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PLUMAS LOCAL AREA FORMATION COMMISSION (LAFCO)

Reason for Investigation

Plumas LAFCo has not been investigated previously by the Grand Jury since becoming an independent commission in 2001. Also, since the governing legislation does not require LAFCOs to file annual financial statements, or to obtain outside audits, an independent review of Plumas LAFCo records was considered appropriate. In addition, the Grand Jury was aware of some resistance to the fees being charged to special service districts and the City of Portola by Plumas LAFCo. Given these facts, the 2007-2008 Plumas County Grand Jury voted to undertake this investigation.

Procedure

In conducting this investigation of Plumas LAFCo the Grand Jury employed the three key investigatory methods of observation, research, and interviews. A diligent effort was made to cross check information obtained from various sources. Grand Jury members observed Commission meetings and Special District meetings. The Grand Jury obtained and reviewed bookkeeping records maintained by the County Auditor/Controller's Office. Budget records, Commission memoranda, the Plumas LAFCo Policy & Procedures Manual, and several municipal service reviews were requested and received from the Executive Officer. The Grand Jury also obtained numerous documents from various public Internet sources including the California Government Code, other county LAFCo websites and the California LAFCo Association web-site. Interviews were scheduled and completed with the following individuals:

- Plumas LAFCo Executive Officer
- Plumas LAFCo Commissioner representing the City of Portola
- Several officers/directors of Plumas County special districts
- President of the Plumas County Special Districts Association
- City Manager of the City of Portola
- Plumas County Auditor/Controller

Background

The California Legislature passed the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH) to update previous legislation governing Local Area Formation Commissions. Among the stated purposes are the discouraging of urban sprawl, preserving open space and prime agricultural land, efficiently providing government services, and encouraging the orderly formation and development of local agencies based upon local conditions and circumstances.

The CKH legislation established the 58 California county Local Area Formation Commissions as independent entities, and delegates to them the exclusive power to regulate the boundaries of all cities and most special services district boundaries. Specifically, LAFCOs are responsible for city and special district:

- Annexations and detachments
- Formation or dissolution
- Consolidation or reorganization
- Establishment of subsidiary district (s)
- Development of, and amendments to spheres of influence
- Extensions of service beyond an agency's boundary
- Provision of new or different services by special districts
- Municipal Service Reviews

Under the CKH Act, the appointed county commission is comprised of two county supervisors, two city council members or mayors, and one member from the public at large. In addition, a simple majority of special districts within a county may vote to join LAFCo, in which case, the districts selection committee appoints two district commissioners, bringing the total commission membership to seven. Also each category of commissioner has an appointed alternate.

At the present time, only 29 of the 58 California county LAFCOs have special district members. In Plumas County the special districts have not voted to join Plumas LAFCO.

Although the CKH Act is state mandated legislation, the state provides no funding for the operation of the county LAFCOs. Government Code Section 56381 (b) states that *In counties in which there is no independent special district representation on the commission, the county and its cities shall each provide a one-half share of the commission's operational costs.*

Therefore in Plumas County this code section requires the County (General Fund) and the City of Portola (the only incorporated city in the county) to each provide one-half of the Plumas LAFCo operational costs.

The concept of independent county commissions under local control makes sense. However, the “one size fits all approach” of the state mandated program creates a significant funding challenge in rural counties, particularly those like Plumas County with only one incorporated city and a very limited revenue base.

A review of the Plumas LAFCo operating budget and actual financial results for the current and past four fiscal years demonstrates this challenge. There is clearly a conflict between the approved annual budgets and the ability of the County and the City of Portola to fund the commission’s operational costs as follows:

Revenue	2007-2008	2006-2007	2005-2006	2004-2005
Plumas County	\$55,000	\$45,000	\$30,000	\$30,000
City of Portola	\$55,000	\$45,000	\$30,000	\$30,000
Total Contribution	\$110,000	\$90,000	\$60,000	\$60,000
Expenses				
Salaries	\$100,000	\$100,000	\$87,451	\$81,211
Benefits	\$21,500	\$21,500	\$22,100	\$19,549
Payroll Tax	\$8,900	\$8,850	\$8,600	\$6,840
Total Employee Expenses	\$130,400	\$130,350	\$118,151	\$107,600
Other Expenses	\$48,520	\$43,350	\$46,800	\$47,300
Total Expenses	\$178,920	\$173,700	\$164,951	\$154,900
Gap	\$68,920	\$83,700	\$104,951	\$94,900

Although combined budget contributions from the County and the City of Portola increased to \$110,000 in fiscal 2007-8 they still cover only 62% of total budgeted expenditures.

The existing Plumas LAFCo staff consists of two employees, the Executive Director and one Clerk. 2007-8 Budgeted Salary expense of \$100,000 consists of \$81,265 for the two employees, based upon a 25 hour work week, plus \$18,735 to give the Executive Officer the opportunity to either increase current staff hours above 25 hours per week or to hire temporary clerical help, if needed. (It should be noted that if both staff members were to convert to a full-time, 40-hour work

week, the Salary expense would be \$130,024 at their current rate of pay.

Budgeted Employee Benefits expense of \$21,500 covers both the employer and employee contribution to the Public Employees Retirement System and the CalPERS Health Care costs based upon a 25-hour work week.

Budgeted Payroll Tax expense of \$8,900 consists of employer social security, workers' compensation insurance and unemployment insurance for the two employees.

2007-8 Budgeted Other Expenses are \$48,520. The largest items of Other Expense include \$9,070 for Commissioner per diem and payroll tax, \$12,000 for travel expenses, and \$6,600 for office rent.

The Plumas County Auditor/Controller Department provides bookkeeping and expenditure payment services to Plumas LAFCo at no charge. A monthly statement of actual revenues and expenditures and a comparison to budget is generated. However, beyond these bookkeeping services no verification, analysis, or auditing of revenues and expenditures is done by the Auditor/Controller Department.

As a result of the Commission's approval of an annual expenditure budget that significantly exceeds the combined funding provided by the County Board of Supervisors and the City Council of Portola, a significant gap has remained each year. A portion of the gap has been closed each year through management of the expenditures below the budgeted amount. However, the gap has been funded primarily through the imposition of fees associated with virtually all of the activities of the paid staff.

Government Code Section 56383 (a) states that "The commission may establish a schedule of fees for the costs of proceedings taken pursuant to this division, including, but not limited to, all of the following:

1. *Filing and processing applications filed with the commission.*
2. *Proceedings undertaken by the commission and any reorganization committee.*
3. *Amending a sphere of influence*
4. *Reconsidering a resolution making determinations."*

Plumas LAFCo has established a fee schedule based upon a cost analysis conducted by the staff and approved by the Commission. The Grand Jury did not attempt an evaluation of the assumptions underlying this cost analysis. However, as indicated by the following chart developed through a survey of other Northern California county LAFCOs, the fee schedule for Plumas LAFCo is significantly out of line.

Services	Plumas Co.	Lake Co.	Colusa Co.	Amador Co.	Del Norte Co.
Full MSR	\$7,500	\$0	\$0	\$0	\$0
Abbreviated MSR	\$3,500	\$0	\$0	\$0	\$0
Full SOI Amendment	\$5,500	\$2,000	\$2,000	\$1,000	\$1,500
5 Year SOI	\$3,500	\$0	\$0	\$0	\$0
District Consolidation	\$7,500	\$2,000	\$2,000	\$0	\$2,000
Annex 0 - 10 Acres	\$4,000	\$1,000	\$2,000	\$1,000	\$1,500
Annex 11+ Acres	\$6,500	\$1,000	\$2,000	\$1,000	\$1,500

In some cases fees are triple, or more, the amount charged by other counties for the same LAFCo services. Particularly striking is the fact that Plumas LAFCo is the only county of the five covered by the chart that posts any fee schedule for Municipal Service Reviews (MSR). While the government code does not prohibit charging for MSRs, many counties take the approach that these are inherent in the basic mandated daily activities of LAFCo and do not represent a “proceeding” that requires additional fee allocation.

The Executive Officer of Plumas LAFCo, in Grand Jury interviews, has stated that it is the only “enterprise” LAFCo in California and defines this on the basis that Fee Revenue, as a percent of Total Revenue, is higher than any other county. This contention was also documented in the Executive Officer’s memo of June 18, 2007, concerning the fiscal 2007-8 final budget adoption.

An “enterprise” approach to government operations is certainly a positive in many situations. However, to the extent that Fee Revenue generated by Plumas LAFCo is collected from special services districts and the City of Portola, this is also taxpayer money. These entities are largely funded by tax allocations and many are hard-pressed by finances to deliver the services for which they were formed. This money is then being used to balance the Plumas LAFCo budget.

Findings and Recommendations

Finding #1 - Plumas LAFCo Cost Structure

The current operational costs of Plumas LAFCo substantially exceed the funding provided by Plumas County and the City of Portola. The fee schedule developed to fund the resulting gap is substantially higher than that of other county LAFCOs surveyed.

Application fees for LAFCo proceedings are to some degree a function of county growth rates and real estate activity. If that source of fee revenue declines, Plumas LAFCo will increasingly rely on fees charged to special districts for Municipal Service Reviews and Sphere of Influence studies to meet its budget deficit. These fee payments come from special district general funds. This places an undue financial burden on special districts.

Recommendation #1 - Plumas LAFCo Cost Structure

It is recommended that the Commission, independent of the Executive Officer, review alternative approaches to the operation of Plumas LAFCo to reduce the operating costs to a level that can be funded without significant reliance on application and other fees.

Government Code Section 56380 states that, *“the commission may choose to contract with any public agency or private party for personnel and facilities.”*

Since the problem of properly funding LAFCo is not limited to Plumas County, it is suggested that the Commission take the initiative to contact other rural counties to determine the feasibility of jointly contracting with a provider to operate several county LAFCOs in a geographically manageable area.

Finding #2 - Plumas LAFCo - Relationships with Constituent Agencies

Grand Jury interviews and observations indicate that the current Executive Officer, in over six years on the job, has failed to establish a positive liaison and rapport with officials of the City of Portola and many of the special districts within Plumas County. The establishment of a positive relationship with the county, city and special district personnel is a critical part of the intent of the LAFCO legislation and is a key component of the Executive Officer’s employment contract.

Recommendation #2 - Plumas LAFCo - Relationships with Constituent Agencies

The Commissioners should immediately establish a schedule to meet with officials of the City of Portola and with board members of a representative cross-section of the special services districts in Plumas County, without the presence of the Executive Officer, to listen to candid feedback regarding their relationship with Plumas LAFCo and the Executive Officer. Based upon this feedback, the Commissioners should determine whether there is a reasonable likelihood that the relationship between Plumas LAFCo and its constituents can be satisfactorily mended under the present Executive Officer. If so, a specific plan of action to resolve the matter should be undertaken and should become a key part of the Executive Officer's performance evaluation going forward. If not, the Commission should take appropriate action to resolve the issue.

Finding #3 - Plumas LAFCo - Financial Audit

LAFCO legislation contains no requirement for annual financial statements of actual operating results to be submitted to State or County authorities. This lack of a mandated financial oversight potentially exposes the taxpayers, the Commission and the LAFCo staff to unnecessary concerns and risk.

Recommendation #3 -Plumas LAFCo Financial Audit

It is recommended that the Commissioners publish a Request for Proposal to be sent to Certified Public Accounting firms in Northern California to initiate steps to obtain an independent financial audit.

Finding #4 - Special Districts and Plumas LAFCo

Each year, the Executive Officer of Plumas LAFCo, as required by the **CKH** legislation, has provided, to each special district board in the county, a copy of the proposed preliminary and final proposed budget for Plumas LAFCo for the coming fiscal year. This provides an opportunity for the special districts to make their concerns and comments known. On May 12, 2008, the regular publicly noticed meeting of the Commission was held to consider adoption of the 2008-9 Plumas LAFCo budget. The public attendance at that meeting included just one board member from one of the approximately 55 special districts in the county.

Recommendation #4 Special Districts and Plumas LAFCo

While it is recognized that the board members of the special districts are primarily volunteers and have numerous commitments for their time, it is imperative that the various districts, perhaps through the Plumas Special Districts Association, make the effort to better understand the purposes, powers, limitations and mission of Plumas LAFCo as they affect the ability of the districts to effectively and efficiently deliver services to their constituents.

The Plumas County Special Districts Association and the Boards of the individual Special Districts in Plumas County need to become much more pro-active with Plumas LAFCo, whether, or not, they decide to join and appoint 2 Commissioners.

Conclusion

The current operational costs of Plumas LAFCo substantially exceed the funding provided by Plumas County and the City of Portola. Grand Jury interviews and observations indicate that the current Executive Officer, in over six years on the job, has failed to establish a positive liaison and rapport with officials of the City of Portola and many of the special districts within Plumas County. LAFCO legislation contains no requirement for annual financial statements of actual operating results to be submitted to State or County authorities. Each year, the Executive Officer of Plumas LAFCo, as required by the **CKH** legislation, has provided, to each special district board in the county, a copy of the proposed preliminary and final proposed budget for Plumas LAFCo for the coming fiscal year. This provides an opportunity for the special districts to make their concerns and comments known.

The Commissioners and Executive Officer of Plumas LAFCo, The Plumas County Board of Supervisors, the Plumas Special Districts Association, the boards of the Plumas County special services districts and the officials of the City of Portola have an obligation to the citizens of Plumas County to work together to find the most cost effective way to enable Plumas County LAFCo to deliver the services mandated by the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000.