
- B) If the County or a city or a town does not remit its required payment within 60 days of the July 1 deadline, the County Auditor shall collect an amount equivalent to the cost apportioned to that agency from the property tax owed to that agency, or some other eligible revenue deemed appropriate or necessary by the County Auditor. The County Auditor shall send written notice of the action taken to the agency and to the Commission.

V. Executive Officer Purchasing and Budget Adjustment Authority

Pursuant to [G.C. §56380](#), the Commission shall make its own provision for necessary quarters, equipment, supplies, and services. The associated operating costs are provided for through the Commission's adoption of its annual budget in the manner prescribed in [G.C. §56381](#).

It is the intent of the Commission to charge the LAFCO Executive Officer with the responsibility and authority for coordinating and managing the procurement of necessary quarters, equipment, supplies, and services, and to adjust the annual budget as necessary under certain circumstances. The policy of the Commission is:

- A) The Executive Officer is charged with the responsibility and authority for coordinating and managing the procurement of necessary quarters, equipment, supplies, and services in accordance with applicable laws, regulations and policies.
- B) The Executive Officer is authorized to act as the agent for LAFCO in procuring necessary quarters, equipment, supplies, and services.
- C) Only the Commission itself or the Executive Officer may commit LAFCO funds for the purchase of any necessary quarters, equipment, supplies, or services for LAFCO use.
- D) The Executive Officer is delegated purchasing authority on behalf of LAFCO for necessary quarters, equipment, supplies, and services not to exceed \$5,000 per transaction. The Commission must approve any purchase of necessary quarters, equipment, supplies, and services that exceed the monetary limits set forth in this policy.
- E) Following review and approval by the Chair, the Executive Office is authorized to make adjustments and administrative corrections to the budget without Commission action provided the adjustments and corrections are within the total budget allocations adopted by the Commission.
- F) Following review and approval by the Chair, the Executive Officer is authorized to adjust the budget for purposes of carrying over to the new fiscal year any encumbered funds that have been approved by the Commission in a prior fiscal year and involve unspent balances. Said funds include committed contracts for services that were not completed in the prior fiscal year and must be re-encumbered by way of a budget adjustment in the new fiscal year.



Local Agency Formation Commission of Napa County
 Subdivision of the State of California

FY 2021-2022 ADJUSTED BUDGET
 Adjusted on August 2, 2021

| Expenses | | FY 2018-19 | | FY 2019-20 | | FY 2020-21 | | FY 2021-22 | Difference from Prior FY | |
|------------------------------|--------------------------------------|--------------|---------|--------------|---------|--------------|----------|-----------------|--------------------------|---------|
| | | Final Budget | Actual | Final Budget | Actual | Final Budget | Estimate | Adjusted Budget | | |
| Salaries and Benefits | | | | | | | | | | |
| <u>Account</u> | <u>Description</u> | | | | | | | | | |
| 51210 | Commissioner Per Diems | 15,000 | 12,150 | 15,000 | 10,980 | 14,500 | 12,720 | 12,500 | (2,000) | -13.8% |
| 51300 | Medicare - Commissioners | - | 173 | 225 | 158 | 250 | 181 | 250 | - | 0.0% |
| 51305 | FICA - Commissioners | 500 | 550 | 500 | 506 | 500 | 512 | 500 | - | 0.0% |
| | Total Salaries & Benefits | 15,500 | 12,873 | 15,725 | 11,644 | 15,250 | 13,413 | 13,250 | (2,000) | -13.1% |
| Services and Supplies | | | | | | | | | | |
| <u>Account</u> | <u>Description</u> | | | | | | | | | |
| 52100 | Administration Services | 371,069 | 319,297 | 424,278 | 404,710 | 415,869 | 422,039 | 443,372 | 27,503 | 6.6% |
| 52125 | Accounting/Auditing Services | 8,000 | 7,394 | 8,000 | 6,710 | 7,500 | 6,593 | 7,500 | - | 0.0% |
| 52130 | Information Technology Services | 17,301 | 16,653 | 24,590 | 24,590 | 24,323 | 24,323 | 24,489 | 166 | 0.7% |
| 52131 | ITS Communication Charges | - | - | - | - | - | - | 1,837 | 1,837 | NEW |
| 52140 | Legal Services | 35,000 | 27,152 | 30,000 | 30,000 | 25,500 | 24,286 | 25,000 | (500) | -2.0% |
| 52310 | Consulting Services | 188,050 | 80,339 | 112,624 | 79,623 | 25,551 | 25,550 | - | (25,551) | -100.0% |
| 52345 | Janitorial Services | 150 | 165 | 300 | 300 | 300 | 150 | 300 | - | 0.0% |
| 52515 | Maintenance-Software | 2,000 | 1,779 | 2,000 | 1,929 | 1,930 | 1,929 | 1,930 | - | 0.0% |
| 52600 | Rents and Leases: Equipment | 5,500 | 4,585 | 5,500 | 4,969 | 5,500 | 4,129 | 4,000 | (1,500) | -27.3% |
| 52605 | Rents and Leases: Building/Land | 27,828 | 28,663 | 29,523 | 29,523 | 30,409 | 30,408 | 31,322 | 913 | 3.0% |
| 52700 | Insurance: Liability | 70 | 70 | 4,554 | 380 | 813 | 813 | 578 | (235) | -28.9% |
| 52800 | Communications/Telephone | 3,000 | 3,124 | 3,000 | 3,591 | 3,500 | 1,428 | 2,000 | (1,500) | -42.9% |
| 52830 | Publications and Notices | 2,000 | 967 | 1,500 | 1,440 | 1,500 | 814 | 1,000 | (500) | -33.3% |
| 52835 | Filing Fees | 500 | 200 | 250 | 154 | 50 | 100 | 200 | 150 | 300.0% |
| 52900 | Training/Conference | 9,000 | 13,770 | 12,295 | 8,348 | 989 | 200 | 10,000 | 9,011 | 911.1% |
| 52905 | Business Travel/Mileage | 1,000 | 2,265 | 3,000 | 1,449 | 1,000 | - | 500 | (500) | -50.0% |
| 53100 | Office Supplies | 2,000 | 2,265 | 2,000 | 1,193 | 1,250 | 1,156 | 1,000 | (250) | -20.0% |
| 53110 | Freight/Postage | 300 | 100 | 300 | 158 | 350 | 100 | 500 | 150 | 42.9% |
| 53120 | Memberships/Certifications | 2,805 | 2,805 | 3,261 | 3,261 | 3,060 | 3,060 | 2,934 | (126) | -4.1% |
| 53205 | Utilities: Electric | 1,300 | 1,121 | 1,300 | 1,306 | 1,500 | 1,389 | 1,500 | - | 0.0% |
| 53415 | Computer Software/License | - | 270 | - | - | - | 150 | 225 | 225 | NEW |
| 56350 | Business Related Meal/Supplies | 750 | 479 | 500 | 122 | 250 | 33 | - | (250) | -100.0% |
| | Total Services & Supplies | 678,673 | 514,108 | 669,275 | 604,373 | 551,144 | 548,650 | 560,187 | 9,043 | 1.6% |
| | EXPENSE TOTALS | 694,173 | 526,981 | 685,000 | 616,017 | 566,394 | 562,063 | 573,437 | 7,043 | 1.2% |

Revenues

| | | FY 2018-19 | | FY 2019-20 | | FY 2020-21 | | FY 2021-22 | | | |
|-----------------------------|--------------------------------|--------------|----------|--------------|-----------|--------------|----------|-----------------|---------------------------------|--------|--|
| | | Final Budget | Actual | Final Budget | Actual | Final Budget | Estimate | Adjusted Budget | <i>Difference from Prior FY</i> | | |
| Intergovernmental | | | | | | | | | | | |
| <u>Account</u> | <u>Description</u> | | | | | | | | | | |
| 43910 | County of Napa | 224,410 | 224,410 | 235,631 | 235,631 | 242,700 | 242,700 | 254,835 | 12,135 | 5.0% | |
| 43950 | Other Governmental Agencies | 224,410 | 224,410 | 235,631 | 235,631 | 242,700 | 242,700 | 254,835 | 12,135 | 5.0% | |
| ---- | <i>City of Napa</i> | 148,793 | 148,793 | 154,514 | 154,514 | 162,800 | 162,800 | 166,432 | 3,632 | 2.2% | |
| ---- | <i>City of American Canyon</i> | 35,803 | 35,803 | 38,707 | 38,707 | 41,166 | 41,166 | 45,843 | 4,677 | 11.4% | |
| ---- | <i>City of St. Helena</i> | 14,897 | 14,897 | 15,357 | 15,357 | 15,159 | 15,159 | 18,608 | 3,449 | 22.8% | |
| ---- | <i>City of Calistoga</i> | 13,673 | 13,673 | 15,575 | 15,575 | 14,515 | 14,515 | 13,976 | (539) | -3.7% | |
| ---- | <i>Town of Yountville</i> | 11,243 | 11,243 | 11,478 | 11,478 | 9,060 | 9,060 | 9,976 | 916 | 10.1% | |
| | Total Intergovernmental | 448,820 | 448,820 | 471,261 | 471,261 | 485,400 | 485,400 | 509,670 | 24,270 | 5.0% | |
| Service Charges | | | | | | | | | | | |
| <u>Account</u> | <u>Description</u> | | | | | | | | | | |
| 42690 | Application/Permit Fees | 20,000 | 41,451 | 25,000 | 26,964 | 21,060 | 37,356 | 20,000 | (1,060) | -5.0% | |
| 46800 | Charges for Services | 500 | 500 | 500 | 781 | 624 | 593 | 600 | (24) | -3.8% | |
| | Total Service Charges | 20,500 | 41,951 | 25,500 | 27,745 | 21,684 | 37,949 | 20,600 | (1,084) | -5.0% | |
| Investments | | | | | | | | | | | |
| <u>Account</u> | <u>Description</u> | | | | | | | | | | |
| 45100 | Interest | 7,000 | 12,367 | 7,000 | 15,128 | 12,000 | 7,414 | 10,000 | (2,000) | -16.7% | |
| | Total Investments | 7,000 | 12,367 | 7,000 | 15,128 | 12,000 | 7,414 | 10,000 | (2,000) | -16.7% | |
| | REVENUE TOTALS | 476,320 | 503,138 | 503,761 | 514,134 | 519,084 | 530,763 | 540,270 | 21,186 | 4.1% | |
| OPERATING DIFFERENCE | | (217,853) | (23,843) | (181,239) | (101,883) | (47,310) | (31,300) | (33,167) | | | |

Fund Balances

| | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|--|---------|---------|---------|---------|
| RESTRICTED FUND BALANCE (EQUIPMENT REPLACEMENT RESERVE) | | | | |
| Beginning: | 19,657 | 19,657 | 19,657 | 19,657 |
| Ending: | 19,657 | 19,657 | 19,657 | 19,657 |
| UNDESIGNATED/UNRESERVED FUND BALANCE ("RESERVES") | | | | |
| Beginning: | 425,831 | 401,988 | 300,105 | 268,805 |
| Ending: | 401,988 | 300,105 | 268,805 | 235,638 |
| TOTAL FUND BALANCE | | | | |
| Beginning: | 445,488 | 421,645 | 319,762 | 288,462 |
| Ending: | 421,645 | 319,762 | 288,462 | 255,295 |
| MINIMUM FOUR MONTH RESERVE GOAL | 231,391 | 228,333 | 188,798 | 191,146 |