

Memorandum

TO: Peter Brundage, Sacramento County LAFCo

FROM: Carlos Villarreal and Eric Nickell

DATE: March 17, 2010

SUBJECT: Arden Arcade Annexation Analysis

Under section 56301 of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, when a new government entity is proposed, LAFCo must consider whether existing agencies or a single purpose agency can feasibly provide the needed services in a more efficient and accountable manner. Due to the immediate proximity of the City of Sacramento ("City") to the proposed incorporation boundaries, LAFCo requested an analysis of the fiscal impact of annexation of the unincorporated Arden Arcade area ("Study Area") to the City. This memorandum summarizes the methodology and findings of the requested analysis.

The boundaries of the Study Area are defined by the two boundary alternatives for the proposed incorporation of the area as a new city. This analysis utilizes land use scenarios for each boundary alternative that are equivalent to the land use scenarios used in the Arden Arcade Comprehensive Fiscal Analysis (CFA), also prepared by Willdan Financial Services. Given the urbanized nature of the area, this is appropriate.

The analysis finds that, based on the City's current level of services, the annexation of the Study Area to the City would result in a net deficit to the City's General Fund unless new sources of revenue were identified or the City provided a lower level of service to the Study Area than to residents within the current boundaries of the City. Moreover, this finding does not take into account any revenue sharing with the County of Sacramento that would be required under Revenue and Taxation code section 99. If property, sales, and/or transient occupancy taxes were shared with the County based on a revenue tax sharing agreement, the fiscal impact on the City would be even more negative.

Base Year Budget and Memo Organization

In this analysis considers only the fiscal impacts on the City's General Fund and Road Funds to determine the feasibility of annexing the Study Area to the City. Other City Funds provide services that are self-supporting and therefore service levels typically would not be affected by development or annexation.

Based on land use, economic, and fiscal conditions particular to the City of Sacramento, fiscal impacts have been estimated by applying Amended Fiscal Year (FY) 2008-09 revenue sources and services levels to the project area. Service levels were calculated using the City's service population as of January 1, 2009. The selection of FY2008-09 as the base year budget corresponds to the CFA's selection of the same year for actual revenue and cost data for estimates of County impacts in the event of incorporation.

This memorandum details the findings of the analysis by describing the land use scenario, estimates of per capita cost and revenue factors, and case study revenue projections for property tax, sales tax, and vehicle license fees. The final section provides the backup calculations for the results of the fiscal analysis.

Overall Method

Fiscal impact analysis is a commonly used method to estimate a local government's ability to afford the services associated with new development. The analysis uses current fiscal data to estimate future revenues generated by, and costs associated with, a reorganization of government services. For most revenues and costs, the analysis uses current average per capita factors applied to population and employment generated by the reorganization. For certain revenues and costs that could vary substantially from current averages, the analysis uses a case study approach based on information specific to the governance scenario.

All model results are provided in real (2009 constant) dollars. All revenue and cost factors are based on 2009 estimates and held constant over the planning horizon. This approach implicitly assumes that revenue and cost factors are subject to the same rate of inflation. The only exception is estimates of property values due to limits imposed by Proposition 13, which incorporates assumptions of inflation and property appreciation (above inflation).

Land Use Scenario

Two boundary alternatives were examined in this analysis, Scenario 1 and Scenario 2. Scenario 2 is contiguous with the County's Arden Arcade Community Plan and is generally bounded on the south by the American River, while Scenario 1 removes the area south of Fair Oaks Boulevard from the proposed new city boundaries. Equivalent assumptions for absorption, service population, market values, and occupant densities are also used.

Per Capita Factors

The fiscal model uses inputs of current City revenues and expenditures per capita. FY 2008-09 estimates of residents and employees used in the per capita model are drawn from the California Department of Finance and the California Employment Development Department (EDD), respectively.

A per capita modeling method is used for most of the model's expenditure and revenue factors. These factors represent citywide per capita averages that are not expected to vary for residents and employees of the Study Area if similar levels of service are provided by the City.

The per capita factors were calculated by dividing each revenue or expenditure line item by the appropriate service population. The service population includes the current residential and employment population, with employment weighted to varying degrees depending on the specific revenue or cost line item. The model multiplies these per capita revenue and expenditure factors by the projected number of residents and employees to calculate total existing revenues and costs.

Table 1 displays the per capita costs derived from Amended FY 2008-09 data from the City of Sacramento's Approved FY 2009-10 Budget. **Table 2** displays the per capita revenues derived from the same source.

Table 1: City of Sacramento General Fund Cost per Capita

Department	Service Population	Amended FY08-09	Per Capita - Amended FY08-09
Residents:			481,097
Employees:			522,810
Residents + Weighted Employees			643,168
Lane Miles			3,034
Mayor and City Council	Residents + Weighted Workers	2,861,811	4.45
City Attorney	Residents + Weighted Workers	4,466,841	6.95
City Clerk	Residents + Weighted Workers	1,384,826	2.15
City Manager	Residents + Weighted Workers	2,842,505	4.42
City Treasurer	Residents + Weighted Workers	1,962,852	3.05
Code Enforcement	Residents + Weighted Workers	10,419,523	21.66
Community Development	Residents + Weighted Workers	22,034,974	45.80
Convention, Culture & Leisure	Residents + Weighted Workers	5,709,975	11.87
Economic Development	Employees	5,248,129	10.04
Finance	Residents + Weighted Workers	6,326,788	13.15
General Services (Includes Animal Care)	Residents	15,045,209	31.27
Human Resources	Residents + Weighted Workers	3,175,574	6.60
Information Technology	Residents + Weighted Workers	7,285,277	15.14
Labor Relations	Residents + Weighted Workers	813,305	1.69
Neighborhood Services	Residents + Weighted Workers	1,366,140	2.84
Planning	Residents + Weighted Workers	2,731,842	5.68
Police	Service Level - FTE per 1,000 capita		
Transportation	Residents + Weighted Workers	10,763,340	22.37
Non-Departmental	Residents + Weighted Workers	37,408,795	77.76

Sources: City of Sacramento FY2010 Approved Budget; Willdan Financial Services.

Table 2: General Fund Per Capita Revenues

Source	Service Population	Amended FY08-09	Per Capita - Amended FY08-09
Residents:			481,097
Employees:			522,810
Employees + Weighted Workers			643,168
<u>Taxes</u>			
Property Tax	Case Study		
Sales Tax	Case Study		
Real Property Transfer Tax	Case Study		
Utility Users Tax	Residents + Weighted Workers	60,320	93.79
Transient Occupancy Tax	Case Study		
Business Operations Taxes	Employees	7,500	14.35
<u>Licenses And Permits</u>	Residents + Weighted Workers	15,053	23.40
<u>Fines, Forfeitures, Penalties</u>	Residents + Weighted Workers	11,048	17.18
<u>Interest, Rents, Concessions</u>	Residents + Weighted Workers	2,798	4.35
<u>Intergovernmental</u>	Residents + Weighted Workers	50,049	77.82
<u>Charges, Fees And Services</u>	Residents + Weighted Workers	1,323	2.06
<u>Contributions From Other Funds</u>	Residents + Weighted Workers	23,514	36.56
<u>Miscellaneous Revenue</u>	Residents + Weighted Workers	-	-

Sources: City of Sacramento FY2010 Approved Budget; Willdan Financial Services.

Case Studies

For revenues that could vary substantially from current average per capita levels, a case study method is used. The case study method uses data associated with the Study Area rather than current countywide or unincorporated area averages. The method used may vary depending on the specific cost or revenue.

In this analysis the case study method is used for the property, sales, transient occupancy, property transfer tax and vehicle license fee revenue estimates. **Table 3** details the assumptions and sources used in the case studies for revenue.

Table 3: Case Study Revenues and Assumptions

Revenue Source	Assumption	Source(s)
Property Tax	Tax Allocation Factor (post ERAF) estimated to be approximately 18.1% for each scenario	County Auditor Controller; Willdan Financial Services
Sales Tax	FY 2008-09 actual revenue approximately \$12.6 and \$12.8 million for Scenarios 1 and 2, respectively	CA SBOE
Real Property Transfer Tax	0.055% of sales price; Sales based on absorption assumptions and land value assumptions from CFA	Willdan Financial Services
Transient Occupancy Tax	FY 2008-09 actual revenue approximately \$1,388,000 for both scenarios	County Auditor Controller
Vehicle License Fees	VLF Property Tax In-lieu Per \$1000 Assessed Value assumed to be \$0.82, and per capita allocation assumed to be \$2.65	Willdan Financial Services; californiacityfinance.com

Results

Tables 4 and 5 detail the revenues and expenditures to the City’s General and Road Funds resulting from the annexation of each boundary alternative. The analysis makes no assumptions regarding the final terms of revenue sharing between the City and County. The tables below show the municipal costs and revenues for each scenario.

In the event of annexation, the manner in which the property tax and other revenues are allocated between the City and County would be based on negotiations between the City and County. Based on the City’s current levels of service, as defined by the FY 2009-09 City budget, the annexation of the Study Area would require additional revenue sources from the City to achieve fiscal neutrality. Furthermore, once County property, sales, and/or transient occupancy tax sharing requirements are determined, the City, in our opinion, would be required to find additional revenue to achieve fiscal neutrality.

Table 4: Net Revenue Summary - Scenario 1 (2009\$)

Department	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenues										
Property Tax	\$ 11,980,000	\$ 11,887,000	\$ 11,798,000	\$ 11,713,000	\$ 11,632,000	\$ 11,554,000	\$ 11,477,000	\$ 11,399,000	\$ 11,327,000	\$ 11,256,000
Sales Tax	12,668,000	12,712,000	12,753,000	12,814,000	12,878,000	12,946,000	13,011,000	13,079,000	13,150,000	13,222,000
Real Property Transfer Tax	354,100	351,300	348,400	345,600	342,900	341,100	338,300	337,700	335,900	333,200
Utility Users Tax	9,780,000	9,783,000	9,787,000	9,792,000	9,798,000	9,803,000	9,809,000	9,815,000	9,821,000	9,827,000
Transient Occupancy Tax	1,388,000	1,388,000	1,388,000	1,388,000	1,388,000	1,388,000	1,388,000	1,388,000	1,388,000	1,388,000
Business Operations Taxes	1,496,000	1,497,000	1,497,000	1,498,000	1,499,000	1,500,000	1,501,000	1,502,000	1,503,000	1,504,000
Licenses, Permits	2,440,000	2,441,000	2,442,000	2,443,000	2,444,000	2,446,000	2,447,000	2,449,000	2,450,000	2,452,000
Inter Governmental Revenues	8,114,000	8,117,000	8,120,000	8,125,000	8,129,000	8,134,000	8,139,000	8,143,000	8,149,000	8,154,000
Contributions from other funds	3,812,000	3,814,000	3,815,000	3,817,000	3,819,000	3,821,000	3,824,000	3,826,000	3,828,000	3,831,000
Vehicle License Fees	250,000	256,000	262,000	271,000	280,000	290,000	300,000	311,000	322,000	335,000
Total - Revenue	\$ 52,282,100	\$ 52,246,300	\$ 52,210,400	\$ 52,206,600	\$ 52,209,900	\$ 52,223,100	\$ 52,234,300	\$ 52,249,700	\$ 52,273,900	\$ 52,302,200
Costs										
Mayor and City Council	\$ 464,000	\$ 464,000	\$ 464,000	\$ 465,000	\$ 465,000	\$ 465,000	\$ 465,000	\$ 466,000	\$ 466,000	\$ 466,000
City Attorney	725,000	725,000	725,000	726,000	726,000	726,000	727,000	727,000	728,000	728,000
City Clerk	224,000	224,000	224,000	224,000	225,000	225,000	225,000	225,000	225,000	225,000
City Manager	461,000	461,000	461,000	461,000	462,000	462,000	462,000	463,000	463,000	463,000
City Treasurer	318,000	318,000	318,000	318,000	319,000	319,000	319,000	319,000	319,000	320,000
Code Enforcement	2,259,000	2,259,000	2,260,000	2,261,000	2,263,000	2,264,000	2,265,000	2,267,000	2,268,000	2,269,000
Community Development	4,776,000	4,777,000	4,779,000	4,782,000	4,784,000	4,787,000	4,790,000	4,793,000	4,796,000	4,799,000
Convention, Culture & Leisure	1,238,000	1,238,000	1,239,000	1,239,000	1,240,000	1,241,000	1,241,000	1,242,000	1,243,000	1,244,000
Economic Development	397,000	397,000	398,000	398,000	399,000	400,000	401,000	402,000	403,000	404,000
Finance	1,371,000	1,372,000	1,372,000	1,373,000	1,374,000	1,374,000	1,375,000	1,376,000	1,377,000	1,378,000
General Services (Includes Animal Care)	2,878,000	2,878,000	2,879,000	2,880,000	2,881,000	2,882,000	2,883,000	2,884,000	2,885,000	2,886,000
Human Resources	688,000	688,000	689,000	689,000	689,000	690,000	690,000	691,000	691,000	692,000
Information Technology	1,579,000	1,579,000	1,580,000	1,581,000	1,582,000	1,582,000	1,583,000	1,584,000	1,585,000	1,586,000
Labor Relations	176,000	176,000	176,000	176,000	177,000	177,000	177,000	177,000	177,000	177,000
Neighborhood Services	296,000	296,000	296,000	297,000	297,000	297,000	297,000	297,000	297,000	298,000
Planning	592,000	592,000	593,000	593,000	593,000	594,000	594,000	594,000	595,000	595,000
Police	25,483,000	25,747,000	26,014,000	26,289,000	26,566,000	26,846,000	27,131,000	27,419,000	27,709,000	28,005,000
Transportation	2,333,000	2,333,000	2,334,000	2,336,000	2,337,000	2,338,000	2,340,000	2,341,000	2,342,000	2,344,000
Non-Departmental	7,611,000	7,614,000	7,616,000	7,621,000	7,625,000	7,629,000	7,634,000	7,638,000	7,643,000	7,647,000
Total	\$ 53,869,000	\$ 54,138,000	\$ 54,417,000	\$ 54,709,000	\$ 55,004,000	\$ 55,298,000	\$ 55,599,000	\$ 55,905,000	\$ 56,212,000	\$ 56,526,000
Net Revenue	\$ (1,586,900)	\$ (1,891,700)	\$ (2,206,600)	\$ (2,502,400)	\$ (2,794,100)	\$ (3,074,900)	\$ (3,364,700)	\$ (3,655,300)	\$ (3,938,100)	\$ (4,223,800)
<i>Net Revenue % Costs</i>		(3%)	(4%)	(5%)	(5%)	(6%)	(6%)	(7%)	(7%)	(7%)
General Fund Operating Reserve	\$ (1,586,900)	\$ (3,478,600)	\$ (5,685,200)	\$ (8,187,600)	\$ (10,981,700)	\$ (14,056,600)	\$ (17,421,300)	\$ (21,076,600)	\$ (25,014,700)	\$ (29,238,500)
<u>Gas Tax/Measure A Fund</u>										
Revenues										
	\$ 2,979,000	\$ 2,980,000	\$ 2,982,000	\$ 2,982,000	\$ 2,983,000	\$ 2,984,000	\$ 2,986,000	\$ 2,987,000	\$ 2,987,000	\$ 2,989,000
Costs										
Road Maintenance Costs	\$ 2,979,000	\$ 2,980,000	\$ 2,982,000	\$ 2,982,000	\$ 2,983,000	\$ 2,984,000	\$ 2,986,000	\$ 2,987,000	\$ 2,987,000	\$ 2,989,000
Net Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Net Revenue % Costs</i>		0%	0%	0%	0%	0%	0%	0%	0%	0%
Road Fund Operating Reserve	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Revenue All Funds	\$ (1,586,900)	\$ (1,891,700)	\$ (2,206,600)	\$ (2,502,400)	\$ (2,794,100)	\$ (3,074,900)	\$ (3,364,700)	\$ (3,655,300)	\$ (3,938,100)	\$ (4,223,800)
<i>Net Revenue % Costs</i>		(3%)	(4%)	(4%)	(5%)	(5%)	(6%)	(6%)	(7%)	(7%)

Table 5: Net Revenue Summary - Scenario 2 (2009\$)

Department	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenues										
Property Tax	\$ 13,883,000	\$ 13,774,000	\$ 13,669,000	\$ 13,568,000	\$ 13,472,000	\$ 13,377,000	\$ 13,285,000	\$ 13,193,000	\$ 13,106,000	\$ 13,020,000
Sales Tax	12,799,000	12,843,000	12,884,000	12,945,000	13,009,000	13,077,000	13,142,000	13,210,000	13,281,000	13,353,000
Real Property Transfer Tax	408,100	404,400	401,500	398,700	396,900	393,200	391,400	387,800	386,100	384,500
Utility Users Tax	10,440,000	10,444,000	10,447,000	10,452,000	10,458,000	10,464,000	10,470,000	10,476,000	10,483,000	10,489,000
Transient Occupancy Tax	1,388,000	1,388,000	1,388,000	1,388,000	1,388,000	1,388,000	1,388,000	1,388,000	1,388,000	1,388,000
Business Operations Taxes	596,000	597,000	598,000	599,000	600,000	602,000	603,000	604,000	606,000	607,000
Licenses, Permits	2,605,000	2,606,000	2,607,000	2,608,000	2,609,000	2,611,000	2,612,000	2,614,000	2,615,000	2,617,000
Inter Governmental Revenues	8,662,000	8,665,000	8,669,000	8,673,000	8,678,000	8,682,000	8,687,000	8,692,000	8,698,000	8,703,000
Contributions from other funds	4,069,000	4,071,000	4,072,000	4,074,000	4,077,000	4,079,000	4,081,000	4,084,000	4,086,000	4,089,000
Vehicle License Fees	268,000	273,000	280,000	288,000	298,000	308,000	318,000	329,000	341,000	354,000
Total - Revenue	\$ 55,118,100	\$ 55,065,400	\$ 55,015,500	\$ 54,993,700	\$ 54,985,900	\$ 54,981,200	\$ 54,977,400	\$ 54,977,800	\$ 54,990,100	\$ 55,004,500
Costs										
Mayor and City Council	\$ 495,000	\$ 495,000	\$ 496,000	\$ 496,000	\$ 496,000	\$ 496,000	\$ 496,000	\$ 497,000	\$ 497,000	\$ 497,000
City Attorney	774,000	774,000	774,000	774,000	775,000	775,000	775,000	776,000	776,000	777,000
City Clerk	239,000	239,000	239,000	239,000	240,000	240,000	240,000	240,000	240,000	240,000
City Manager	492,000	492,000	492,000	492,000	493,000	493,000	493,000	493,000	494,000	494,000
City Treasurer	339,000	339,000	340,000	340,000	340,000	340,000	340,000	340,000	341,000	341,000
Code Enforcement	2,411,000	2,411,000	2,412,000	2,413,000	2,414,000	2,415,000	2,417,000	2,418,000	2,419,000	2,421,000
Community Development	5,098,000	5,098,000	5,100,000	5,102,000	5,104,000	5,107,000	5,110,000	5,113,000	5,116,000	5,119,000
Convention, Culture & Leisure	1,321,000	1,321,000	1,322,000	1,322,000	1,323,000	1,324,000	1,324,000	1,325,000	1,326,000	1,327,000
Economic Development	417,000	417,000	418,000	418,000	419,000	420,000	421,000	422,000	423,000	424,000
Finance	1,464,000	1,464,000	1,464,000	1,465,000	1,466,000	1,466,000	1,467,000	1,468,000	1,469,000	1,470,000
General Services (Includes Animal Care)	3,078,000	3,078,000	3,079,000	3,079,000	3,080,000	3,081,000	3,082,000	3,083,000	3,085,000	3,086,000
Human Resources	735,000	735,000	735,000	735,000	736,000	736,000	736,000	737,000	737,000	738,000
Information Technology	1,685,000	1,685,000	1,686,000	1,686,000	1,687,000	1,688,000	1,689,000	1,690,000	1,691,000	1,692,000
Labor Relations	188,000	188,000	188,000	188,000	188,000	188,000	189,000	189,000	189,000	189,000
Neighborhood Services	316,000	316,000	316,000	316,000	317,000	317,000	317,000	317,000	317,000	317,000
Planning	632,000	632,000	632,000	633,000	633,000	633,000	634,000	634,000	634,000	635,000
Police	29,094,000	29,396,000	29,702,000	30,014,000	30,330,000	30,650,000	30,973,000	31,303,000	31,635,000	31,972,000
Transportation	2,490,000	2,490,000	2,491,000	2,492,000	2,493,000	2,494,000	2,496,000	2,497,000	2,499,000	2,500,000
Non-Departmental	8,655,000	8,655,000	8,659,000	8,662,000	8,666,000	8,671,000	8,676,000	8,681,000	8,686,000	8,691,000
Total	\$ 59,923,000	\$ 60,225,000	\$ 60,545,000	\$ 60,866,000	\$ 61,200,000	\$ 61,534,000	\$ 61,875,000	\$ 62,223,000	\$ 62,574,000	\$ 62,930,000
Net Revenue	\$ (4,804,900)	\$ (5,159,600)	\$ (5,529,500)	\$ (5,872,300)	\$ (6,214,100)	\$ (6,552,800)	\$ (6,897,600)	\$ (7,245,200)	\$ (7,583,900)	\$ (7,925,500)
<i>Net Revenue % Costs</i>		(9%)	(9%)	(10%)	(10%)	(11%)	(11%)	(12%)	(12%)	(13%)
General Fund Operating Reserve	\$ (4,804,900)	\$ (9,964,500)	\$ (15,494,000)	\$ (21,366,300)	\$ (27,580,400)	\$ (34,133,200)	\$ (41,030,800)	\$ (48,276,000)	\$ (55,859,900)	\$ (63,785,400)
Gas Tax/Measure A Fund										
Revenues										
	\$ 3,186,000	\$ 3,188,000	\$ 3,189,000	\$ 3,190,000	\$ 3,190,000	\$ 3,192,000	\$ 3,193,000	\$ 3,194,000	\$ 3,196,000	\$ 3,196,000
Costs										
Road Maintenance Costs	\$ 3,186,000	\$ 3,188,000	\$ 3,189,000	\$ 3,190,000	\$ 3,190,000	\$ 3,192,000	\$ 3,193,000	\$ 3,194,000	\$ 3,196,000	\$ 3,196,000
Net Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Net Revenue % Costs</i>		0%	0%	0%	0%	0%	0%	0%	0%	0%
Road Fund Operating Reserve	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Revenue All Funds	\$ (4,804,900)	\$ (5,159,600)	\$ (5,529,500)	\$ (5,872,300)	\$ (6,214,100)	\$ (6,552,800)	\$ (6,897,600)	\$ (7,245,200)	\$ (7,583,900)	\$ (7,925,500)
<i>Net Revenue % Costs</i>		(8%)	(9%)	(9%)	(10%)	(10%)	(11%)	(11%)	(12%)	(12%)