

**FINAL
EXECUTIVE OFFICER'S REPORT AND
RECOMMENDATIONS**

PROPOSED ARDEN ARCADE INCORPORATION

LAFC 03-07

MAY 19, 2010

**SACRAMENTO LOCAL AGENCY FORMATION COMMISSION
1112 I Street, Suite No. 100
Sacramento, California 95814
(916) 874-6458**

Sacramento LAFCo Commission

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1112 I Street, Suite #100
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May 19, 2010

TO: Sacramento Local Agency Formation Commission
FROM: Peter Brundage, Executive Officer
RE: **PROPOSED INCORPORATION OF ARDEN ARCADE FINAL
EXECUTIVE OFFICER'S REPORT [LAFC 03-07]**

EXECUTIVE OFFICER'S RECOMMENDATIONS

- 1. Adopt Resolutions approving the Arden Arcade Incorporation.**
- 2. Approve the Detachment of CSA No. 11.**
- 3. Approve Boundary Alternative - Scenario 2 for the proposed incorporation of Arden Arcade as shown on Exhibit A.**
- 4. Approve the Revenue Neutrality Payment based on an agreement reached between the Arden Arcade Incorporation Committee and the County of Sacramento. The terms provided by the County and the Arden Arcade Incorporation Committee include:**
 - i. Mitigation Payment will be 90% of secured and unsecured property taxes apportioned each year to the city subject to the terms and conditions set forth in the Terms and Conditions of the Revenue Neutrality Payment Agreement between the Arden Arcade Incorporation Proponents and the County of Sacramento.**
 - ii. Mitigation Payments will be secured by the secured and unsecured property tax revenue apportioned to the City of Arden Arcade.**
 - iii. The total amount to be paid is \$219,000,000.**
 - iv. Term: The term is not fixed. The term is estimated to be approximately 35 years more or less. The annual Revenue**

Neutrality Payment (property tax payments) to the County of Sacramento will terminate when the total amount of \$219,000,000 has been paid in full.

- v. The initial Gann or Appropriations Limit shall be \$40,231,491 until approved by the voters pursuant to State Law.**

**BASED ON ORAL AND WRITTEN TESTIMONY, THE COMMISSION
MAY DENY, AMEND, OR MODIFY THE EXECUTIVE OFFICER'S
RECOMMENDATIONS.**

COMMISSION POLICY CONSIDERATIONS RELATED TO INCORPORATIONS

The Commission must determine the following in order to approve the incorporation:

- **Boundary and Project Alternatives:**

The Commission must determine the appropriate boundary of the area to be incorporated or whether annexation to the City of Sacramento would be a more cost efficient service provider in a more accountable manner.

Comments have been received indicating that there may be environmental, cost and service impacts related to exclusion of the area lying south of Fair Oaks Boulevard.

- **Is the new city financially sustainable and viable for a minimum period of ten (10) years following the incorporation?**

The Final CFA concludes that the proposed city is financially feasible for either Scenario 1 or Scenario 2.

- **Will the new city provide levels of service similar to comparable cities within Sacramento County?**

The Final CFA concludes the proposed city will be able to provide a similar level of service comparable to other cities in Sacramento and similar to service levels provided by the County in the FY 2008-09 Base Year.

- **Does the incorporation result in a loss of revenue to the County?**

The Draft CFA indicates that the proposed incorporation will result in an annual loss of revenue to the County in the amount of approximately \$8.6 million for Scenario 1 and Scenario 2.

- **If yes, is the loss mitigated by means of a revenue neutrality payment?**

The Revenue Neutrality Payment has been negotiated. The Proponents and County have reached an agreement. The intent is to minimize the negative fiscal impact to the County. The Commission must determine that the negative financial impacts to the County have been mitigated pursuant to Government Code Section 56815.

- **Are environmental impacts adequately mitigated?**

The Final EIR has not identified any significant impacts and the environmental impacts for boundary Scenario 1, Scenario 2, and annexation to the City of Sacramento are similar, i.e. neither the project nor the alternatives result in a superior or better environmental outcome. The Final EIR supports Boundary Alternative Scenario 2.

PURPOSE OF THIS REPORT

The objective of this staff report is to provide the Commission with a summary and analysis of the proposed incorporation of Arden Arcade. The draft terms and conditions are based on studies, comments and negotiations between the proponents, the County of Sacramento, and comments received during public testimony process before the Commission, as well as the Commission's past experience in creating terms and conditions of incorporation with the City of Citrus Heights, City of Elk Grove, and the City of Rancho Cordova.

EXECUTIVE OFFICER SUMMARY

<u>Applicant:</u>	Arden Arcade Incorporation Committee (Registered Voter Petition)
<u>Proposal:</u>	Incorporation of the unincorporated Arden Arcade Community---the formation of a General Law city and a city manager form of government. The city council shall consist of a six member council elected by district and mayor to be elected at large.
<u>Project Location:</u>	The project is located in the unincorporated area of Sacramento County generally bounded on the north by Capital City Freeway (I-80), on the west by the City of Sacramento, on the east by Mission Avenue, and on the south by the American River.
<u>Environmental:</u>	CEQA: Environmental Impact Report-SCH 2007102114
<u>Effective Date:</u>	July 1, 2011
<u>Proposed Name:</u>	City of Arden Arcade
<u>Registered Voters:</u>	42,608
<u>Assessed Value:</u>	\$7,665,842,876 (FY 2008-2009)
<u>Population:</u>	98,401
<u>FPPC Disclosure:</u>	None

Application Proposal

On February 28, 2007, the proponents of the proposed Arden Arcade incorporation submitted a petition containing 12,761 signatures requesting the Sacramento Local Agency Formation Commission to process an application for the incorporation of approximately 14.0 square miles (Scenario 1) 16.0 square miles (Scenario 2) of the Arden Arcade community.

The Registrar of Voters verified the signatures submitted to meet the Government Code requirement that at least twenty-five percent of the registered voters within the petition boundary signed the petition. The Registrar of Voters determined that the proponents' petition had 9,580 valid signatures to meet the legal requirement to initiate an incorporation proposal.

Project Description and Location

The petition boundary contains approximately 9,000 acres or about 14 square miles of land located in the northern-central portion of Sacramento County.

The proposed petition boundary includes the Arden Arcade Community Plan Area lying North of Fair Oaks Boulevard shown in Exhibit "A" herein called Subject Territory or Boundary Scenario 1. This area is generally described as: the area bounded on the north by Auburn Boulevard and the City of Sacramento, on the west by the City of Sacramento, on the south by Fair Oaks Boulevard, and on the east by Mission Avenue.

The petition submitted to LAFCo by registered voters living in the petition boundary have proposed that the unincorporated area known as Arden Arcade incorporate to create a general law city with a City Manager form of government. The petitioners signed a petition requesting that a six-member City Council elected by district and a mayor elected at large would govern the new city. The City Manager, City Clerk, City Treasurer and City Attorney would be appointed and removed at the pleasure of the City Council.

The County of Sacramento shall continue to furnish, without additional charge, all services furnished prior to incorporation for not less than the remainder of the fiscal year in which the incorporation becomes effective or until the City Council requests discontinuance of a service or services, in accordance with Government Code Section 57384.

Petition Arguments for Incorporation:

The applicants submitted the following purpose for the proposed incorporation of their community:

- A. To enhance the character and identity of Arden Arcade by establishing the community as a municipality.
- B. To increase local control over and accountability for decisions affecting Arden Arcade by having an elected city council and mayor made of Arden Arcade residents who serve as the community's primary local government representatives.
- C. To ensure that the planning, zoning, and other regulatory land use decisions affecting Arden Arcade are made in Arden Arcade and to ensure enforcement thereof.
- D. To increase the accessibility of local government officials and staff members to the residents of Arden Arcade.
- E. To improve and enhance our level of local police protection by capturing revenues generated in Arden Arcade.
- F. To increase the allocation of Federal and State revenues to Arden Arcade to support local services and programs.
- G. To increase local responsibility for determining services, service levels, and capital improvements in Arden Arcade.
- H. To promote more citizen participation and involvement in the local civic affairs of Arden Arcade.
- I. To stimulate economic growth that will support the well-being of the city and its residents.

Proposed Form of Government for the New City

The incorporation petition provided that LAFCo approve the following terms and conditions for the proposed city:

- 1. The name of the proposed new city shall be "The City of Arden Arcade."
- 2. Subject to the limitations of Government Code Section 57202, the effective date of the incorporation shall be July 1, 2011
- 3. The City of Arden Arcade shall have a Mayor/Council-City Manager form of government.
- 4. The governing body of the City of Arden Arcade shall be a six member City Council elected by district and a mayor elected at large. The first City Council shall be elected at large from throughout the incorporated territory. The terms of office for the members of the City Council shall be in accordance with Government Code Sections 57377 and 57379.
- 5. Subject to the limitations of Government Code Section 57150(b), the election of the first City Council shall be held on Tuesday, November 2, 2010. The cost for the election of the first City Council election shall be borne by the City of Arden Arcade.

6. Upon and after the effective date of incorporation, the City Manager, City Clerk, and City Treasurer shall be appointed by the City Council pursuant to Government Code Section 36511 and 56723.

PROPOSED FINDINGS, DETERMINATIONS, AND TERMS AND CONDITIONS

Proposed Findings and Terms and Conditions

Your Executive Officer's recommends the Commission adopt the following findings and determinations for the proposed incorporation of Arden Arcade:

1. The proposal to incorporate the community of Arden Arcade is consistent with the intent of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000; the policies of Government Code Sections 56001, 56300, 56301, AND 56377, and the policies, procedures and Standards of the Sacramento Local Agency Formation Commission.
2. As Lead Agency, Sacramento Local Agency Formation Commission has prepared an Environmental Impact Report that fully complies with the California Environmental Quality Act (CEQA) and addresses the environmental effects of the proposed incorporation upon service recipients, local agencies, and County of Sacramento.
3. The proposed incorporation is consistent with the Regional Transportation Plan, the Sacramento County General Plan, the Arden Arcade Community Plan and related County ordinances.
4. The Commission has reviewed the spheres of influence of affected local agencies and finds the incorporation is consistent with those spheres of influence.
5. The incorporation of the City of Arden Arcade promotes the planned, orderly, efficient development of the subject territory pursuant to the petitioner's application.
6. The incorporation of Arden Arcade does not result in the conversion of prime agricultural land in open space use to other uses and allows the continuation of planned, orderly, efficient development of the subject territory, required pursuant to Government Code Section 56377.
7. The Commission determines the boundary of the new city shall be as follows: Boundary Alternative Scenario 2 which includes the area lying south of Fair Oaks Boulevard and the American River shown on the attached Exhibits.
8. The Commission has reviewed the Comprehensive Fiscal Analysis (CFA) prepared pursuant to Government Code Section 56800. The CFA has been circulated for public review and comments, and presented at public hearings.

9. The Commission has reviewed the Executive Officer's staff report and recommendations prepared pursuant to Government Code Section 56665 and oral and written testimony presented during the public hearings on this proposal.
10. The Commission finds the proposed city is expected to receive revenues sufficient to provide public services and facilities and provide an adequate reserve during the ten (10) years following the incorporation pursuant to Government Code Section 56800 and LAFCo Policies, Standards, and Procedures.
11. Pursuant to Government Code Section 56886.5, the Commission determines that existing agencies cannot provide needed services in a more efficient, cost-effective, and accountable manner. Incorporation will allow for increased local accountability. This will allow local services and priorities to be determined by the new city council based on local community needs and citizen input.
12. The proposed incorporation of Arden Arcade does not have any significant adverse social, economic, or environmental impacts upon any particular communities, cities, Special Districts, other service providers, Regional Jurisdictions, surrounding neighborhoods, or the County of Sacramento
13. The Commission has reviewed and considered all relevant factors set forth in Government Code Section 56668.
14. Pursuant to Government Code Section 56810, the Commission determines the base year property tax to be transferred from the County to the City of Arden Arcade is \$7,021,000. The base year amount shall be adjusted by the County Auditor to the fiscal year in which the new city receives its initial allocation, in accordance with Revenue and Taxation Code Section 95 et.seq.
15. The Commission determines that a provisional appropriations limit of \$40,231,491 is established pursuant to Government Code Section 56812. A permanent appropriations limit will be proposed by the city council at the first municipal election held following the first full fiscal year of operation.
16. Pursuant to Government Code Section 56815(c), the Commission determines that the amount of revenue transferring from the County to the new city is not substantially equal to the cost of services similarly transferred. Therefore, the Commission imposes a Revenue Neutrality Payment to mitigate the financial loss to the County of Sacramento.
17. Consistent with Sacramento Local Agency Formation Commission policy, the applicants have demonstrated by petition a desire to incorporate in order to provide local municipal and governmental services and local accountability within the area proposed to be incorporated. Incorporation will result in an

entity with the capability to provide cost-effective and efficient forms of municipal services to the affected population at similar levels of service as currently provided by the County of Sacramento and similar cities in an accountable manner.

18. The Comprehensive Fiscal Analysis assumes that Sacramento Regional Transit will continue to provide transit and paratransit services to the City of Arden Arcade. Upon incorporation, the City has the option to provide transit services on its own, annex to RT, or enter into a contract with RT. LAFCo cannot force the new City to join RT because LAFCo does not have any authority over transit districts. Current legislation requires the new City to request annexation directly from Sacramento Regional Transit District.

In the event, the new City does not elect to annex or contract with Regional Transit, the new City would be eligible to receive its share of Transportation Development Act Funds and any other revenues that it may be entitled to. However, if the City chooses to do this, it will be required to provide a similar level of transit services currently being provided to the Arden Arcade community.

19. The proposed incorporation will not affect the ability of the City or County to achieve their respective fair shares of the regional housing needs.
20. The incorporation is based on the continuation of Utility User Tax and Transient Occupancy Taxes and all taxes and fees currently received by the County of Sacramento. This language will be included in the ballot measure.
21. The name of the city shall be the City of Arden Arcade.
22. The city shall be incorporated as a general law city.
23. The city shall be governed by a six (6) person city council elected by district and a mayor elected at large.
24. The new City shall have a Council-City Manager form of government.
 - a. The governing body of the proposed new city shall be a six-member City Council and a Mayor, initially elected at-large from throughout the area to be incorporated. The election of the City Council and Mayor shall be concurrent with the election question of whether or not the city shall be created by the electorate.
 - b. In future elections, the Mayor shall continue to be elected at-large. Members of the City Council in future elections shall be

elected by district, as defined in Government Code Section 34871.

- c. By ordinance or resolution, the City Council shall establish the district in accordance with law at any time prior to the first day on which voters may nominate candidates for election in the November 2012 municipal election. (Gov. Code, § 34884.) The effect of this section is to have by district elections by November 2012.
 - d. Subject to the limitations of Government Code Section 56724, the election of the first City Council and Mayor, and the incorporation election, will be held at the next regularly scheduled election date which is November 2, 2010. Costs for the election of the first City Council election shall be borne by the City. The election and terms of office for members of the City Council shall be subject to Government Code sections 57377-57379, inclusive.
- 25. The city council shall appoint a city manager, who shall appoint a city clerk and city treasurer.
 - 26. The question of incorporation, all related boundary changes, and all terms and conditions shall be presented as one question on the ballot and in accordance with Government Code Sections 57133 and 57134.
 - 27. Pursuant to Government Code Section 57118, the election shall be held within the entire territory proposed to be incorporated.
 - 28. The proposed incorporation is legally inhabited.

Proposed Terms and Conditions:

- 1. The effective date of the incorporation shall be July 1, 2011.
- 2. The election and terms of office for members of the City Council shall be subject to Government Code Sections 57377 - 57379, inclusive.
- 3. The disposition of public facilities, land and fees shall be subject to negotiations between the County of Sacramento and the new city.
- 4. Pursuant to Government Code Section 56815, the City shall be required to make payments to mitigate the financial impact of the incorporation on the County of Sacramento. Payment Schedule is set forth in Exhibit D.
- 5. Pursuant to Government Code Section 56376, the City Council shall, immediately following its organization and prior to performing any other

official act, adopt and ordinance providing that all County ordinances previously applicable shall remain in full force and effect as City ordinances for a period of 120 days thereafter, or until the City Council has enacted ordinances superseding them, whichever shall occur first. Enforcement of continuing County ordinances in the incorporated area shall be with the City, except insofar as enforcement services are furnished in accordance with Government Code Section 57384. (Note: Government Code Section 65360 allows the new city 30 months to adopt a new General Plan and EIR).

6. Pursuant to Government Code Section 57384, the County of Sacramento shall continue to furnish all services provided to the area prior to incorporation. Such services shall be furnished for the remainder of the fiscal year during which the incorporation becomes effective or until the City Council requests discontinuance of the services, whichever occurs first. The new City shall be obligated to reimburse the County of Sacramento for the net cost of services provided in accordance with the provisions of Government Code Section 57384(b).
7. The City of Arden Arcade, in addition to providing those services required by law, shall insure provision of the following services: Animal Control and Regulation Services, Building Inspection Services, Site Development Services, Traffic and Safety Lighting Maintenance Services, and Street, Road and Landscape Maintenance Services. The City/County Joint Powers Authority will continue to provide Library Services.
8. In accordance with Government Code Section 57385, all roads and highways or portions thereof within the incorporated territory, which had been accepted into the County road system prior to the first signature on the petition initiating incorporation, shall become city streets on the effective date of incorporation.
9. Notwithstanding subdivision (b) of Government Code Section 57385, all roads accepted into the county road system subsequent to the first signature on the petition initiating incorporation and prior to the effective date of incorporation shall become city streets on the effective date of incorporation.
10. The new City shall enter into Joint Maintenance Agreements with any affected local agency for the maintenance of public streets that define common boundaries.
11. County Service Area No. 1 (street lighting) will continue to provide service to the new city of Arden Arcade after incorporation. After incorporation the new City may submit an application and service plan to LAFCo to detach from CSA No. 1 requesting to provide street lighting services.

12. The City of Arden Arcade shall coordinate for water and drainage services, planning, design, and maintenance provided by Sacramento County Water Agency Zones 11b, 12, 13, and 41. Upon incorporation Zone 11b will be detached since it is essentially built out and no longer required. The City shall provide adequate funding similar to Sacramento County Utility.
13. Approve the detachment of County Service Area No. 11, extended law enforcement and animal control services.
14. Upon incorporation, the City will be required to file with FEMA as a new community for the National Flood Insurance Program and administer this program.
15. Upon incorporation, the City should coordinate with Sacramento County Water Agency so that it does not adopt policies that conflict or increase costs associated with Sacramento County Water Agency operation of its water delivery system located in the City.
16. Based on comments received by Sacramento County Water Agency, LAFCo encourages the City to become a signatory on the Water Forum Agreement and the City should support the policies, objectives, and goals of the Water Forum Agreement regarding water supply reliability, conservation, and environmental protection of water resources.
17. The City of Arden Arcade shall become a co-permittee under the terms of the existing Countywide National Pollution Discharge elimination System Permit (NPDES).
18. The County currently provides solid waste collection and recycling services to the Subject Territory through county employees and private service contractors. The County will continue to provide solid waste collection, recycling services and collect fees within the Subject Territory, however, the City of Arden Arcade may elect to provide solid waste collection and recycling independently provided the city gives proper termination notice to the County after the transition year. Consideration should be given that disposal of waste should not be exported out of Sacramento County in order minimize air quality impacts to the region.
19. All assets and liabilities related to County owned facilities shall not be transferred and shall remain the property and responsibility of Sacramento County such as the American River Parkway, water distribution facilities, libraries, and other County owned facilities that may be located within the incorporation boundary.

20. The American River Parkway is a County Regional Park. The American River Parkway will remain part of the County Regional Park system subject to the American River Parkway Plan.
21. Any and all development agreements entered into and between the County of Sacramento and any development project applicant and an conditions of approval (including mitigation measures adopted pursuant to the California Environmental Quality Act) imposed by the County Board of Supervisors on any and all discretionary projects adopted and approved prior to the effective date of incorporation shall remain valid and enforceable between the applicant and the new City of Arden Arcade, subject to Government Code Section 65865.3(a) and (b).
22. In accordance with Government Code Section 56886(t), the City shall have the authority to continue the levying and collection of any previously authorized charge, fee, development impact fees, assessment or general or special tax levied within the subject territory by the County or other subject agencies, including but not limited to transient occupancy tax, franchise fees, business license fees, utility user tax, property transfer tax, and sales and use tax.
23. In accordance with Government Code Section 56886(u), the authority and responsibility for special assessment districts associated with any County Landscape Maintenance District shall be transferred to the new city upon incorporation.
24. Pursuant to Government Code Section 57384, the County shall continue to provide to the incorporated area, all services furnished to the area prior to incorporation at the same level and in accordance with the budget for the County adopted prior to the effective date of incorporation, for the remainder of the fiscal year during which the incorporation becomes effective, or for a shorter period, if the City of Arden Arcade, acting through its City Council, requests discontinuance of a service or services.
25. In accordance with Government Code Section 57384, the County has requested that the City of Arden Arcade reimburse the County for the costs of services provided during the transition year.
26. A portion of the Auburn Boulevard Redevelopment Plan Area is within the City boundaries. Sacramento Housing and Redevelopment Agency ("SHRA") shall retain jurisdiction over the Project Area. The Commission finds that the City may establish an agency to be the receiving agency for that portion of the Project Area within the City's boundaries provided it complies with all requirements of the Community Redevelopment Law of the State of California, California Health & Safety Code Section 33000 et seq.

27. Pursuant to Government Code Section 65584.07, the parties shall meet to determine the number of housing units that shall transfer from the County to the City of Arden Arcade. In the event that the parties cannot agree, either party may request that SACOG determine the number of units to be transferred pursuant to Government Code Section 65584.07.
28. The Arden Arcade Incorporation Committee and the City Council shall indemnify, defend, and hold harmless, the Commission, its directors, officers, agents, and employees (“Commission”) from and against any and all Losses arising out of or in any way connected with the incorporation of the new city or any actions taken or agreements executed in connection with the subject incorporation effort, however caused, regardless of any negligent act of the Commission, whether active or passive, excepting only such Losses as may be caused by the sole, active negligence or willful misconduct of the Commission. As used in this section, the term "Losses" means actions, claims, demands, losses, expenses, including reasonable attorneys' fees and costs, damages, and liabilities.
29. As set forth in the Funding Agreement between the Commission and the Arden Arcade Incorporation Committee, the City shall reimburse the Commission for costs incurred for staff time spent on processing the incorporation proposal together with the Commission’s \$100,000 contribution to fund the incorporation studies, plus interest at the rate paid by Local Agency Investment Fund. These sums shall be repaid in full as soon as possible, but no later than July 1, 2013. The Executive Officer and the Incorporation Committee and/or City shall agree to a repayment schedule.
30. At the earliest possible time after the effective date of incorporation, the City shall take necessary actions to participate in regional agencies and Joint Powers Authorities as permitted by the respective agencies. Such agencies include Regional Transit, Sacramento Area Council of Government, Sacramento Transportation Authority, Sacramento Metropolitan Air Quality Management District, Sacramento Metropolitan Cable Commission, Sacramento Public Library Authority, Sacramento Housing and Redevelopment Agency, Regional Human Rights and Fair Housing Commission and other similar regional jurisdictions.
 - a) The City of Arden Arcade shall petition SACOG for inclusion in its Joint Powers Agreement as a member city and shall participate in SACOG’s regional planning activities as a nonmember prior to membership.
 - b) The City of Arden Arcade shall maintain existing public transit service including applicable paratransit service required under the American with Disabilities Act. This shall be accomplished by the annexation of the City of Arden Arcade into the Sacramento Regional transit District

and activation of transit services within the City of Arden Arcade, in accordance with procedures set forth in Sections 102062.5 and 102055 of the District's enabling legislation (Part 14 of Division 10 of the California Utilities Code). The City of Arden Arcade shall, within one hundred twenty (120) days of incorporation, submit a request for annexation and activation to the Sacramento Regional Transit District.

- c) Subject to the City of Arden Arcade satisfying all prerequisites necessary to become a member entity of the Sacramento Transportation Authority (STA), LAFCo has recommended that the City of Arden Arcade petition to become a member of the Sacramento Transportation Authority and submit a proposal to the Sacramento Transportation Authority requesting that the County, the City of Sacramento, and other members of the Sacramento Transportation Authority act to allocate funds equitably and in a manner similar to other municipalities in Sacramento County.

INCORPORATION BACKGROUND AND HISTORY

Incorporation in California

A city is a political subdivision of the State. The power and authority of a city is derived from the State Constitution and State Law. Generally, cities have incorporated to provide their residents with a variety of municipal services. The actual process for the formation of a city, as well as governmental reorganizations, is described in the Sections of the California Government Code commonly referred to as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. The Act defines incorporation as the formation, creation, and establishment of a city with corporate powers. Any area proposed for incorporation shall have at least 500 registered voters residing within the affected area at the time Commission proceedings are initiated.

The formation of a city has become an increasingly complex process that involves a number of statutory steps and LAFCo procedural requirements. The burden of proceeding through these steps and demonstrating that cityhood should be considered lies with the proponents, who must demonstrate to LAFCo that cityhood positively influences service delivery, land use and other aspects regarding the quality of life within the community.

In addition to State law, the formation of a city must meet several more strict local criteria established by the Sacramento Local Agency Formation Commission. These standards include assurances that the incorporation will not have harmful effects on any other local agency, that a significant unmet need for services exists within the proposal area, and that urbanization of the area has either occurred or is planned within the short-term.

Since the passage of Proposition 13 in 1978, the number of incorporations in California has been limited. However, the increase in incorporation proposals is partially a response to the fiscal pressures that the proposition has placed upon counties and non-enterprise special districts. Under current State law, incorporation allows cities greater flexibility in raising revenues and delivering services than those available to counties or special districts. While recent changes in State law have slightly increased the revenue raising flexibility of counties, there are still financial advantages to incorporation that make it an attractive option.

Recent changes in State law have made achieving cityhood more difficult while, at the same time, the changes have made the financial result of incorporation more equitable for counties. In fact, the most recent changes in State law may slow the incorporation trend by reducing the financial incentive for cityhood. The passage of AB 3027 by the legislature in 1992, the “revenue neutrality law,” mandates that **incorporation cannot result in negative financial impacts on other affected governmental agencies.**

Typically, urban development occurs within cities. The Cortese-Knox-Hertzberg legislation promotes this pattern. However, LAFCo has the power to deny

incorporations if they are not economically viable or not in the best interest of the entire community. The petitioners are not entitled by law to an electoral process unless the Commission can make certain findings to order an election.

Approximately 82 percent of the state's population resides within cities. However, many counties have allowed urban and rural development in the unincorporated area for a number of reasons. Sacramento County, together with special districts, has been highly effective in providing the municipal services needed for urban development in the unincorporated area. Consequently, incorporations in counties that have already developed as unincorporated urbanized areas pose particular and unique issues. Basically, the county functions as a city. There is nothing wrong with this type of governmental land-use and service delivery model. However, it creates a conflict when a community believes it would be in its best interest to incorporate. Where service provision is already available, it appears that incorporation simply replaces one governing body with another. Nevertheless, LAFCo must analyze service delivery, revenue neutrality, and city viability issues to determine whether or not the proposal meets the necessary requirements of the Government Code.

Arguments can be made to support either model, regional government, such as San Francisco (combined city/county) or a number of separate local jurisdictions, such as Orange, Los Angeles, or Sacramento County.

History of Incorporations

The table below summarizes the incorporation history of California since November 6, 1990.

California Incorporation Effective Dates		
City Name	Election Date	Effective Date
Arden Arcade	November 2, 2010	July 1, 2011
Menifee (Riverside County)		October 1, 2008
Wildomar (Riverside County)		July 7, 2008
Rancho Cordova	November 2002	July 1, 2003
Goleta	November 6, 2001	February 1, 2002
Aliso Viejo	March 6, 2001	July 1, 2001
Elk Grove	March 7, 2000	July 1, 2000
Rancho Santa Margarita	November 2, 1999	January 1, 2000
Oakley		July 1, 1999
Laguna Woods	March 2, 1999	March 24, 1999
Citrus Heights	November 5, 1996	January 1, 1997
Truckee	March 2, 1993	March 23, 1993
Windsor	November 5, 1991	July 1, 1992
Buellton	November 5, 1991	February 1, 1992
Chino Hills	November 5, 1991	December 1, 1991
Murrieta	November 6, 1990	July 1, 1991

There have been fourteen incorporations during the past twenty years.

Pros and Cons of Incorporation

Some of the typical arguments put forward in favor of incorporation include:

1. Allows an identified community the ability to have home rule/local control. Thus, a community can determine its own fate through control over land use issues, service availability/provision and taxing authority.
2. Enables a community the ability to plan its short- and long-term future.
3. Provides greater control over the level and mix of local governmental services.
4. Allows greater control over the growth and development of the community.

5. To a certain degree, tax money generated within the incorporated area can be retained in that area.
6. Strengthens local identity, culture, and values that can be more easily maintained and nurtured.
7. Enables greater representation. Elected officials are easier to reach and area “closer” to their constituents.

While cityhood may have several attractive attributes, it is not universally viewed as positive. In fact, opponents to incorporation argue that:

1. Incorporation can fragment the delivery of services and result in inefficiencies, including: duplication of administration, difficult coordination, and a diminished service capability.
2. Breaking down land use planning into smaller decision-making bodies inhibits regional planning.
3. As many revenue sources are transferred to the new city upon incorporation, it is possible that more revenue than service responsibility is transferred, thus reducing county monies and consequent service delivery capability.
4. Incorporation places parochial concerns ahead of regional ones; local control does not inevitably mean better government.
5. There is no guarantee that a new city will be a better service provider than the status quo.

STATUTORY AND LEGAL REQUIREMENTS FOR INCORPORATIONS

Background: Sacramento LAFCo and Incorporations

Incorporations within Sacramento County have been rare. The County currently contains seven (7) incorporated cities: Sacramento (1850), Isleton (1923), Folsom (1946), Galt (1946), Citrus Heights (1997), Elk Grove (2000), Rancho Cordova (2003). While few incorporations have occurred in Sacramento County, the recent incorporations of Citrus Heights, Elk Grove, and Rancho Cordova are the most visible and precedent-setting incorporation events that have occurred in the State in the post-Proposition 13 era. Because of the contentious and litigious nature of incorporation proposals, Sacramento LAFCo and the County of Sacramento have been in the forefront of establishing new standards by which post-Proposition 13 era proposals are evaluated.

The Incorporation Process

Incorporation in California essentially involves a five-step process.

- (1) The initiation of the process through a petition of registered voters from within the territory proposed to be incorporated, or by a resolution of initiation submitted by an affected agency, i.e., special district. The proponents of the proposed Arden Arcade incorporation completed the initiation process when the County Registrar of Voters verified that the petition contained the requisite number of registered voter signatures and the Executive Officer issued a Certificate of Sufficiency.
- (2) Staff's collection, creation, and analysis of materials relevant to the incorporation. This includes analysis of the environmental impacts through a CEQA document, preparation of a Comprehensive Fiscal Analysis and the preparation of the Executive Officer Staff Report with supporting recommendations to the Commission.
- (3) Commission hearings that include public testimony, staff reports and Commission action on the proposal.
- (4) Reconsideration process.
- (5) If approved, the Commission orders an election, (the County Board of Supervisors authorizes the ballot measure to be placed on the next general election) at which time the citizens by a majority vote within the territory proposed for incorporation can approve the proposed city, or reject its' creation.

LAFCo Reconsideration Process

- (1) The Sacramento Local Agency Formation Commission will accept written requests for reconsideration of Commission decisions from any person or affected agency **within 30 days** of the Commission's adoption of a resolution making determinations and prior to the completion of the conducting authority's proceedings, so long as such person or agency exhausts its administrative remedies by fully participating in LAFCo's proceedings, including, but not limited to, commenting in writing on the application during public hearings.
- (2) The written request for reconsideration should precisely and specifically describe the basis for the request. The request must be accompanied by a check for \$250. The only requests for reconsideration that the Sacramento Local Agency Formation will approve are as follows:
 - (a) Compelling new evidence exists, including significant and previously unavailable evidence that might alter the Commission's decision;
 - (b) There are elements which were previously overlooked, or have changed, such as the repeal of an applicable federal, state or local law that might alter the Commission's decision; and
 - (c) Item(s) of procedure are challenged.
- (3) If the written request is timely, the Executive Officer will schedule the matter for the next regularly scheduled Commission meeting for which notice can be given, at which time staff will present the request.
- (4) The Commission will consider the request and approve or deny the request for reconsideration without further notice or hearing, or continue the matter.
- (5) The Commission's determination upon these matters is final.

LAFCo's Power and Authority

Incorporation means the incorporation, formation, creation and establishment of a city with corporate powers. Any area proposed for incorporation as a new city shall have at least 500 registered voters residing within the affected area at the time Commission proceedings are initiated. LAFCo's have been created by the State Legislature to implement State policies at the local government level. The Cortese-Knox-Hertzberg Act establishes procedures for governmental changes of organization, including the incorporation of cities.

Legislative Findings Pursuant to Cortese Knox Hertzberg Reorganization Act of 2000

The Legislature finds and declares that it is the policy of the state to encourage orderly growth and development which are essential to the social, fiscal, and economic well-being of the State. The Legislature recognizes that the logical formation and determination of local agency boundaries is an important factor in promoting orderly development and in balancing that development with sometimes competing State interests of discouraging urban sprawl, preserving open-space and prime agricultural lands, and efficiently extending government services. The Legislature also recognizes that providing housing for persons and families of all incomes is an important factor in promoting orderly development. Therefore, the Legislature further finds and declares that this policy should be effected by the logical formation and modification of the boundaries of local agencies, with a preference granted to accommodating additional growth within, or through the expansion of, the boundaries of those local agencies which can best accommodate and provide necessary governmental services and housing for persons and families of all incomes in the most efficient manner feasible.

The Legislature recognizes that urban population densities and intensive residential, commercial, and industrial development necessitate a broad spectrum and high level of community services and controls. The Legislature also recognizes that when areas become urbanized to the extent that they need the full range of community services, priorities are required to be established regarding the type and levels of services that the residents of an urban community need and desire; that community service priorities be established by weighing the total community service needs against the total financial resources available for securing community services; and that those community service priorities are required to reflect local circumstances, conditions, and limited financial resources. The Legislature finds and declares that a single multipurpose governmental agency is accountable for community service needs and financial resources and, therefore, may be the best mechanism for establishing community service priorities especially in urban areas. Nonetheless, the Legislature recognizes the critical role of many limited purpose agencies, especially in rural communities. The Legislature also finds that, whether governmental services are proposed to be provided by a single-purpose agency, several agencies, or a multipurpose agency, responsibility should be given to the agency or agencies that can best provide government services.¹

The Sacramento Local Agency Formation Commission has the power and authority to:

- (1) Approve, modify or deny the proposed Arden Arcade incorporation with or without amendments or conditions.
- (2) Determine the boundaries of the proposed city.

¹ Government Code Section 56001, amended by Stats. 2000, Ch. 761.

- (3) Approve a reorganization plan for special districts over which LAFCo has authority that provide service to the territory within the proposed incorporation.
- (4) Determine base and future property tax exchanges between affected entities.
- (5) Determine the terms and conditions of approval, including the effective date of incorporation, the mitigation payment and its term, and the manner by which the election process of city council members shall occur (district or at large).
- (6) Determine the Gann appropriations limit for the proposed new city.
- (7) Consider in its deliberations any relevant information that pertains to the proposed incorporation of the community of Arden Arcade.

General Factors Required to be Considered in the Review of a Proposal²

Factors to be considered in the review of a proposal shall include, but not be limited to, all of the following:

- (a) Population, population density; land area and land use; per capita assessed valuation; topography, natural boundaries, and drainage basins; proximity to other populated areas; the likelihood of significant growth in the area, and in adjacent incorporated and unincorporated areas, during the next ten years.
- (b) Need for organized community services; the present cost and adequacy of governmental services and controls in the area; probable future needs for those services and controls; probable effect of the proposed incorporation, formation, annexation, or exclusion and of alternative courses of action on the cost and adequacy of services and controls in the area and adjacent areas.

 “Services,” as used in this subdivision, refers to governmental services whether or not the services are services which would be provided by local agencies subject to this division, and includes the public facilities necessary to provide those services.
- (c) The effect of the proposed action and of alternative actions, on adjacent areas, on mutual social and economic interests, and on the local governmental structure of the county.
- (d) The conformity of both the proposal and its anticipated effects with both the adopted Commission policies on providing planned, orderly, efficient patterns of urban development, and the policies and priorities set forth in Section 56377.
- (e) The effect of the proposal on maintaining the physical and economic integrity of agricultural lands, as defined by Section 56016.
- (f) The definiteness and certainty of the boundaries of the territory, the nonconformance of proposed boundaries with lines of assessment or ownership, the creation of islands or corridors of unincorporated territory, and other similar matters affecting the proposed boundaries.
- (g) A regional transportation plan adopted pursuant to Section 65080, and consistency with city or county general and specific plans.
- (h) The sphere of influence of any local agency which may be applicable to the proposal being reviewed.

² Government Code Section 56668.

- (i) The comments of any affected local agency.
- (j) The ability of the newly formed or receiving entity to provide the services which are the subject of the application to the area, including the sufficiency of revenues for those services following the proposed boundary change.
- (k) Timely availability of water supplies adequate for projected needs as specified in Section 65352.5.
- (l) The extent to which the proposal will assist the receiving entity in achieving its fair share of the regional housing needs as determined by the appropriate council of governments.
- (m) Any information or comments from the landowner or owners.
- (n) Any information relating to existing land use designations.
- (o) The extent to which the proposal will promote environmental justice. Environmental justice means the fair treatment of all races, cultures, and incomes with respect to the location of public facilities and the provision of services.

In addition, relative to incorporation, the Commission must also find:³

The Commission shall not approve or conditionally approve any proposal that includes incorporation, unless the Commission finds, based on the entire record, that:

- (a) The proposed incorporation is consistent with the intent of this division, including, but not limited to, the policies of Sections 56001, 56300, 56301, and 56377.
- (b) It has reviewed the spheres of influence of the affected local agencies and the incorporation is consistent with those spheres of influence.
- (c) It has reviewed the Comprehensive Fiscal Analysis prepared pursuant to Section 56800 and the Controller's report prepared pursuant to Section 56801.
- (d) It has reviewed the executive officer's report and recommendation prepared pursuant to Section 56665, and the testimony presented at its public hearing.
- (e) The proposed city is expected to receive revenues sufficient to provide public services and facilities and a reasonable reserve during the three fiscal years following incorporation.

LAFCo Policies, Standards & Procedures for Incorporation

In addition to the legislative policies and procedures contained in the Local Government Reorganization Act of 2000, the Sacramento Local Agency Formation Commission has established its own policies, standards and procedures as part of its authority to carry out its responsibilities and duties. Following is a listing of selected policies of the Commission pertaining to the review of applications for incorporation. Additional policies that apply to the analysis of the proposed incorporation may not be listed here; however, may be discussed in other sections of this report.

³ Government Code Section 56720. Added by Stats. 2000, Ch. 761.

Incorporation and Disincorporation

- (1) LAFCo will approve an incorporation or disincorporation only if it finds that the proposal complies with the general policies and standards applicable to all changes of organization or reorganization.
- (2) LAFCo will approve a proposal for incorporation only if the Commission finds that the applicant has demonstrated a significant unmet need for services or need for improved services within the territory for which incorporation is proposed. In determining whether or not an unmet need for services or improved services exists, the Commission will base its determination on:
 - (a) Current levels of service in the area to be incorporated;
 - (b) Existing and projected growth rate and density patterns in the area to be annexed; and
 - (c) The Sphere of Influence plans for the jurisdictions currently providing services to the area.
- (3) The Commission shall approve a proposal for incorporation only if it finds that incorporation will result in an entity with the capability to provide the most efficient forms of urban services to the affected population.
- (4) The Commission will not approve a proposal for incorporation unless the incorporation proponents can demonstrate that the proposed city will be able to fund municipal services and remain financially solvent.
- (5) The Commission requires that an applicant for incorporation prepare a financial feasibility study. The applicant shall provide the required information and evaluation that will be reviewed by the LAFCo staff for accuracy and content.
- (6) An applicant for incorporation may request a review of the financial feasibility studies pursuant to the provisions of state law.
- (7) The proposed incorporation must not have significant adverse social and economic impacts upon any particular communities or groups in the incorporating area or affected unincorporated area.
- (8) Incorporation proposals which split special districts will not be approved unless the resulting service providers can be shown to be the most logical, efficient and cost-effective organizational structure for service delivery, without sever financial impacts on the special district.
- (9) The Commission will not approve an incorporation unless:
 - (a) Applicable general plans, specific plans or area plans based on realistic population and growth projections demonstrate the need for urbanization of the affected area; and
 - (b) The areas proposed for incorporation should be urbanized or should be planned for urbanization within the next five years.

POPULATION AND GROWTH PROJECTIONS

California Projected Population Growth

California has a population of approximately 38.3 million residents, or about 12.8 percent of the United States population. The State's population is expected to grow by sixteen percent, or reach 40.9 million residents, by 2015.

As of June 2009, approximately 82 percent of the State's population, or 31.0 million people, live in cities. Currently, there are 480 cities in California. Cities range in size from relatively small to very large. The following table shows the number of cities by population range:

Population	Number of Cities
100,000+	64
50,000-100,000	101
25,000-50,000	98
Less than 25,000	217
Total Cities	480

Sacramento Cities/County Projected Population Growth

Sacramento County has about 1.5 million residents or about 4 percent of the State's population. Sacramento County is projected to grow by about 703,000 (approximately 54.4 percent by 2035).

As of January 2005, the County of Sacramento contains seven cities with a combined population of 755,444, with approximately 58 percent of the population residing within the corporate boundary of a city. Approximately 527,790 people currently live in unincorporated territory. The population in the unincorporated area of Sacramento County makes it one of the largest counties functioning as a city in the State of California.

The average rate of growth for the Sacramento region is estimated to be 2.15 percent, or about 23,443 people per year. This rate of growth will result in an increase of 703,309 people during the next 30 years (2005-2035) per SACOG estimates. The existing seven cities and the unincorporated area are expected to grow at differing rates, based on information from current general plans and by how much undeveloped property is available within each community.

The following table illustrates the population projections for the six (6) county region based on SACOG projections:

Regional Population Growth Projections by County per SACOG		
Jurisdiction	2005 Population	2035 Population
Sacramento County	1,283,234	1,986,543
El Dorado County	154,468	225,289
Placer County	299,872	570,837
Sutter County	80,802	134,266
Yolo County	172,872	278,786
Yuba County	65,646	154,498
Total	2,056,894	3,350,091

The following table illustrates population projections estimated by Sacramento County for cities and the unincorporated within Sacramento County:

Population Growth Sacramento County by City per County Data				
Jurisdiction	2008 Population	Projected Population Distribution	Population Per Cent	Square Miles
County Unincorporated	583,768	491,762	33.4	1,000
City of Sacramento	501,246	501,246	34.0	99
City of Folsom	69,356	69,356	4.7	30
City of Citrus Heights	94,955	94,955	6.5	15
City of Elk Grove	134,816	134,816	9.2	39
City of Rancho Cordova	66,279	66,279	4.5	35
City of Galt	20,801	20,801	1.4	5
City of Isleton	863	863	<1	<1
Proposed City of Arden	0	92,006	6.3	14
Total	1,472,084	1,472,084	100.0	1,238

Arden Arcade Population and Employment Growth Projections

Population growth in a region is created by a number of interrelated factors. Key variables include economic trends, market demand for residential and non-residential uses, land availability, cost of land and utilities, availability of transportation and other utilities, proximity to employment centers and availability of labor.

The proposed incorporation would create a new city within Sacramento County; however, the majority of the project area is already urbanized and developed. There

are limited opportunities for new growth since undeveloped parcels amount to less than 2 percent of the total area.

Housing Units

Based on SACOG population projections, the annual growth in housing units for the Sacramento Region is estimated to be 3.3 percent, or an annual average increase of 9,193 units per year. The total number of units is estimated to be 275,807 for 2005 to 2035 based on population growth of about 700,000 residents. The number of housing units is based on an average of 2.55 persons per dwelling unit.

SACRAMENTO COUNTY BACKGROUND

All of California's residents live within the boundaries of a county; there are 58 in California. Counties have many roles in our state, and often serve as agents for the state, delivering front line services mandated at the federal and state level. Those services include such things as running elections, safeguarding public health, providing official document recording services and prosecuting alleged criminals and housing the convicted in jails. Also, a wide variety of social service programs are provided by counties.

In most counties within California, the vast majority of residents also live within the boundaries of incorporated cities, which provide them with residential services such as garbage pickup, code enforcement and animal regulation. The County of Sacramento is unique in that it has a large percentage of residents who live in the county, but not within the boundary of any of our seven incorporated cities. Those residents, who live in the unincorporated area, rely upon the county to provide city-like services to them as well.

Sacramento County is also unique in that it houses not only a city with the same name, which serves as the County seat, but is also home to the state legislature and State Capitol.

County and Local Governance

Sacramento County is governed by a five (5) member Board of Supervisors elected by district. The Board makes both policy and operational decisions for the residents of Sacramento County. The following table summarizes the per capita representation for the County and selected cities:

Governance and Representation			
	Population	Elected Officials	Per Capita Representation
Total Unincorporated	1,400,000	5	280,000
Unincorporated w/o Cities	562,107	5	112,421
City of Sacramento	501,246	8	62,656
City of Folsom	69,356	5	13,931
City of Rancho Cordova	66,279	5	13,259
City of Elk Grove	134,816	5	26,963

Sacramento County General Plan

Local land use planning and regulation is currently performed by the Sacramento County Planning and Community Development Department. Land use planning and zoning is a major regulatory power of local government. Under State law, land use and zoning power shifts to the new city upon incorporation. However, the County General Plan and all entitlements remain in place for 120 days after which time the City Council may adopt its own General Plan or it may adopt the County's General Plan. Ultimately, the new City Council will be responsible for all land use and zoning decisions within its corporate boundary.

Sacramento County Urban Services Boundary Line and Urban Service Policy Area

The proposed area to be incorporated lies completely within the Sacramento County Urban Service Boundary (USB) and Urban Policy Area (UPA) as approved in the County's 1993 General Plan.

The Urban Services Boundary line of the Sacramento County General Plan is defined as the ultimate boundary of the urban area of the unincorporated area of Sacramento County. It is similar to a sphere of influence for the unincorporated area of the county. It is specifically defined as: *“the ultimate boundary of the urban area in the unincorporated county. This boundary, which is based upon natural and environmental constraints to urban growth, is intended to be a permanent boundary not subject to modification except under extraordinary circumstances. The USB should be used by urban infrastructure providers for developing very long range master plans which can be implemented over time as the urbanized area expands”*.

The Urban Services Policy Area is defined in the Sacramento County General Plan is defined as the: *“area expected to receive urban levels of public infrastructure and services within the 20-year planning period. Defining the Urban Policy Area is of key importance in the provision of urban services and infrastructure to the unincorporated county, as it provides the geographic basis for infrastructure master plans, particularly for water and sewerage, which require large capital investment and relatively long lead time for the installation of capital improvements”*.

Sacramento County Service Delivery System

The County of Sacramento directly provides an array of municipal services to the unincorporated area. In addition, the County relies on Special Districts to provide a number of services to its residents. The following section briefly describes services that are provided by the County of Sacramento to the Arden Arcade Community.

Department of Neighborhood Services

The Sacramento County Department of Neighborhood Services provides residents and businesses in the unincorporated area of Sacramento County with services that help keep neighborhoods and communities vital. The Department works with neighborhood and business associations to partner on improving their quality of life. The Service Area Manager works with the Arden Arcade Community Council Commission.

The County is divided into four areas – North, South, East and Rural, and each has a Service Area Manager who works with residents and businesses to resolve issues that may involve multiple organizations or departments.

The Service Area Managers work to:

- Improve County responsiveness to residents and businesses;
- Identify and respond to community concerns; and
- Improve the physical appearance, vitality and quality of life in neighborhoods.
- Two of the areas have Community Service Centers for the public to conduct business transactions including purchasing animal licenses, submitting building inspection plans and discussing issues including code enforcement and traffic management.

The Department of Neighborhood Services (DNS) seeks to continuously promote and maximize resident input and involvement in policy discussions and service delivery priorities that promote the quality of life.

Law Enforcement

The Sheriff's Department provides patrol and investigation services to the Arden Arcade Community. Traffic enforcement is provided by the California Highway Patrol.

In addition, the Sheriff has implemented Sheriff's Service Centers to take crime reports from the community that are not in progress and are of a non-violent nature to relieve officers to focus on crimes in progress and violent crimes. The report writing portions of the Service Centers are staffed with community volunteers and civilian employees of the Sacramento County Sheriff's Department. Deputies are not dispatched from Service Centers.

Currently, the Marconi Service Center located in the Arden Arcade Community is supported with 27 dedicated volunteers and is supervised by an Office Manager. The Service Center is open Monday through Friday 9:00am to 5:00 pm excluding holidays. The Service Center handles reports of crimes not in progress or of a non-violent nature, public safety education and tips to help prevent crimes.

Programs and Services: The Crime Prevention Specialist may assist citizens in establishing a Neighborhood Watch Program. Neighborhood Watch may be established for both single family residential areas and multi-unit residential complexes. Our Crime Prevention Specialist may also assist businesses in establishing a Business Watch commercial business districts. The Crime Prevention Specialist is also available to make presentations to community groups and schools within our division.

Solid Waste

The County collects garbage, green waste, and recyclables every week. The County operates the Kiefer Land fill site where solid waste is disposed.

Drainage

The County of Sacramento provides storm drainage services for urban water run off. It operates and maintains storm drains, channels, pumping stations, and other related facilities.

Animal Care and Regulation

The County currently provides animal care services and operates an animal shelter for abandoned pets.

Street Lighting

The County provides street lighting services through County Service Area No. 1. It maintains street lighting within developed areas of the unincorporated areas throughout Sacramento County.

Development Services

Planning and Community Development Department provides residents and developers with zoning and land use information. The Board of Supervisors is the land use authority for the unincorporated areas of Sacramento County.

Code Enforcement: The Code Enforcement Division enforces local zoning codes and helps prevent neighborhood blight. They also administer the Rental Housing Inspection Program.

Building Inspection provides inspection services for new construction and remodeling projects that require permits. This Division ensures that work is performed in accordance with state and local building codes and requirements.

Economic Development

The Economic Development Department provides assistance in attracting and retaining jobs within Sacramento County.

Regional Parks and Open Space

The County of Sacramento has a regional open space and park program but it does not operate or maintain local, community, or neighborhood parks. The County operates regional park facilities such as the American River Parkway which is located along the southern boundary of the Arden Arcade Community.

Traffic and Street Maintenance

The County of Sacramento provides street and highway maintenance of roads, traffic signals, bridges, and other related facilities.

Special Districts

Special districts bridge the service delivery gap by providing water, sanitary sewer, fire, cemetery, mosquito and vector abatement, and parks and recreation services to residents living in the unincorporated area.

Other Community Efforts to Improve the Arden Arcade Community

The County of Sacramento is also involved in a number of community projects to improve the Arden Arcade Community. The County is involved and participating in the following projects and programs.

Fulton Avenue Business Improvement District

The Fulton Avenue Improvement District was formed by a coalition of property and business owners to improve the commercial area of Fulton Avenue. The BID manages a landscape and streetscape improvement plan, an economic development program, a security program, and provides marketing and promotional services in addition to those provided by the County of Sacramento. The goal is to improve business image, attract new customers and increase property values.

The Fulton Avenue BID runs about 2.3 miles along Fulton Avenue between the Capital City Freeway and Arden Way.

The Annual budget is approximately \$375,000. The County has agreed to match \$375,000 worth of physical improvements along Fulton Avenue. All county expenditures are subject to annual appropriations by the County Board of Supervisors.

In addition, the County of Sacramento has adopted a Resolution pursuant to State Law that establishes a policy of maintaining the existing level of services with the Fulton Avenue BID.

Pursuant to State Law, the BID has a set term of five (5) years and must be renewed based on the requirements of Proposition 218.

Issues: None. The new city may be required to partner with the BID pursuant to State Law.

County of Sacramento Commercial Corridor Project

The County of Sacramento has undertaken the study of commercial corridors within the unincorporated area. These studies evaluate methods to improve and revitalize commercial development along the major streets and boulevards. The major goal and objective is to improve economic development and to improve street and design standards for these communities.

Auburn Boulevard Redevelopment Area

There is one redevelopment area located within the proposed City of Arden Arcade. This redevelopment area was formed in 1992 to revitalize a portion of Auburn Boulevard located near Capital City Freeway.

The Auburn Boulevard Project Area comprises 118 acres within both the City and County of Sacramento along a two-mile commercial corridor fronting the Business 80 freeway. Because most of the Project Area is within county boundaries, the County acts as lead agency in administering the Project Area. The City portion comprises just four properties.

Arden Arcade Community Planning Commission

The Arden Arcade Community Planning Commission (also referred to as Community Commissions) serves as the decision-making body over local land-use issues previously decided by the Planning Commission, Zoning Administrator and the Subdivision Review Committee.

The seven Commission members are nominated by District 3 Supervisor Susan Peters, and the Commission is appointed at-large by the Sacramento County Board of Supervisors.

The community's land-use decisions are made by the Arden Arcade Community Planning Commission, a seven-member body appointed by the County Board of Supervisors. The Commission meets monthly to vote on issues ranging from lot-splits to cell phone towers.

Council work is guided, in part, by the Arden Arcade Community Plan. Originally developed in 1980, the Plan has been updated via an extensive public involvement

process. Additional information is available from the Sacramento County Planning and Community Development Website.

History of Arden Arcade Community

The proposed city was originally part of Rancho Del Paso in the 1880's which was parceled out during the 1910's. This area now known as Arden Arcade was part of the Haggin Grant, a 44,000 acre piece of property north of the American River which was an old Mexican Land Grant to John Sutter. Development of the area began occurring after 1910. However, much of the remaining Arden Arcade area was held in large ownerships until after World War II. In 1945 residential development were still nominal and included portions of Sierra Oaks Vista, Sierra Oaks Tract, Bohemian Village, Bellview Village, Country Club Estates, and a few apartments on Marconi Avenue east of Fulton Avenue.

In 1945 Town and Country Village was started at the intersection of Fulton Avenue and Marconi Avenue. It was the first integrated type shopping center in Northern California. Most of the surrounding area was open ranch land, but soon independent commercial development began to occur along Fulton and Marconi Avenues and subdivisions sprang up resulting in a suburban community.

The Arden Arcade is one of most built out communities in the unincorporated area of Sacramento County. Current growth is nominal because there are relatively few vacant parcels.

Transportation: Arden Arcade is served well by three (3) major highways. Interstate 80 runs along the northerly portion of the community. Just to the east of this community is Capital City Freeway and just to the south of the American River is Highway 50. There are major thoroughfares running both north – south and east – west which include El Camino Avenue, Marconi Avenue, Arden Way, Alta Arden Expressway, Fair Oaks Boulevard, Fulton Avenue, Watt Avenue, Howe Avenue and Eastern Avenue. Many of these street names are named after major inventors of the Industrial Revolution.

On June 13, 2006, the Board of Supervisors updated the Arden Arcade Community Plan that had been approved on November 6, 1980. The purpose of the Community Plan Update was to increase community involvement in planning and service delivery. Both Community Plans provide guidance related to land use, housing, commercial development and regulation, circulation and transportation and open space.

In October 1992, the Auburn Boulevard Redevelopment Area was created in response to extensive physical, economic, and social deterioration. Sacramento Housing and Redevelopment Agency partnered with other agencies to address health and safety issues affecting Auburn Boulevard.

On August 13, 2008, the County of Sacramento established the West Auburn Boulevard Special Planning Area and Streetscape Master Plan within the Auburn Boulevard redevelopment area. This plan comprises 118 acres within both the City of Sacramento and County of Sacramento fronting on Interstate Business Loop 80 or Capital City Freeway.

Arden Arcade Community Characteristics and Arden Arcade Community Plan

The Arden Arcade Community is primarily consists of residential, commercial, and office development. A very small portion is zoned industrial use. The major streets run north and south and east and west. Street patterns in residential neighborhoods vary by neighborhood; however, they generally follow a grid pattern with access to the major commercial corridors.

Commercial corridors are located on Auburn Boulevard, El Camino Avenue, Alta Arden Expressway, Arden Way, Fair Oaks Boulevard, Howe Avenue, Fulton Avenue, and Watt Avenue.

Arden Arcade Zoning and Existing Land Uses

There is only about 2 percent vacant land within the Arden Arcade Community Plan Area. These parcels are relatively small and there is little opportunity for infill projects.

Summary of Land Use Designations and Vacant Lands Arden Arcade Community		
Land Use Designation	Acres within Propose Incorporation Area	
	Total Acres Designated*	Acres Vacant
Low Density Residential	6,349.78	50.75
Medium Density Residential	1,149.86	26.50
Commercial and Office	1,457.85	35.99
Industrial Intensive	0.00	0.00
Public/Quasi-Public	0.00	0.00
Nature Preserve	31.85	0.00
Total	8,989.34	113.24
Notes: * Includes Vacant Lands Source: Sacramento County GIS, (2005, 2006).		

ARDEN ARCADE INCORPORATION ANALYSIS

The Arden Arcade Incorporation analysis will evaluate boundary and project alternatives, environmental impacts, and financial viability of the proposed city and financial impacts to the County of Sacramento and impacts on municipal service providers.

The Commission shall also ensure that the incorporation results in a similar exchange of both revenue and service delivery responsibility between the County, the proposed City, and other affected agencies.

The Government Code also specifies that the Commission is the appropriate authority to set the form of government for a new city, determine the election schedule for elected officials and determine how service responsibilities are established.

BOUNDARY ANALYSIS

Provisions of the Cortese-Knox-Hertzberg government Reorganization Act require the Commission to exercise its power in a manner that provides planned, well-ordered, efficient urban development patterns. In addition, the actions of the Commission should contribute to the logical and reasonable development of local agencies and shape the development of local agencies to advantageously provide for the present and future needs of each county and its communities.

In exercising its powers, the Commission may effect the logical formation and modification of boundaries of local agencies, determine community service needs based on financial resources and establish community service priorities.

First, the Commission must determine and approve the proposed project boundaries. The Commission has several options: it can approve the proposed boundary set forth in the application petition; it can select the alternative boundary with or without amendments, or deny the project. In addition, the Commission can make the finding that the area to be incorporated is best served by the City of Sacramento; however, the Commission cannot approve the annexation as an alternative. A separate petition or Resolution of Application from the City of Sacramento would be required to process an annexation proposal. *The Commission must make a Finding pursuant to Government Code Section 56886.5(a) that requires: If a proposal includes the formation of a district or incorporation of a city, the Commission shall determine whether existing agencies can feasibly provide the needed service or services in a more cost efficient and accountable manner.*

Both the EIR and CFA evaluated the impacts related to Scenario 1 (Petition Boundary), Scenario 2 (Alternative Boundary), and annexation to the City of Sacramento. The Commission may amend the Petition Boundary based on Government Code and LAFCo Policies, Standards, and Procedures.

LAFCo Boundary Policies, Standards and Procedures

The following table summarizes LAFCo policies related to boundary issues:

<u>LAFCo Boundary Policies, Standards and Procedures</u>	
1.	LAFCo will approve only applications with boundaries that do the following: <ol style="list-style-type: none">a. Seek to correct where relevant illogical boundaries with the affected agencies sphere of influence;b. Provide for a mixture of revenue producing and non or limited revenue producing properties, andc. Follow where relevant natural or man-made features and logical service areas.
2.	LAFCo will not approve applications with boundaries which: <ol style="list-style-type: none">a. Split neighborhoods or divide an existing identifiable community, commercial district, or other area having social or economic identity;b. Result in islands, corridors or peninsulas of incorporated territory or otherwise cause or further the distortion of existing boundaries;c. Are drawn for the exclusive purpose of encompassing revenue producing territories;d. Create areas for which it is difficult to provide services; ande. Split parcels.
3.	LAFCo will make exceptions to the requirements of the standard if: <ol style="list-style-type: none">a. Is rendered necessary due to unique circumstances;b. Results in improved quality or lower cost of service available to the affected parties; andc. There exists no feasible and logical alternative.

Current Arden Arcade Sphere of Influence

Arden Arcade does not have a Sphere of Influence. Development has occurred under the County General Plan and specifically according the Arden Arcade Community Plan. Arden Arcade is located within the County Urban Service Boundary and the County Urban Policy Area as previously defined.

The Arden Arcade Community is surrounded by development that has occurred within the City of Sacramento and unincorporated area of the County. Consequently, there are not any large tracks of undeveloped areas adjacent to the proposed city.

Proposed Consistency with Sacramento County General Plan and Related Ordinances

The new city will be required pursuant to Government Code Section 56376 to immediately following its incorporation and prior to performing any other official act, adopt an ordinance providing that all County ordinances previously applicable shall remain in full force and effect as City ordinances for a period of 120 days thereafter, or until the City Council has enacted ordinances superseding them, whichever shall occur first. Enforcement of continuing County ordinances in the incorporated area shall be with the City, except insofar as enforcement services are furnished by the County in accordance with Government Code Section 57384.

Government Code Section 65360 allows the new city 30 months to adopt a new General Plan and EIR.

Basically, the new city will continue to operate in the same manner as the County until it changes or modifies the County General Plan and ordinances as provided above. There will not be any immediate changes in service levels or providers.

The project and boundary alternatives are shown in the following table:

Summary of Project/Boundary Alternatives		
Scenarios	Alternative	Description
1	Petition Boundary – Scenario 1	Boundary Request per Petition
1A	Petition Boundary with Sphere of Influence	Include area south of Fair Oaks Boulevard and/or N.E. Corner as SOI for new city
2	Boundary Alternative - Scenario 2	Petition Boundary plus area south of Fair Oaks Boulevard and/or northeast corner (AACPA)
3	Evaluate annexation to City of Sacramento	Based on Govt. Code Section 56886.5
4	No Project Alternative	No change to status quo

Note: Maps of Boundary Scenarios 1 and 2 are attached to this report together with additional maps that enlarge portions of Boundary Scenarios 1 and 2 that illustrate boundary details.

Arden Arcade Community Plan Area

The Arden Arcade Community Plan Area is generally bounded by Auburn Boulevard on the north, on the west by the City of Sacramento, on the south by the American River, and on the east by Mission Avenue. Several years ago this boundary was changed to remove the area between Walnut Avenue and Mission Avenue. Residents in this area felt they more closely identified with the Carmichael Community and they are located within the Carmichael Zip Code 95608. (Note: Neither the adopted Arden Arcade or Carmichael Community Plans were amended; only the maps were amended).

These minor adjustments were made based on Sacramento LAFCo policies.

Summary of Boundary Alternatives

1. Proposed Boundary-Scenario 1

The Arden Arcade Incorporation Proponents submitted a petition that only included a portion of the Arden Arcade Community Plan Area (AACPA) as designated by the County of Sacramento for planning purposes.

The incorporation petition boundary excluded the portion of the Arden Arcade Community Planning Area lying south of Fair Oaks Boulevard, north of the American River, east of the Sacramento City limits, and west of Jacob Lane.

Registered Voters: 38,774

1A. Modified Proposed Boundary-Scenario 1

This boundary alternative provides the Commission the ability to designate that all or a portion of the area lying south of Fair Oaks Boulevard be designated as a Sphere of Influence for the proposed city and not be included as part of the city boundary at the time of incorporation. In addition, the territory referred to as the northeast corner bounded by Arcade Creek, Winding Way and the City of Sacramento could be included within the Sphere of Influence as discussed in Boundary Alternative-Scenario

2. Boundary Alternative-Scenario 2

The alternative boundary Scenario 2 includes the petition boundary (Scenario 1) as well as the area south of Fair Oaks Boulevard and north of the American River contained within the County of Sacramento Arden Arcade Community Plan Area. The northeast corner was also evaluated for inclusion. Also, the boundary alternative south of Fair Oaks Boulevard was extended to include a portion of the Carmichael Community Plan Area along Jacob Lane. This adjustment was made so that this alternative would follow the centerline of Jacob Lane, an easily delineated line for the

public and service delivery providers to identify. Also, this line avoids following rear property lines.

Northeast Corner: The area identified as the “northeast” corner (a small area bounded by Winding Way, City of Sacramento, Arcade Creek, and Pasadena Avenue) is not located in the Arden Arcade Community Plan Area. This area is within the 95841 Zip Code, generally described as Foothill Farms. Both the Arden-Arcade Community Neighborhood map (page 17) and the map of the Sheriff’s North Central Zones (page 19) do not include this area as part of the Arden Arcade Service Area. However, this area has been evaluated as an alternative boundary for the proposed incorporation in the event there would be service delivery impacts to this area. Comments received from the County indicate that this area should not be included within the incorporation boundary. (Note: This area is not recommended to be included in Scenario 2).

Comments received during the Draft EIR Notice of Preparation scoping period indicated that the area lying south of Fair Oaks Boulevard should be included within the boundary of the proposed city. Therefore, both the Draft EIR and Draft CFA evaluated both the boundary contained in the petition proposal and alternative boundaries. The environmental impacts were similar for both alternatives as well as the city annexation alternatives. So far, no service delivery or cost impacts have been identified, however, there are logical and reasonable arguments to include the area lying south of Fair Oaks Boulevard based on LAFCo Policies and State Law. These policy considerations are discussed later in this report.

Registered Voters: 3,834 south of Fair Oaks and 163 northeast corner near Winding Way (9.0% of the total Registered Voters)

Total Registered Voters: 42,608

The Following table summarizes the registered voters for the respective boundary alternatives:

Summary of Registered Voters	
Boundary/Alternative	Number of Registered Voters
Scenario 1	38,774
Scenario 2	42,608
South of Fair Oaks Boulevard	3,834

3. **Annexation to the City of Sacramento**

The Commission must make a Finding pursuant to Government Code Section 56886.5(a) that requires: If a proposal includes the formation of a district or incorporation of a city, the Commission shall determine whether existing agencies can feasibly provide the needed service or services in a more cost efficient and accountable manner.

During the public hearings on this project the Commission will be required to determine whether or not the City of Sacramento can provide comparable level of services in a more cost effective and accountable manner. If so, your Commission must make the finding/determinations that the area to be incorporated would be best served by the City of Sacramento; however, the Commission cannot approve annexation as an alternative. A separate petition (registered voters) or Resolution of Application from the City of Sacramento would be required to process an annexation proposal. (Note: this area is not currently within the current City of Sacramento Sphere of Influence; however, it is discussed in the City of Sacramento's recent General Plan Update as a study area).

The annexation alternative is discussed in more detail in a separate section of this report titled Annexation Analysis to the City of Sacramento.

4. **No Project**

This alternative is denial of the proposed incorporation.

Boundary Issues Related to Service Providers

There are many different service boundaries that overlap the Arden Arcade community. The water, fire, park, petition boundaries, community plan boundaries, school district boundaries, generally cover the area historically known and described as Arden Arcade Community Plan Area. The adopted Commission boundary would technically create the official boundary of Arden Arcade if the voters approve the incorporation. The incorporation boundaries will not change or impact boundaries of any Special District or agency serving this area.

Executive Officer's Comment on Boundary Issue

The Commission has the power and authority to amend the boundary of the proposed incorporation based on LAFCo Policies, State law, and the attached Attorney General Opinion.

Prior to circulation of the petition, LAFCo staff suggested that the boundary include the entire Arden Arcade Community Plan Area based on the above factors and LAFCo policies. As prior annexations have demonstrated, including Laguna West, Freeport,

the pending Panhandle annexation, and the recent Rancho Cordova annexation; annexation of inhabited areas are very difficult, costly, and problematic to process.

In response to the Draft CFA and Draft Environmental Impact Report, the Commission received a number of comments suggesting that the proposed boundary would violate LAFCo's boundary policies. Specifically, the proposed boundary would divide the existing identifiable community of Arden Arcade, would result in a peninsula of unincorporated territory, and would create an area which would be difficult to provide services.

In light of LAFCo's criteria and factors set forth above, these comments provide adequate and logical reasons to amend the petition boundary. There does not appear to be any supporting reason to create a peninsula or create an exception, other than this area was not included in the proponent's petition.

The County also raised the boundary issue as part of the Revenue Neutrality Negotiations comments received on the Draft EIR. In order to minimize future service delivery impacts the County does not want to create a peninsula.

In addition to the County's comments, the Final EIR supports inclusion of the area lying south of Fair Oaks Boulevard (the peninsula) as the preferred alternative supported by LAFCo Policies, Standards, and Procedures.

As set forth above, LAFCo Policies state that LAFCo will not approve an application with boundaries that divide an existing identifiable community or area having a social or economic identity, would result in corridors or peninsulas of incorporated or unincorporated territory, or create areas for which it is difficult to provide services. According to the comments received, Scenario 2 is consistent with LAFCo's boundary policies.

Alternatively, should the Commission find that the evidence does not support the inclusion of the entire Arden Arcade Community Planning Area in the new city at this time; the additional area included in Scenario 2 could be designated as a Sphere of Influence for the proposed city.

**Executive Officer Recommendation
for the City of Arden Arcade Boundary**

The Executive Officer recommends that the Commission approve the Boundary Alternative *Scenario 2* that includes the entire area of the Arden Arcade Community Plan Area.

- This alternative will not create a peninsula or areas that are difficult to serve.
- It will maintain an existing planning area and community of interest with similar economic, social, and environmental characteristics.
- Both service levels and planning will remain consistent within an identified and established community boundary.
- The proposed boundary is logical and easily identifiable.
- Scenario 2 is supported by the Final EIR and potentially minimizes service delivery impacts.

The Commission may amend, modify, or deny this Recommendation.

ANNEXATION ANALYSIS TO THE CITY OF SACRAMENTO

Government Code Section 56886.5 provides the following requirement:

56886.5. (a) If a proposal includes the formation of a district or the incorporation of a city, the commission shall determine whether existing agencies can feasibly provide the needed service or services in a more efficient and accountable manner. If a new single-purpose local agency is deemed necessary, the commission shall consider reorganization with other single-purpose local agencies that provide related services.

Based on the above requirement, the Commission requested staff to provide a limited evaluation of the financial and environmental impacts to determine if the City of Sacramento could provide municipal services in a more efficient and accountable manner.

Annexation Feasibility Study

LAFCo's financial consultant has evaluated this option and has provided two separate memos outlining their findings. The annexation analysis memos are attached to this report. (See Exhibit "K").

The annexation feasibility study was included at the direction of the Commission, pursuant to CKH Sec. 56301 and 56886.5. When the formation of a new government entity is proposed, a commission shall make a determination as to whether existing agencies can feasibly provide the needed service or services in a more efficient and accountable manner.

As recognized by the Commission, the City Council has no immediate plans to annex the Arden Arcade area and has not provided LAFCo with policy direction as to how services might be provided to the Arden Arcade area should it pursue annexation. Therefore, the Commission directed staff and its' CFA consultant to estimate the City of Sacramento's cost of services provided to the proposed incorporation boundary and alternative boundary based on the same level of service that would be provided by the new city.

In light of this, the annexation feasibility study primarily relied on the current adopted City's budget, applicable Master Plans, and adopted service standards and criteria. It is understood that should the City propose to provide services to the area, either by contract with the new city or through annexation, the service model would be as determined by the respective City Councils.

The annexation feasibility analysis has attempted to use limited information to provide the information required by the Commission to provide comparable information.

Annexation Analysis Assumptions

- The Commission directed staff to analyze the annexation alternative assuming that Special Districts would not be detached as part of the annexation. The City of Sacramento is a full service city and provides fire, water, and recreation and park services to its residents. Normally, when the City of Sacramento annexes territory, these Special Districts are detached and service responsibility and revenue is assumed by the City of Sacramento.
- LAFCo requires the city annexing territory to provide a service plan that sets forth the service levels and costs to be provided to the area to be annexed. This analysis assumes that the City of Sacramento would provide service levels to the Arden Arcade community at service levels provided to City residents during the FY 2008-2009 Base Year based on the Adopted City Budget.

Comparison of Taxes

Generally, the City of Sacramento has a higher tax burden compared to the County and proposed City of Arden Arcade.

The following tables compare the taxes between the proposed city, the County of Sacramento, and the City of Sacramento:

Comparison of Taxes Between County, Arden Arcade, and City of Sacramento			
Type of Tax	County	Arden Arcade	City of Sacramento
Sales Tax	1%	1%	1%
Utility User Tax	2.5 %	2.5%	7.0% to 7.5%
Property Transfer Tax(1)	\$1.10 per \$1000	\$1.10 per \$1000	\$2.75 per\$1000
Business License Fees (2)	\$140 to \$165	\$140 to \$165	See (1)
Transient Occupancy Tax	12%	12%	12%
Landscape and Lighting	None	None	\$40.33 per year
Additional Library Services	None	None	\$25.84 per year
Vehicle License Fee	None	\$50 per Capita	\$50 per Capita
Property Tax Administration	None	1%	1%
Jail Booking Fees	None	Yes	Yes
Gas and Road Taxes	Same	Same	Same
Measure A-Transportation	.5%	.5%	.5%
Fines, Penalties, Forfeitures	Same	Same	Same

- (1) Property Transfer Tax on real estate transactions within the City of Sacramento is \$2.75 per \$1000 of the market value of real estate sold.
- (2) Business License Fees within the county are significantly lower than the City of Sacramento. The County's Business License Fee ranges between \$145 to \$165 every three (3) years. The City of Sacramento's Business License Fees are paid annually and based on a percentage of the business income up to a maximum of \$3,000 per year.

Cost Comparison Between the County and City of Sacramento

The annexation analysis dated April 30, 2010, indicates that the City of Sacramento has a lower cost per Full Time Equivalent (FTE) in law enforcement and development services.

The following table provides a comparison of the total for the proposed city these two departments:

Comparison of Costs and Service Levels Between County, Arden Arcade, and City of Sacramento			
Service Provided	Cost/Rate of Service Provided (Scenario 2)		
	County	Arden Arcade Per CFA	City of Sacramento
Law Enforcement	\$15,131,000	\$15,131,000	\$8,712,000
Development Services	3,252,000	3,252,000	2,154,000

The new city has the option of contracting with the City of Sacramento after incorporation if it finds that the City is a more cost-effective service provider for municipal services not provided by Special Districts.

Conclusion

The City of Sacramento has a higher tax structure than the County of Sacramento and proposed city. As a result of higher taxes, the city has a higher level of services based on the FY 2008-2009 Base Year. The main difference between the City of Sacramento and the County of Sacramento cost structure is the level of police services provided and the cost to provide services. The City of Sacramento provides about 1.7

police officers per 1000 residents versus the County of Sacramento that provides about 1.3 officers per 1000 residents.

The annexation analysis finds that the City of Sacramento may be able to provide development and police services to the incorporation area more efficiently than currently provided by the County. The April 30, 2010 Final CFA also shows that the area may be incorporated without contracting for services that are provided by the City of Sacramento. The new city has an option and may find it more advantageous to contract with the City of Sacramento for some of these services.

However, without an actual proposal that includes a proposed service delivery plan, determination as to whether or not independent special districts would be detached, and an approved property tax exchange agreement between the City of Sacramento and County; it cannot be determined if annexation to the City of Sacramento can provide services in a more cost-effective and accountable manner in lieu of incorporation. As the annexation analysis dated March 17, 2010 indicates that there are not sufficient revenues in Arden Arcade to provide the same level of services that are currently provided in the City of Sacramento.

COMPREHENSIVE FISCAL ANALYSIS

The Comprehensive Fiscal Analysis is used by the Commission to make findings pursuant to State Law related to the following:

- Determination as to the fiscal feasibility of the new city,
- Determination as to the projected deficit and/or negative financial impacts to the county or other agencies losing service responsibility and revenue as a result of the incorporation,
- Determination as to the service levels provided by the city after incorporation,
- If the new city is found to be feasible, determination as to the appropriate terms and conditions to mitigate the negative financial impacts to the County and other service providers losing service responsibility and revenues,
- Determination of the Property Tax to be transferred to the new city, and
- Determination of the Gann (appropriations) limit for the new city.

The Final Comprehensive Fiscal Analysis (CFA) for the proposed Arden Arcade Incorporation was prepared by Willdan Financial Services under the direction of Sacramento LAFCo. The CFA was prepared in accordance with Cortese-Knox-Hertzberg Reorganization Act of 2000 as amended.

The CFA analyzed the proposed project Scenario 1; an alternative boundary Scenario 2, and a supplemental report examined the financial impacts of annexation to the City of Sacramento assuming that the City of Sacramento would not detach Special Districts. This supplemental report is to provide the Commission with information to evaluate whether or not the City of Sacramento would be a more efficient and cost-effective service provider. This analysis would allow the Commission to deny the incorporation proposal if it is determined that annexation to the City of Sacramento is a superior alternative. However, the Commission could not approve the annexation in the event it denies the incorporation proposal.

Statutory Requirements Pertaining to Incorporation Proposals

The Commission must find that the new city will be viable and sustainable for a period of ten (10) years following the incorporation, the Commission will have to impose a mitigation or Revenue Neutrality Payment as determined by the Commission to mitigate the negative financial impacts to the County of Sacramento that would occur if the Commission approves the incorporation pursuant to government Code Section 56815:

56815. (a) It is the intent of the Legislature that any proposal that includes an incorporation should result in a similar exchange of both revenue and responsibility for service delivery among the county, the proposed city, and other subject agencies. It is the further intent of the Legislature that an incorporation should not occur primarily for financial reasons.

(b) The commission shall not approve a proposal that includes an incorporation unless it finds that the following two quantities are substantially equal:

(1) Revenues currently received by the local agency transferring the affected territory that, but for the operation of this section, would accrue to the local agency receiving the affected territory.

(2) Expenditures, including direct and indirect expenditures, currently made by the local agency transferring the affected territory for those services that will be assumed by the local agency receiving the affected territory.

(c) Notwithstanding subdivision (b), the commission may approve a proposal that includes an incorporation if it finds either of the following:

(1) The county and all of the subject agencies agree to the proposed transfer.

(2) The negative fiscal effect has been adequately mitigated by tax sharing agreements, lump-sum payments, and payments over a fixed period of time, or any other terms and conditions pursuant to Section 56886.

(d) Nothing in this section is intended to change the distribution of growth on the revenues within the affected territory unless otherwise provided in the agreement or agreements specified in paragraph (2) of subdivision (c).

(e) Any terms and conditions that mitigate the negative fiscal effect of a proposal that contains incorporation shall be included in the commission resolution making determinations adopted pursuant to Section 56880 and the terms and conditions specified in the questions pursuant to Section 57134.

Also, the Commission must make the following determinations:

56720. The commission shall not approve or conditionally approve any proposal that includes an incorporation, unless the commission finds, based on the entire record, that:

(a) The proposed incorporation is consistent with the intent of this division, including, but not limited to, the policies of Sections 56001, 56300, 56301, and 56377.

(b) It has reviewed the spheres of influence of the affected local agencies and the incorporation is consistent with those spheres of influence.

(c) It has reviewed the comprehensive fiscal analysis prepared pursuant to Section 56800 and if required the Controller's report prepared pursuant to Section 56801.

(d) It has reviewed the executive officer's report and recommendation prepared pursuant to Section 56665, and the testimony presented at its public hearing.

(e) The proposed city is expected to receive revenues sufficient to provide public services and facilities and a reasonable reserve during the three fiscal years following incorporation.

In addition, Government Code Section 56800(1) provides the following guidance in determining service costs related to incorporation:

(1) When determining costs, the executive officer shall include all direct and indirect costs associated with the current provision of existing services in the affected territory. These costs shall reflect the actual or estimated costs at which the existing level of service could be contracted by the proposed city following an incorporation, if the city elects to do so, and shall include any general fund expenditures used to support or subsidize a fee-supported service where the full costs of providing the

service are not fully recovered through fees. The executive officer shall also identify which of these costs shall be transferred to the new city that results in an administrative cost reduction to other agencies. In the analysis, the executive officer shall also review how the costs of any existing services compare to the costs of services provided in cities with similar populations and similar geographic size that provide a similar level and range of services and shall make a reasonable determination of the costs expected to be borne by the newly incorporated city.

(2) When determining costs, the executive officer shall also include all direct and indirect costs of any public services that are proposed to be assumed by the new city and that are provided by state agencies in the area proposed to be incorporated.

Under either Scenario 1 or Scenario 2, the proposed City of Arden Arcade, the CFA has determined that the new city is fiscally feasible (viable and sustainable) for the 10 years following the incorporation date of July 1, 2011 after making an annual Revenue Neutrality Payment to the County of Sacramento as agreed upon between the incorporation proponents and the County of Sacramento. The detailed financial analysis is contained within the CFA attached to this report as Exhibit "J".

The Final CFA concludes that the proposed city has sufficient revenue to cover expenditures during the 10 year period. The proposed city has a 5% contingency and an Operating Reserve Fund Balance during this same period to cover uncertainties that may occur.

Executive Officer Recommendation
Fiscal Feasibility, Revenue Neutrality Payment to Mitigate Financial Loss to County of Sacramento, and Gann Limit

- The Executive Officer recommends that the Commission determine that the Proposed City of Arden Arcade is fiscally feasible based on the Final Comprehensive Fiscal Analysis prepared for the application in accordance with Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 as amended.
- The Executive Officer recommends that the Commission determine that the proposed City of Arden Arcade will be able to provide a comparable level of service as provided by the County and similar cities based on the Final Comprehensive Fiscal Analysis.
- The Proposed city is expected to receive revenues sufficient to provide services and facilities and a reasonable reserve during ten (10) years following incorporation.
- The Executive Officer recommends that the Commission approve the terms and conditions of the Revenue Neutrality Payment to mitigate the financial loss to the County of Sacramento as follows:

Total Amount to be paid: \$219,000,000

Annual Payments : 90% of the secured and unsecured property tax revenues apportioned to the new city

Term of Payment: Annual payments until \$219,000,000 has been paid
 Payments to commence in FY 2012-13

Gann Limit: \$40,231,491

The Commission may amend, modify, or deny this Recommendation.

Executive Officer's Financial Assumptions

The financial and economic assumptions in this report are based on the following factors and assumptions:

This report has attempted to evaluate future economic and environmental trends based on past trends and current information to the best of our ability. However, there is no absolute certainty to predict future economic growth rates or estimate future economic declines given the current economic climate nor is it possible to predict the future on what has happened in the past. Therefore, we have attempted to use "conservative" trend information for both the environmental and economic analysis presented in this report.

The environmental assumptions assume a slightly more aggressive growth rate for development than the economic assumptions. The environmental projections assume that new development will occur at a faster rate. Therefore, the environmental impacts would result in a greater impact and mitigation measures would be based on a worst case scenario.

The economic analysis assumes that new growth will occur at a slower rate than the environmental analysis based on current growth and economic projections. This projection permits the economic analysis to be more conservative in an attempt to ensure the proposed city will be fiscal feasible during a ten (10) year period.

Local governments (state, counties, and cities) must balance their budget every year so that costs of services must equal revenue based on available financing. Revenue streams for general fund programs are primarily based on property and sales taxes. In the past several years these revenue sources have declined resulting in reduction of service levels for program funded by these revenue streams. Service levels can be increased if revenue is higher than estimated or service levels must be reduced if revenues are lower than budgeted. This is a fact that is true whether or not the Arden Arcade area is incorporated or remains unincorporated. Local Governments are required to have balanced budgets.

Finally, the State of California may impact local government financing to balance its budget by either shifting programs or funding. Local governments would be required to adjust accordingly.

Pursuant to Statutes, the CFA has estimated the revenues and expenditures that will be transferred to the new city based on actual information as required. The CFA used Fiscal Year 2008-2009 as the Base Year. The CFA analysis also uses this information to develop the service levels that are required by Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 as amended.

The greatest area of risk in the CFA analysis is the calculation of the Revenue Neutrality Payment because it may not be reflective of the most current financial data

but it is calculated using the methodology established by the Legislature which requires LAFCo to use actual data that may be out of date. The County made significant budget reductions during FY 2009-10 and the County is currently estimating a budget deficit of approximately \$168,000,000 for FY 2010-11.

The impacts of these budget reductions have not been and cannot be factored into the Comprehensive Fiscal Analysis and annexation feasibility study. However, previous and forecasted County budget reductions may have and may potentially impact service levels within the area proposed to be incorporated. These changes in revenues and expenditures could cause a change in the amount of the revenue neutrality payment estimated in the CFA prepared for the proposed incorporation. Nonetheless, the Commission is required to use actual data from the FY 2008-09 Base Budget Year.

- Base Year Data refers to FY 2008-2009.
- Transition Year refers to FY 2011-2012

LAFCo must approve the incorporation based on available information and reasonable assumptions at the time of incorporation. If LAFCo can make those findings and determinations the LAFCo Commission can approve the incorporation subject to approval by the electorate (registered voters living within the subject territory).

The Terms and Conditions set forth in this report attempt to ensure that the transition and incorporation provide the following:

- The new city is financially viable based on available financial information;
- The proposed City of Arden Arcade will provide similar levels of service as currently provided by the County of Sacramento and similar cities within Sacramento County;
- The new city mitigates financial losses to the County pursuant to State Legislation based on the recommended Terms and Conditions of the Revenue Neutrality Payment; and
- The environmental impacts identified from the incorporation have been mitigated to less than significant.

The following table summarizes the financial assumptions used in the Comprehensive Fiscal Analysis:

Summary of CFA Revenue, Cost, and Data Assumptions		
Assumption	Data Source	Methodology
Base Year FY 2008-2009 Revenue and Cost Data	County of Sacramento	Actual Data based on data request from Sacramento County
Proposed Service Levels are based on levels of service and costs provided in Base Year (2008-09)	County of Sacramento staffing levels	Actual Data based on data request from Sacramento County
Revenue	County of Sacramento and State Board of Equalization	Actual Data provided
Various methods used to estimate cost and revenues	Comprehensive Fiscal Analysis	Various methods using historical and current cost and revenue information

As required by statutes, the CFA analysis uses actual revenue and expenditure data from the most recent fiscal year for which actual data is available. FY 2008-2009 is the Base Year used in the CFA analysis.

Local Government Finance

Since the adoption of Proposition 13, local governmental agencies (cities, counties and special districts), do not have direct control over property tax revenue. Local government does not have the ability to set property tax rates, to raise money to fund both discretionary and mandated programs without voter approval. Local revenues are dependent on the performance of both the state and the local economy. Since the passage of Proposition 13, this situation has led to the “fiscalization” of land use. Fiscalization is caused by the attempt of local government to attract commercial and retail business to obtain sales tax revenue in addition to property tax revenue.

Generally, changes in government organization (annexation or incorporation) do not result in a new source of revenue for either agency. Revenue and expenditures are transferred from one agency to another. Basically, it is a “zero-sum” game. However, cities are entitled to Vehicle License Fees that are cannot be allocated to County governments. In the case of incorporation, it is likely to be more expensive for incorporation proponents because a duplicative organizational structure is created, rather than the consolidation of two service providers into a single entity that typically

leads to potential cost savings. As a result, incorporation is not financially viable under all circumstances.

The proposed city of Arden Arcade is viable because the total revenue exceeds the total cost of services transferred to the new city. In addition the City of Arden Arcade will receive Vehicle License Fee (VLF) Revenue from a city wide state wide pool. Only incorporated cities are entitled to this revenue stream.

New cities can operate efficiently and cost-effectively as seen with the Cities of Citrus Heights, Elk Grove, and Rancho Cordova. New cities have the opportunity to reduce cost of service by contracting out for services rather than hiring permanent employees. This model allows these cities to reduce costs without having to lay off permanent staff. The benefit structure may also result in savings. It appears that new cities have more flexibility using this model.

Population, Employment, and Development Projections

The Arden Arcade is a mature community that is for the most part developed and urbanized. Population, employment, and new development growth is not anticipated to be significant during the next ten (10) years. The Arden Arcade community is similar to the City of Citrus Heights and not the Cities of Elk Grove or Rancho Cordova in terms of development projections potential. There are relatively few vacant undeveloped parcels within the Arden Arcade community (less than 2 percent of the land in the proposed boundary is undeveloped). Currently, there is not a great deal of opportunity for new residential or commercial development. This limits future revenue growth.

Revenue increases will primarily be limited to appreciation of the existing base real estate values and increases in sales tax revenue generated from the existing sales tax base. Recently the base sales tax and property tax bases have declined similar to all local agencies in Sacramento County that receive sales tax dollars. The CFA projects minimal growth in the base amount of these revenue sources over the next ten (10) years.

The following table summarizes the estimated growth projections for both Scenario 1 and Scenario 2:

CFA Population, Employment and Development Projections		
Population & Employment Estimates	Scenario 1	Scenario 2
Population	92,006	98,402
Employment	39,429	41,487
New Residential Units	122	136
Non-Residential	144,000 square feet	144,000 square feet

SUMMARY OF CFA FINANCIAL INFORMATION AND CALCULATIONS

The following section sets forth a summary of the financial information and calculations that were used in the CFA to meet the statutory requirements necessary to analyze and evaluate the Arden Arcade incorporation proposal.

Net County Cost Transferred the New City

The following section describes the net county costs that would be transferred to the new city after incorporation. As required by Statute, the Base Year used will be Fiscal Year 2008-2009 because that is the fiscal year for which actual data is available.

Summary of Net Costs proposed to be transferred for each Boundary Scenario:

Services Transferred Net County Cost FY 2008-2009	Boundary Scenario 1	Boundary Scenario 2
General Government	3,284,202	3,512,475
Police Protection	12,320,339	12,713,856
Animal Control	205,390	205,390
Development Services	<u>555,159</u>	<u>555,159</u>
Total Net Costs Transferred	\$16,365,091	\$16,986,880
Per Capita Cost	\$177.87	\$172.63
Population	92,006	98,402

Estimated Costs Transferred is based on information provided by the County of Sacramento for the Base Year (FY 2008-09) using actual costs and service levels. In certain cases the levels of service for certain programs was not provided, therefore, the CFA estimated cost and level of service based on per capita or appropriate methodology to estimate and allocate revenue and cost of services for the incorporation boundary and alternative boundary. For example, animal care services did not provide information specific to Arden Arcade, as a result the CFA determined the county wide net cost of animal care services using actual cost data, calculated a per capita rate for unincorporated residents and then multiplied the per capita rate times the Arden Arcade population to estimate the cost of Animal Control Services provided to the new city.

Estimated Source and Amount of Revenues Transferred to the New City

The County of Sacramento is required to transfer revenues to the new city upon incorporation. The revenues consist of taxes, fees, charges for services. This section

will discuss the types and estimated amount of revenue that will be transferred to the new city.

Estimated Transition Year FY 2011-2012 Revenue Transferred		
Revenue	Scenario 1	Scenario 2
Property Taxes	\$6,650,000	6,905,000
Sales Taxes	12,644,000	12,775,000
Property Transfer Tax	348,100	402,100
Franchise Fees	476,000	509,000
Utility User Tax	2,616,000	2,798,000
Fines and Penalties	696,000	742,000
Business License Tax	267,400	298,300
Transient Occupancy Taxes	1,388,000	1,388,000
Charges for Service	1,101,000	1,101,000
<u>Vehicle License Fees</u>	<u>4,601,000</u>	<u>4,921,000</u>
Total	\$30,787,400	\$31,839,400
Per Capita	\$334.62	\$323.56
Population	92,006	98,402

Note: Vehicle License Fees are not transferred from the County to the new city. Upon incorporation the new city is entitled to VLF Revenue as discussed below based on State Formula (approximately \$50 per capita).

Property Taxes transferred to the new city are calculated by formula set forth in Statute as discussed below based on Cortese-Knox-Hertzberg requirements).

Sales and Use Tax will be transferred to the new city upon incorporation. The amount transferred was provided by the State Board of Equalization for the Base Year (FY 2008-09).

All Other Taxes and Fees are based on estimates using Base Year (FY 2008-09) actual revenues. (See Final CFA for details).

Property Tax Transfer Calculation

Auditor's Ratio

The "Auditor's" Ratio is calculated by the total general fund property taxes divided by total general fund undesignated revenues in the Fiscal Year Base Year 2008-2009. The Sacramento Auditor Controller's Office calculated the Auditor's ratio to be 41.33 Percent.

The amount of property tax that a new city receives as a transfer from the County is based upon a formula in the Government Code. The formula is as follows:

Property Tax Allocation Formula:

$$\begin{array}{r} \text{Total Net County Cost Transferred} \\ \times \text{County Auditor's Ratio} \\ \hline = \text{Property Tax Base Transferred to new city} \end{array}$$

The first part of the formula is derived by estimating the **net cost of services** that will be transferred to the new city from County General Fund revenue. Inclusion of those services funded by General Purpose Revenue in the formula is quite explicit in State law.

In the case of Arden Arcade, these services include law enforcement, planning, public works, and animal control. State law requires use of the most recent actual fiscal year completed for calculation of the net cost of services, which for the CFA is Fiscal Year 2008-2009. **The total base year net cost of providing these services for Scenario 1 is \$16,365,091.**

The second part of the formula, the "Auditor's Ratio," is a ratio developed by the Sacramento County Auditor-Controller. This ratio indicates the amount of property tax revenue collected in proportion to the amount of all general purpose revenue collected by the County. This ratio, as calculated and produced by the Auditor-Controller is 0.4133. This figure means that property tax collections represent 41.33 percent of the County's total general purpose revenue. Using the formula, the base year property tax transfer amount for Scenario 1 and 2 is:

**Summary Property Taxes Transferred to Arden Arcade
FY 2008-2009 Base Year**

Boundary Scenario	Net Cost Transferred	Auditor's Ratio	Property Tax Transfer to City
Scenario 1	\$16,365,091	0.4133	\$6,764,000
Scenario 2	\$16,986,880	0.4133	\$7,021,000

The base year property tax transfer amount is used to determine the future tax revenue for the new city. The percentage of total property tax accruing to the proposed city of Arden Arcade each year is calculated by dividing the base year property tax transfer amount (calculated above) by the total property tax collected within the incorporation area boundary. The new city's share of base year property tax collected in the area is **\$6,764,000**.

The following table sets forth this calculation:

**Calculation of Tax Allocation Factor for FY 2008-2009 Base Year and Property Tax Transfer to Arden Arcade
Scenario 1**

Scenario 1	Costs and Calculation
Total Expenditures Transferred	\$16,365,091
County Auditor's Ratio	41.33%
Property Tax Transferred from County of Sacramento	\$6,794,000
Total Property Tax Collected (@ 1% of A.V.)	\$67,391,000
Fiscal Year 2008-2009 Base Year Incorporation Area Assessed Value	\$6,739,140,169
Fiscal Year 2008-2009 Property Tax Transferred from County of Sacramento	<u>\$ 6,764,000</u>
Annual Property Tax Allocation Factor (Percentage)	10.19%

This results in a Property Tax Allocation Factor (TAF) of 10.19% for Scenario 1 and 9.16% for Scenario 2.

Summary of Auditor's Ratio, Base Year Property Tax, and Tax Allocation Factor

Scenario	Net County Costs Transferred	Auditor's Ratio	Property Tax Base	Tax Allocation Factor
1	\$16,365,093	41.33%	\$6,764,000	10.19%
2	\$16,986,880	41.33%	\$7,021,000	9.16%

Type and Description of Revenue Transferred to the New City

Sales Tax

Cities and Counties receive 1 percent of the sales tax collected within their jurisdiction as discretionary general fund revenue. The amount of sales tax (FY 2008-2009) that would accrue to the new city in the base year FY 2008-2009 would be \$12,668,000 or approximately \$137 per capita. The CFA based the amount on FY 2008-2009 information supplied by the State Board of Equalization (SBE).

The CFA used a conservative methodology to estimate sales tax revenues through fiscal year 2010-2011. Such a methodology was used to account for the uncertainty inherent in the sales tax as a revenue source, since it is the municipal revenue source most sensitive to negative economic conditions.

Property Transfer Tax

The property transfer tax is a countywide tax imposed by the County on the sale of real property at the rate of \$1.10/\$1000 in value transferred. After incorporation, Arden Arcade will be entitled to receive one-half of the transfer tax collected within its boundary. In FY 2008-09, it is estimated the City will receive approximately \$354,100 in property transfer tax generated within the Arden Arcade area. Estimates of future property transfer tax are based on the both the assessed value of real estate sales during the year.

Utility User's Tax

Currently, the County levies a 2.5 percent tax on utility bills on both residential and commercial customers in the unincorporated area. The tax is not levied across the board and has several unique characteristics. For example, a baseline usage amount is exempted for residential users to help alleviate the pressures on low-income users. Further, there are rate differentials for different categories of consumers. The CFA estimates a base year transfer of approximately \$2.6 million in utility user's tax to the proposed city.

The utility user's tax will not automatically transfer to the new city upon incorporation. The utility user's tax is a discretionary tax that the County Board of Supervisors has chosen to impose on unincorporated area utility consumers. The CFA has assumed the issue of the utility user's tax will be included on the ballot with the incorporation issue as a condition of incorporation.

Transient Occupancy Tax

The Transient Occupancy Tax (TOT) is charged to all hotels located within a particular jurisdiction's boundaries. Transient occupancy tax is collected at the rate of 12 percent of the total room rate revenues of a hotel. There are several hotels within

the proposed boundary of the new city, making the transient occupancy tax an important source of revenue accruing to the city. The CFA estimates the base year transient occupancy tax transfer to the new city to be approximately \$1.4 million.

Franchise Fees

Currently, the utility companies pay a fee for having the ability to operate in County. There are two sources of franchise fees within the proposed incorporation area boundary—cable television and gas and electric utilities. These fees are paid to the County. Upon incorporation, the ability to impose a franchise fee is the prerogative of the new city as monies derived from franchise fees would go to the city. It is estimated that \$476,000 in franchise fees would be transferred to the new city.

Charges for Services

The CFA estimates that the new city will charge for services to recover a portion of costs related to services that are provided. Planning, development, and code enforcement service costs can often recover up to 100 percent of their costs through fees and charges. The CFA estimates that the new city will recover 80 percent of the total cost for these types of services based on similar cities and other studies.

Fines, Forfeitures, and Penalties

Revenue from traffic fines is calculated based on per capita revenue assumptions from other cities in Sacramento County. The CFA estimated that \$6.67 per resident in revenue is generated per year for fines and penalties.

Jail Booking Reimbursement

The CFA assumes the new city will be eligible for 100 percent reimbursement of jail booking costs per Assembly Bill 1662, which was adopted in 1999. Jail booking reimbursement revenue in this CFA utilizes Current County booking fee rates and a number of bookings based on the incorporation boundary area's share of Sheriff's Department calls for service.

Vehicle License Fees (VLF)

Vehicle License Fee revenue is a state subvention collected by the State and allocated to cities based on a statutory formula. A large percentage of the vehicle registration fees that Californians pay are returned to cities through this process.

In 2006, Assembly Bill 1602 was signed into law and in 2008 Senate Bill 301 was signed into law that allows new cities incorporating to qualify for VLF revenue based on population from July 1, 2009 to July 1, 2014.

VLF revenue allocation is based on State law. During the first five years, new cities receive an additional VLF revenue allocation that is decreased by 10 percent each year as follows:

Summary of VLF Revenue Allocation to the City of Arden Arcade (Scenario 1)		
Year	VLF Allocation Factor	Estimated VLF Revenue (\$50 per Capita)
1	1.0	\$4,601,000
2	1.5	\$6,904,000
3	1.4	\$6,445,000
4	1.3	\$5,987,000
5	1.2	\$5,528,000
6	1.1	\$5,069,000
7	1.0	\$4,610,000

Summary of VLF Revenue Allocation to the City of Arden Arcade (Scenario 2)		
Year	VLF Allocation Factor	Estimated VLF Revenue (\$50 per Capita)
1	1.0	\$4,921,000
2	1.5	\$7,384,000
3	1.4	\$6,893,000
4	1.3	\$6,403,000
5	1.2	\$5,912,000
6	1.1	\$5,421,000
7	1.0	\$4,930,000

VLF is calculated by multiplying Per Capita Population x \$50 (per capita) x VLF Allocation Factor or bonus during the first five years.

Other General Fund Revenue

In the CFA analysis, the General Fund receives revenue from building and permit fees collected by the new city to cover General Fund overhead costs associated with the provision of these services.

Additionally, the city will accrue investment earnings on funds retained in the General Fund throughout the year. Investment earnings are calculated using the treasury pool rate based on market rates on the annual fund balance up to the maximum amount.

Non-General Fund Revenue Transferred

Road Fund Revenue

Road fund revenue includes gas taxes, the road fund property tax, and Measure A half-cent sales tax revenue available for road maintenance.

Gas Taxes

Gas tax (highway user tax) revenue is a subvention collected by the state and allocated to cities and counties based on statutory formula. Gas tax is a restricted revenue source for road purposes only. The gas tax increases revenues for incorporating cities without generating a negative fiscal impact on counties. The State subvention formula for gas tax does not adjust the share of statewide revenue allocated to counties after an incorporation since incorporated areas receive gas tax revenue from the share of statewide gas tax revenue allocated to cities. Thus, counties are able to transfer costs for road maintenance to new incorporated cities while still retaining this revenue source.

The State controller's Office allocates gas tax revenue based on California Street and Highways Code Sections. This allocation methodology is fairly complex.

Gas tax distributions are based on population and other factors such as the percentage of registered voters or exempt vehicles in a city compared to the state and also miles of maintained roads.

The CFA used statewide per capita amounts for FY 2008-09 for Code Sections 2105 and 2107. A flat rate of \$7,500 was applied to Section 2107.5. Revenue from Section 2106 is estimated at \$4,800 annually and Section 2106 (c) is estimated at \$4.40 per capita.

Proposition 42

Proposition 42 dedicates a portion of gas tax to transportation projects. Revenue from this source is estimated to be \$8.97 per capita, based on survey of other cities.

Measure A Sales Tax

In Sacramento County, the citizens have elected to levy an additional one-half cent sales tax on their purchases to fund transportation improvements. This money (commonly referred to as Measure A revenue after the ballot measure), is earmarked for certain identified transportation projects, as well as to help augment road construction and maintenance activities.

Measure A did not, as drafted, directly account for the incorporation of new cities in its allocation formulas. Given this, the CFA assumes the proposed new city will be treated similarly to the manner in which Citrus Heights, Elk Grove, Rancho Cordova were in that it will receive a share of Measure A funds.

The Sacramento County Department of Transportation estimates that Arden Arcade would contain 10.13 percent of the countywide lane miles in Scenario 1 and 11.16 percent of the countywide lane miles in Scenario 2. This results in an estimate of \$6,521 per lane mile.

Road Fund Property Tax

Property tax that will accrue to the city's road fund will come from a transfer of Road Fund Property Tax from Sacramento County. This amount of revenue is minimal but it must be used to maintain public roads and streets.

Transportation Development Act Funds

Transportation Development Act (TDA) funds are used to offset system wide transit costs provided by RT. The funds are distributed by SACOG. There are two pots of TDA monies that will be available to the new city. The first pot is State Transit Assistance (STA). STA funds are available for mass transportation and transportation purposes only. STA funds cannot be used for road maintenance.

The second TDA pot is the Local Transportation Fund (LTF). LTF monies must first be used for transit needs within a jurisdiction, including any "unmet transit needs"; as required by law. After all transit needs have been met, the remaining funds may be used for road maintenance. Arden Arcade will be eligible for about \$1.6 million in LTF funds. The city may choose to join RT, a Joint Powers Authority, or contract for transit services with RT. In both cases, the proposed city will assign their LTF allocation to RT for the provision of transit service within its jurisdiction. Citrus Heights has contracted for transit service and provided RT with its full LTF allocation. Cities may also choose to keep the LTF allocation and be responsible for providing transit service within its jurisdiction. Should Arden Arcade decide to assume responsibility for providing transit service, the city will be eligible for its share of funds. However, the likely cost for the city to assume the provision of transit service would be much greater than the amount of LTF funding it would receive.

For these reasons, the CFA has not assumed any road maintenance revenue from TDA funds. Thus, road maintenance revenues have been calculated based on gas taxes, the road fund property tax, and Measure A revenues.

The following table shows the estimated road fund revenues for Scenario 1 and Scenario 2:

Summary of Road Fund Revenues			
Tax Source	Estimate	Scenario 1	Scenario 2
HUT 2105	\$5.43 per resident	750,000	802,000
HUT 2106	\$4,800 annually	4,800	4,800
HUT 2106	\$3.73 per resident	344,000	367,000
HUT 2107	\$7.73 per resident	998,000	1,067,000
HUT 2107.5	7,500 flat rate	7,500	7,500
Proposition 42	\$8.97 per resident	826,000	883,000
Measure A	\$6,521 per lane mile	3,599,000	3,966,000
Total		\$6,529,300	\$7,097,300

Other Restricted Fund Revenues

Building Inspection and Site Development Fees

Building inspection and other construction related permit fees are established by the Sacramento County Board of Supervisors. These fees are set and changed by County ordinance. The fees are designed to recover the cost of providing the services, including all direct and indirect expenses.

It is assumed that the new City Council will adopt a similar fee schedule to recover costs for these services. Recovery of this cost through fees to the applicants is practiced in almost all jurisdictions and is viewed as a fair and equitable way to provide the service in that those who benefit and use the services pay for the services.

Impacts of Proposition 172 on Incorporations

Proposition 172 also known as the Public Safety Augmentation Fund is a ½ cent sales tax approved by California voters in 1993. The voters approved this tax would be dedicated to public safety including sheriff, police, fire, District Attorneys, and corrections. The purpose of the ½ cent sales tax was to cushion the transfer of property taxes shifted from counties and cities to provide funding for schools. The ½ cent sales tax did not completely backfill the property taxes lost by cities and counties.

In addition Government Code Section 30056 requires the local agency receiving these funds to contribute a “maintenance of effort” or match to ensure that Prop 172 funds are spent on public safety services as defined in Prop 172.

Government Code Section 30051 requires each County Auditor to allocate the revenues in the county Public Augmentation Fund to the county and each city in that county based on their proportionate share of net property tax loss due to the Educational Relief Augmentation Fund. Therefore, new cities are not eligible to receive revenue from this source because they did not lose property taxes based on the ERAF shift that occurred in 1992. However, it is my understanding that the County of Sacramento would still be eligible to receive their original base allocation as adjusted by State formulas provided the County can continue to provide its required matching funds.

REVENUE NEUTRALITY

Calculation of County Surplus/(Deficit) for Purposes of Estimating Revenue Neutrality Requirements and Payment

Legal Requirement - Government Code Section 56815: The Commission must make a determination that “the negative fiscal effect has been adequately mitigated by tax sharing agreements, lump-sum payments, and payments over a fixed period of time, or any other terms and conditions pursuant to Section 56886.

The CFA has estimated that the incorporation would result in an annual deficit in the amount of approximately \$8.6 million. Based on this estimated deficit, the incorporation proponents and the County of Sacramento have negotiated the terms and conditions of a revenue neutrality payment agreement to mitigate the financial loss to the County. Based on the terms and conditions of the Revenue Neutrality Payment, the proposed incorporation is viable for a period of ten (10) years after incorporation. The Revenue Neutrality Agreement is contained in Exhibit “D”.

Based on the net cost of services transferred compared to the revenue transferred to the new city there is an excess revenue surplus to the new city or a revenue deficit to the County of Sacramento for each Scenario. Basically, the revenue stream from the Arden Arcade proposed incorporation boundary exceeds the cost of providing municipal services to this area. This excess revenue is discretionary General Fund Revenue used by the County to fund other programs and services it is providing for countywide services or to fund municipal services in other communities that do not have adequate revenue. The estimated surplus revenue does not represent a windfall gain to the county because it used to fund existing programs.

The Revenue Neutrality Payment or Mitigation Payment is calculated from revenue and expense information provided by the County of Sacramento. The Revenue Surplus is calculated by subtracting total net cost of services transferred to the proposed city from total revenues transferred to the proposed city plus new revenue charged by the County for property tax administration (1% of property taxes being transferred). This calculation uses the Base Year 2008-2009 actual data.

The CFA indicates that the County would “lose” approximately \$8.6 million in revenue based on the revenue and expenses calculated in the 2008-09 base year Scenario 1 Boundary and approximately \$8.7 million for Scenario 2 as shown in the following table:

Estimated Revenue Neutrality Payment FY 2008-2009 Base Year				
Boundary	Revenue Transferred	Net County Costs Transferred	Property Tax Administration Fees	County Surplus/(Deficit)
Scenario 1 Per Capita	\$24,758,009	(16,365,091)	201,000	\$(8,593,918) \$93.40
Scenario 2 Per Capita	\$25,447,545	(16,986,880)	209,000	\$(8,669,665) \$88.11

The County of Sacramento is currently generating surplus revenues over expenditures within both the proposed boundary-Scenario 1 and the alternative boundary-Scenario 2. This “surplus” is currently used by the County to fund other programs outside the two boundary alternative areas. The proposed incorporation means that the County would lose this surplus unless the new city makes a mitigation payment to make up for this shortfall.

It is not possible to determine where the surplus is being expended. This surplus revenue is being used to finance other county programs such as county-wide services including health programs, Human Assistance programs, the Probation Department, the District Attorney Office, the Public Defender’s Office, Assessor’s Office, the County jail, or municipal services in other unincorporated areas that do not have sufficient revenue to cover the cost of county municipal services being provided to those communities.

The “surplus” represents a permanent lost revenue stream to the County to fund these programs. If approved without a mitigation payment, the incorporation would represent a permanent loss of this revenue stream to the County. Without incorporation this revenue stream plus increases or fewer decreases in this revenue stream would continue in perpetuity as part of the County budgeting process. In the case of the proposed incorporation of Arden Arcade, it appears that there is not a significant amount of undeveloped parcels and, it appear that there will be insufficient new growth to allow the County to grow out of the loss of this surplus revenue stream over a fixed period of time.

Based on the Revenue Neutrality Agreement, the Commission must make a determination that “the negative fiscal effect has been adequately mitigated by tax sharing agreements, lump-sum payments, and payments over a fixed period of time, or any other terms and conditions pursuant to Section 56886.

The following tables provide additional revenue and cost data summarizing the Revenue Neutrality Payment calculation for Scenario 1 and Scenario 2:

Estimated Annual Revenue Neutrality Payment – Scenario 1	
Revenues Transferred	Base Year 2008-09
Property Taxes	\$6,764,000
Sales Tax	12,351,558
Property Transfer Tax	200,239
Franchise Fees	476,153
Utility User Tax	2,615,324
Business License Tax	266,751
Transient Occupancy Tax	1,387,984
Fines and Forfeitures	<u>696,000</u>
Total Revenues Transferred	\$24,758,009
Less: Net County Cost Transferred	\$16,365,091
Plus: Future Revenues to County (Tax Admin. at 1 %)	<u>201,000</u>
County Surplus or (Deficit)	\$(8,593,918)

Estimated Annual Revenue Neutrality Payment – Scenario 2	
Revenues Transferred	Base Year 2008-09
Property Taxes	\$7,021,000
Sales Tax	12,470,390
Property Transfer Tax	230,226
Franchise Fees	509,254
Utility User Tax	2,797,134
Business License Tax	288,557
Transient Occupancy Tax	1,387,984
Fines and Forfeitures	<u>743,000</u>
Total Revenues Transferred	\$25,447,545
Less: Net County Cost Transferred	\$16,986,880
Plus: Future Revenues to County (Tax Admin. at 1 %)	<u>\$209,000</u>
County Surplus or (Deficit)	\$(8,669,665)

Analysis and Terms and Conditions of Revenue Neutrality Payments

Background: Revenue Neutrality Law [Government Code Section 56815]

In September, 1992, the Governor signed AB 3027 into law, which requires that any proposal that includes incorporation should result in a similar exchange of both revenue and responsibility for service delivery among the County, the proposed city, and other subject agencies.

This bill has generally been construed to mean that an incorporation should be “revenue neutral,” although that exact terminology was never defined. In sum, the law states, the cost of services to be transferred should be “substantially equal” to the amount of revenue to be transferred.

According to Government Code Section 56815, if the revenue loss is greater than the service loss for any entity, then the proposal should be denied, or action should be taken by LAFCo to mitigate the loss. Possible actions include: “(1) the County and all of the subject agencies agree to the proposed transfer, or (2) the negative fiscal effect has been adequately mitigated by tax sharing agreements, lump-sum payments, and payments over a fixed period of time, or any other terms and conditions pursuant to Section 56886.”

a) It was the intent of the Legislature that any incorporation should result in a similar exchange of both revenue and responsibility for service delivery among the county, the proposed city, and other subject agencies. It was the further intent of the Legislature that incorporation should not occur primarily for financial reasons.

Based on these statutes, the Commission shall not approve a proposal that includes an incorporation unless it finds that the following two quantities are substantially equal: (1) Revenues currently received by the local agency transferring the affected territory **that**, but for the operation of this section, would accrue to the local agency receiving the affected territory. (2) **Expenditures, including direct and indirect expenditures**, currently made by the local agency transferring the affected territory for those services **that** will be assumed by the local agency receiving the affected territory.

In the event that the incorporation does not result in a similar exchange of both revenue and responsibility for service delivery, the Commission may still approve a proposal if it finds either of the following: (1) The County and all of the subject agencies agree to the proposed transfer. (2) The negative fiscal effect has been adequately mitigated by tax sharing agreements, lump-sum payments, and payments over a fixed period of time, or any other terms and conditions pursuant to Section 56886.

The Government Code requires that any terms and conditions that mitigate the negative fiscal effect of a proposed incorporation shall be included in the commission

resolution making determinations adopted pursuant to Section 56880 and the terms and conditions specified in the questions pursuant to Section 57134.⁴

Mitigation and repayment terms vary from incorporation to incorporation. Incorporation guidelines developed by the Governor's Office of Planning and Research provide that the term of the mitigation payments may be definite or indefinite. The guidelines also suggest that an indefinite term of payments should be agreed to by the parties. While these guidelines were never adopted, they do recognize that there is no standard term for mitigation payments. Ultimately, the term to be imposed is entirely within the discretion of LAFCo, unless agreed to by the parties.

In previous incorporations in Sacramento County, the County and the incorporation proponents have entered into a formal Revenue Neutrality Agreement. The Commission has encouraged the County and the proponents to meet to reach agreement as to the terms of the revenue transfer should the Commission approve the incorporation proposal.

While Sacramento County and the Arden Arcade Incorporation Committee have not entered into a formal Revenue Neutrality Agreement, the parties have agreed to the proposed transfer of services, and they have provided LAFCo the amount, and Term and Conditions of the Revenue Neutrality Payments to mitigate the estimated negative fiscal effect to the County of Sacramento in the event the proposed incorporation is approved.

Unlike prior Sacramento County incorporations, the parties have requested that the Commission impose the terms of the informal agreement reached as a result of their meetings. The parties do not plan to enter into a formal Revenue Neutrality Agreement.

Staff is recommending that the Revenue Neutrality Payment should be based on the terms and conditions negotiated and agreed upon by the proponents and the County of Sacramento

In order for the proposed city of Arden Arcade to be economically viable, and for the citizens within its corporate boundary to continue to receive substantially the same level of services as currently provided by the County of Sacramento, requires the mitigation payment must be extended over a longer period of time than 25 years. County of Sacramento staff has offered to accept a reduced mitigation payment over a longer period of time. As a result, repayment has been recalculated to extend for a period of approximately 35 years. At the end of 35 +/- years, the County will, nevertheless, be required to reduce programs or raise new revenue to support its programs.

⁴ Added by Stats. 2000, Ch. 761; amended by Stats. 2001, Ch. 530.

There are two primary reasons which create this need to extend the repayment terms by approximately 10 years. The County wants the Revenue Neutrality Payment to be secured by the real property taxes collected within the proposed incorporation boundary. However, the annual shortfall is greater than the amount of property taxes generated within the proposed incorporation boundary. Secondly, the projected property tax revenue growth within the boundaries of the proposed City of Arden Arcade will not likely grow at a fast enough rates to pay off the total amount owed within 25 years. A similar arrangement was agreed to in the Rancho Cordova incorporation.

The proposed extension of the repayment schedule has an impact on the County of Sacramento because the County must compensate for this reduced revenue stream. This agreement also reduces the new City’s Revenue Neutrality Payment and provides revenues that can be used by the new city.

Terms and Conditions of the Revenue Neutrality Payment

Exhibit “D” sets forth the terms and conditions of the Revenue Neutrality Payment to the County of Sacramento. The following discussion is based on Scenario 2 boundary alternative.

The County has agreed to accept less than \$8,669,665 in order that the annual revenue neutrality payment will be secured by the annual secured and unsecured property tax revenue apportioned to the new city. In order to offset the reduced Revenue Neutrality Payment, the total payment due has been increased to \$219,000,000. The 25 year term is based on the incorporation of Citrus Heights, Elk Grove, and Rancho Cordova.

The following chart summarizes the terms set forth in Exhibit “D”:

FY 2008-09 Estimated Deficit per CFA	\$8,669,665
Term (years):	<u>25</u>
Total:	\$216,741,625
 Annual Payment:	 90% of the secured and unsecured property tax revenue apportioned to the city
 Payment Term:	 Annual payments until \$219,000,000 has been paid
 Estimated Term:	 35 years more or less

The City’ actual annual payments are less than the required payment which provides the new city with additional revenue.

Estimated Impact to County	\$8,669,665
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Estimated Annual City Payment	<u>6,300,000</u>
Additional Annual City Revenue	\$2,369,665

The Commission is also required to approve the Property Tax Transfer and Gann Limit for the new city.

Property Tax Transfer to New City

Government Code Section 56810(a)(1) requires the Commission to determine the amount of Property Tax to be exchanged from the County to the proposed city. Based on this requirement, the CFA has calculated the amount of Property Tax to be exchanged based on the FY 2008-2009 Base Year to be \$7,021,000.

Gann Limit

The Commission shall determine the provisional Gann or appropriations limit if the incorporation is approved in the following manner set forth below. The permanent appropriations limit will be set at the first municipal election following the first full fiscal year of operations.

- 56812.** (a) If a proposal includes the incorporation of a city, the commission shall determine the provisional appropriations limit of the city in accordance with Section 7902.7 and Article XIII B of the California Constitution. The commission shall determine the provisional appropriations limit of the city in the following manner:
- (1) Estimate the amount of revenue anticipated to be received by the city from the proceeds of taxes for the first full fiscal year of operation.
 - (2) Adjust the amount determined in paragraph (1) for the estimated change in the cost of living and population in the next full fiscal year of operation and such other changes as may be required or permitted by Article XIII B of the California Constitution.
- (b) The governing body of the city shall determine the proposed permanent appropriations limit of the city to be submitted to the voters in the following manner:
- (1) Determine the amount of revenue actually received by the city from the proceeds of taxes for the first full fiscal year of operation.
 - (2) Adjust the amount determined in paragraph (1) for the estimated change in the cost of living and population in the next full fiscal year of operation and such other changes as may be required or permitted by Article XIII B of the California Constitution.
- (c) The permanent appropriations limit of the city shall be set at the first municipal election which is held following the first full fiscal year of operation and shall not be considered to be a change in the appropriations limit of the city pursuant to Section 4 of Article XIII B of the California Constitution.

The provisional appropriations limit, as required per Article XIII B of the California Constitution is estimated to be approximately \$40,231,491 million. A permanent appropriations limit will be set by the voters of the new city at the first municipal election, which will be held by the new city following the first full fiscal year of operation.⁵

⁵ Government Code Section 56812(c).

Conclusion

In order to mitigate the negative financial impacts to the County of Sacramento, the new city will be required to make a revenue neutrality payment in the amount of approximately \$6,164,100 for a period of 35 years more or less. The Revenue Neutrality Payment is subject to the terms and conditions set forth. The mitigation payment would mitigate the negative financial impact to the County of Sacramento during the term of the Revenue Neutrality Payment period.

Based on current State Laws, the County of Sacramento will be mitigated for loss surplus revenues and the Arden Arcade Incorporation area would receive additional Vehicle License Revenue not available for the County. Based on the CFA model the VLF revenue would help mitigate the loss in revenue to the County and yet provide substantially the same level of service based on no increase in taxes to the residents of the incorporation boundary. This appears to be a win – win situation for the proposed city and county. Currently, the unincorporated area is not entitled to receive VLF revenue allocated that is allocated to cities or areas that may be annexed to cities. There will be no immediate impacts to Special Districts or current service providers providing municipal services to the Arden Arcade Community. There may be future impacts to these Districts based on future actions of a new city. Those actions and impacts cannot be determined at this time and will be subject to future environmental analysis and LAFCo review and approval.

The incorporation should be subject to all of the terms and conditions set forth above and incorporated herein by reference.

The community must approve the incorporation by election of the registered voters living within the proposed city. The residents who are registered vote within the proposed city boundary would have the right to determine if they should be incorporated as a city subject to these terms and conditions and requirements adopted by LAFCo.

Executive Officer Recommendation for Revenue Neutrality Payment to County of Sacramento to Mitigate Financial Loss of Revenue and Gann Limit

The Executive Officer recommends that the Commission approve the terms and conditions of the Revenue Neutrality Payment to mitigate the financial loss to the County of Sacramento as follows:

Total Mitigation Payment :	\$219,000,000
Annual Payment:	90% of real property taxes or about \$6,164,100
Term of Payment:	Annual payments based on 90% of property taxes collected within the incorporation boundary until the total amount of \$219,000,000 has been paid.
Gann Limit:	\$40,231,491

FISCAL FEASIBILITY, VIABILITY, SERVICE LEVELS

The CFA analyzed the proposed project Scenario 1 and an alternative boundary Scenario 2. A supplemental report evaluated the financial impacts of annexation to the City of Sacramento assuming that the City of Sacramento would not detach Special Districts. This supplemental report is to provide the Commission with information to evaluate whether or not the City of Sacramento would be a more efficient and cost-effective service provider in a more accountable manner.

Based on the Comprehensive Fiscal Analysis the proposed City of Arden Arcade under either the proposed boundary Scenario 1 or the alternative boundary Scenario 2 is viable and sustainable for a period of ten (10) years following the effective date of the incorporation after making the required mitigation or Revenue Neutrality Payment to the County of Sacramento. The CFA attached to this report (Exhibit “J”) supports this conclusion.

The CFA assumes a 5 percent contingency similar to other incorporations in Sacramento County. The Contingency Account is available in any given year to hedge against variations between actual costs and revenues versus the Adopted Annual Budget. In addition, the proposed City of Arden Arcade has “net revenue” and Fund Balance during the ten (10) year period following incorporation.

The Net Revenue may be used to augment programs in the following year or placed in an Operating General Reserve Fund. This Fund is like a savings account for future capital improvements or to provide funds to minimize or mitigate for unforeseen economic and operating uncertainties that cannot be predicted or planned for. In

addition, Fund Balance may be used to augment programs and services for the community. The CFA projects that the City of Arden Arcade will have an Operating General Fund or Reserve of approximately \$32,000,000 at the end of the first 10 years of incorporation.

Service Levels

The CFA analysis assumes and reflects municipal service levels for the new city to be substantially similar to service levels provided by the County of Sacramento and comparable cities during the FY 2008-2009 Base Year. The service levels are discussed and evaluated in the attached CFA.

Revenue and Fund Balance

The attached Final CFA indicates that the proposed city will have net revenue in excess of costs for each following the incorporation for a period of ten (10) years. The excess revenue for Scenario 1 averages 10.55 percent and the net revenue for Scenario 2 averages 9.22 percent above total operating costs.

The Final CFA based on industry standards that net revenue that is within plus or minus 10 percent of total costs typically indicates that the new city may be fiscally feasible.

In addition, the pro forma city budget has a 5 percent contingency that is assumed to be spent each year. If the contingency is not needed this savings would also roll over to next year's Fund Balance which could be used to augment reserves or increase program funding.

Finally, fund balance for both Scenario 1 and 2 increases during the 10 year period following incorporation. The Fund Balance is projected to be about \$39,000,000 at the end of FY 2020-21. Fund Balance may be used to augment programs or fund unanticipated expenditures.

Taxes

The incorporation petition and CFA analysis does not assume that any new taxes will be required or levied to meet the test of city feasibility for 10 years following the incorporation. The proposed city will be required to continue the same taxes and fee ordinances currently authorized for the unincorporated area. These taxes include but not limited to Sales and Use Tax (1%), Utility User Tax (2.5%), Transient Occupancy Tax (12.0%), Franchise Fees, Business License Fee, and Property Transfer Tax (\$1.10 per \$1000 of value on real estate transfers).

Capital Improvements

The CFA assumes, and LAFCo typically requires that the new city council will adopt any impact fee ordinances currently authorized by the County to ensure a continued flow of existing fee revenues for capital improvement projects.

Annual Net Revenue and Fund Balance Estimates

The next two tables summarize the annual estimated net revenue and Year End Fund Balance for the proposed city. Based on the Pro Forma revenue and cost projections, the new city is viable for ten (10) years following incorporation.

Summary of Revenue, Cost, Net Revenue, and Fund Balance Analysis for 10 Years

This section discusses the revenue, cost, net revenue and fund balance for the new city for a 10 year period. These tables indicated that the proposed city is sustainable or viable for a period of 10 years following incorporation. Under either boundary Scenario 1 or 2, the city has net revenue after each year of operation and is able to maintain an operating reserve of approximately \$39 million for the first ten (10) years of operations. This meets the LAFCo criteria: *“the proposed city is expected to receive revenues sufficient to provide public services and facilities and a reasonable reserve during three (3) years following incorporation”*.

The following table summarizes revenue, expenses, fund balance/operating reserve for the City of Arden Arcade for ten (10) years following incorporation. The City maintains a Fund Balance/Reserve in the amount of approximately \$39 million and has positive net revenue in all ten (10) years.

Average Net Revenue % of Cost: 10.55%

Summary of Revenue, Expenses, Net Revenue Fund Balance/Operating Reserve for the City of Arden Arcade Fiscal Year 2012 to 2021 Scenario 1										
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	1	2	3	4	5	6	7	8	9	10
Revenue	\$14,102,400	\$33,690,800	\$33,980,100	\$33,733,600	\$33,274,300	\$32,818,800	\$32,361,300	\$32,376,100	\$32,389,700	\$32,406,300
Expenses	2,741,000	21,203,000	23,547,600	24,132,000	23,929,000	24,201,000	24,398,000	24,676,000	24,873,000	25,151,000
Loan		185,000	190,000	196,300	202,200	208,000	0	0	0	0
RNP	<u>0</u>	<u>5,936,400</u>	<u>5,889,600</u>	<u>5,844,600</u>	<u>5,800,500</u>	<u>5,758,200</u>	<u>5,714,100</u>	<u>5,673,600</u>	<u>5,633,100</u>	<u>5,592,600</u>
Net Revenue	11,361,400	6,366,400	4,352,900	3,560,700	3,342,600	2,651,600	2,249,200	2,026,500	1,883,600	1,662,700
Fund Balance/Reserve	\$11,361,400	\$17,727,800	\$22,080,700	\$25,641,400	\$28,984,000	\$31,635,600	\$33,884,800	\$35,911,300	\$37,794,900	\$39,457,000
Net Revenue %		23%	15%	12%	11%	9%	7%	7%	6%	5%

**Summary of Revenue, Expenses, Net Revenue Fund Balance/Operating Reserve for the City of Arden Arcade
Fiscal Year 2012 to 2021
Scenario 2**

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	1	2	3	4	5	6	7	8	9	10
Revenue	\$14,744,400	\$34,904,900	\$35,159,200	\$34,874,700	\$34,379,300	\$33,887,900	\$33,398,500	\$33,408,300	\$33,421,000	\$33,434,700
Expenses	2,741,000	22,252,000	24,601,000	25,200,000	25,002,000	25,291,000	25,493,000	25,786,000	25,991,000	26,287,000
Loan		275,000	283,000	291,000	300,000	309,000	0	0	0	0
RNP	<u>0</u>	<u>6,164,100</u>	<u>6,114,600</u>	<u>6,066,000</u>	<u>6,019,200</u>	<u>5,974,200</u>	<u>5,929,200</u>	<u>5,885,100</u>	<u>5,841,900</u>	<u>5,799,600</u>
Net Revenue	\$12,003,400	6,213,800	4,160,600	3,317,700	3,058,100	2,313,700	1,976,300	1,737,200	1,588,100	1,348,100
Fund Balance/Reserve	\$12,003,400	\$18,217,200	\$22,377,800	\$25,695,500	\$28,753,600	\$31,067,300	\$33,043,600	\$34,780,800	\$36,386,900	\$37,717,000
Net Revenue %		22%	13%	11%	10%	7%	6%	5%	5%	4%

Average Net Revenue % of Cost: 9.22%

Comparison of General Fund Expenditures for Cities FY 2008-09

	Folsom	Rancho Cordova	Elk Grove	Citrus Heights	Arden Arcade
Expenditure	Per Capita	Per Capita	Per Capita	Per Capita	Per Capita
General Government	\$153.42	\$122.58	\$131.78	\$46.23	\$29.37
Law Enforcement	268.63	261.93	214.06	201.57	154.06
Fire Protection	224.82				
Animal Control	2.55	8.37	6.11	4.41	4.22
Planning/Development	34.67	195.21	24.43	32.69	23.60
Parks and Recreation	72.40				
Non-Departmental	28.84	7.78	20.02	55.05	7.70
Other	52.73	120.91		11.74	91.45
Total	\$838.06	\$716.78	\$396.41	\$351.70	310.39
Population	70,537	60,736	139,119	87,119	92,006

Comparison of General Fund Revenues for Cities FY 2008-09

	Folsom	Rancho Cordova	Elk Grove	Citrus Heights	Arden Arcade
Revenue	Per Capita	Per Capita	Per Capita	Per Capita	Per Capita
Property Tax	\$251.54	\$230.44	\$83.14	\$51.23	\$71.69
Transfer Tax	4.25	4.12	4.60		3.75
Sales Tax	253.12	159.13	147.57	117.66	137.64
Franchise Fees	7.59	17.76	5.07	11.02	5.17
Other taxes Fees		46.35	23.72	34.21	31.35
License/Permits	8.34	40.90	3.06	9.37	
Fines and Forfeitures	3.52	10.63	8.10	10.52	7.56
Transient Occupancy Tax	22.56	37.87	9.16		15.09
Other General Fund Rev	205.92	149.83	24.81	25.25	18.88
Intergovernmental	13.18		82.34	14.16	
VLF	68.05	20.25	5.08	80.88	75.04
Total	\$838.06	\$717.28	\$396.65	\$354.28	\$366.18
Population	70,537	60,736	139,119	87,119	92,006

PROPOSED CITY GOVERNMENT AND PUBLIC SERVICE DELIVERY REQUIREMENTS

Most newly incorporated cities in the 1980's, 1990's, and 2000's have been "limited/contract service" cities rather than "full service cities, where often a number of key services are provided by contract with other public or private service providers. In fact, many southern California cities have contracted for service with their underlying counties or other cities well beyond their initial years of incorporation.

These contracts for service are patterned after the first city to function in this manner, Lakewood, California. If, in the future, the new city desires additional service responsibilities, it could initiate such actions through the City Council or, if necessary, request the service transfer and funding shift through the traditional Cortese-Knox-Hertzberg LAFCo process.

With respect to the proposed services provided, the Arden Arcade petition represents the incorporation of a "limited service" or "contract" city.

Contract City versus Non-Contract City

The new city, in its initial stages, will typically supply a limited number of key services, while many city services will be supplied through contract and continuation of services provided by special districts and investor owned utilities. A "Non-Contract," or full service city, provides all municipal services to its residents by city staff, or with employees of the city. A "Contract" city provides full service to its residents and businesses through a combination of city staff and through contracts for the provision of services with other governmental or private entities. In both cases, the residents and businesses within the "Non-Contract" and "Contract" city receive municipal services.

"Contract" and "Non-Contract" cities are not unusual in post-Proposition 13 California where many new cities provide only limited services and/or contract with other public or private service providers. In fact, many Southern California cities contract for service with their underlying counties or other cities. These contracts for service are patterned after the first city to function in this manner, Lakewood, California. If, in the future, a new city desires additional service responsibilities, it can initiate such action through the city council, or, if necessary, request the service transfer and funding shift through the Cortese-Knox-Hertzberg or the LAFCo process.

General Government

General government administration and municipal services for the area proposed for incorporation is currently provided by Sacramento County and many special districts. General government administration includes all of the support functions necessary for the delivery of municipal services to the new city. Upon incorporation, the new city will be responsible for providing general government services.

The proponents of the incorporation of Arden Arcade propose that the new city maintain a General Law, Council/City Manager form of government. This form of city government includes a six (6) member city council, elected, and a mayor elected at-large (i.e., from all registered voters within the incorporated territory). A hired professional city manager performs the day-to-day administration of the city. The establishment of city departments, including finance, planning, public works, police and city attorney, will be undertaken by the new city council. It is likely that functions relating to personnel will also need to be addressed by the new city council. A typical organization of city services and administration for the proposed city of Arden Arcade is attached.

The city manager form of government has a long and successful history in the State as well as in the County of Sacramento. It is time proven and particularly effective in cities the size of the proposed city of Arden Arcade.

Election Process

CKH provides that the City Council be elected as follows:

Governance and Representation 57377. Officers, except members of the city council, shall hold office until the first succeeding general municipal election held in the city and until their successors are elected and qualified. Of the five elected members of the city council, the three receiving the lowest number of votes shall hold office until the first succeeding general municipal election held in the city and until their successors are elected and qualified, and the two receiving the highest number of votes shall hold office until the second succeeding general municipal election held in the city and until their successors are elected and qualified. If two or more members of the city council are elected by the same number of votes, the terms of each shall be determined by lot. The members of the city council elected to succeed the members elected at the incorporation election shall hold office for four years from the Tuesday succeeding their election, and until their successors are elected and qualified.

57378. If the voters in the incorporation election determine that future city council members shall be elected "by districts," or "from districts," the provisions of Article 2 (commencing with Section 34870) of Chapter 4 of Part 1 of Division 2 shall apply to those elections.

Proposed City Governance Structure

The AAIC has requested that the new city be governed by a six (6) member city council elected by districts and a mayor elected at large. The following table illustrates the per capita representation of the proposed city and as currently represented by the County Board of Supervisors:

Governance and Representation		
	Population	Per Capita Representation
Total Unincorporated	1,400,000	280,000
Unincorporated excluding cities	470,101	94,020
City of Arden Arcade	98,401	16,400
City of Sacramento	501,246	62,656

Each city council member would represent approximately 16,400 residents. It is difficult to determine if this provides residents better access to elected officials or if an elected official representing fewer residents will be more able to represent issues within a smaller district. This was one of the factors set forth in the incorporation petition was to provide better local representation.

Executive Officer’s Recommendation

I concur with the proponents and strongly recommend a city manager form of government, should your Commission approve the proposed incorporation. Decisions regarding the management of the city---whether services are contracted or otherwise provided---should be the decisions of the future city council, after the election, and upon completion of new city formation.

Your Executive Officer recommends that the city council should be comprised of six members elected by district. The first city council should be elected “at-large” from all those registered voters within the incorporated territory of the city of Arden Arcade. I also recommend that the election for members to the first city council should be concurrent with the election question of whether or not the city shall be created by the electorate.

In future elections, the Mayor shall continue to be elected a-large. Members of the City Council in future elections shall be elected by district, as defined n Government Code Section 34871.

By ordinance or resolution, the City Council shall establish the districts in accordance with law at the time prior to the on which voters may nominate candidates for election in the November 2012 municipal election. The effect of this section is to have by district elections by November 2012.

**ESTIMATED REVENUES, EXPENDITURES, AND SERVICE LEVELS FOR
THE PROPOSED CITY OF ARDEN ARCADE**

Summary of Estimated General Fund Revenues Available to the New City

The most important category of revenue for most new cities is General Fund revenue. Monies contained in this fund are totally discretionary and finance such essential services as general government, law enforcement, and planning. General Fund revenue comes from the following sources:

- Property tax
- Sales tax
- Utility Users tax
- Property Transfer tax
- Transient Occupancy tax
- Franchise fees
- Business License tax
- Planning fees
- Fines
- Jail booking reimbursement
- Charges and fees for services provided
- Vehicle License Fee in lieu taxes (VLF)
- Investment earnings

Of these sources of revenues, property tax, sales tax, utility user tax, transient occupancy tax, and VLF revenues are the five major sources of revenue. These revenues account for approximately 95 percent of the new city's General Fund revenues.

The following table shows the 2012-2013 Fiscal Year estimated revenue amounts that would accrue to the new city:

FY 2012-2013 Estimated Revenue Transfer Amount From Sacramento County to the Proposed City of Arden Arcade (Scenario 2)	
Revenue Transferred	Fiscal Year 2012-2013
Property Tax	\$ 6,849,000
Sales Tax	12,795,000
Real Property Transfer Tax	399,400
Business License Tax	289,500
Transient Occupancy Tax	1,388,000
Utility User Tax	2,799,000
Franchise Fees	510,000
Fines and Penalties	742,000
Vehicle License Fees	7,384,000
Charges for Services	1,403,000
Investment Earnings	<u>346,000</u>
Total Revenues Transferred	\$ 34,904,900

Estimated Expenditures and Service Levels for the Proposed City of Arden Arcade

Proposed Provision of Municipal Services to the City of Arden Arcade

Certain services must, by law, be assumed by the new city upon incorporation; therefore, they must be transferred from County government, and other agencies, to the new city. A new city must also create a “general government” to administer the services that it will undertake. The legal responsibility is transferred to the new city; however, the city may hire employees, contract with other private and public entities and/or agencies to provide these services. Those services that must statutorily be transferred include:

- (1) Law Enforcement (including traffic control and accident investigation currently supplied by the California Highway Patrol);
- (2) Planning and Land Use Regulation;
- (3) Building Inspection; and,

- (4) Maintenance, Engineering and Construction of streets and highways currently maintained by the County of Sacramento.

In addition, there are several other services that may be transferred to the new city, although none of these is required, by law, to be shifted. These services include:

- (1) Animal Care and Regulation;
- (2) Park and Recreation;
- (3) Fire Protection;
- (4) Libraries;
- (5) Flood Control;
- (6) Drainage;
- (7) Water;
- (8) Solid Waste;
- (9) Sanitation and Sewer Services;
- (10) Landscape Maintenance;
- (11) Street lighting;
- (12) Cemetery

Upon incorporation, the proposed city of Arden Arcade made contract with either the County, a third party, or directly provide any or all of these services. The County of Sacramento is required to provide services during the transition period as discussed later in this report.

Summary of Services to be Provided by the Proposed City

The incorporation petition requests that services currently provided by Special Districts will not be transferred to the new city. The city will initially be a “contract” city similar to Citrus Heights, Elk Grove, and Rancho Cordova upon incorporation. The new city will statutorily be required to provide General Government, law enforcement, planning and land use, building inspection, and street and highway maintenance.

Summary of Cost Methodology to Develop Pro Forma City Budget

The cost and staffing of general government services have been estimated on a review of other cities’ general government staffing and service costs. The CFA paid particular attention to a review of other new cities that have recently incorporated, having a population of between 50,000 and 130,000 people. Many of the cities reviewed were limited service cities generally not providing fire protection, water, sewer, and typically not parks and recreation services. The general government costs used in this analysis fall within the mid-range of the other limited service cities—some having a lower cost per capita and others having a higher cost per capita.

Two items of general government require additional focus. The first is the contingency. The CFA calculated the contingency as five percent of the total annual

General Fund expenditures. This contingency is built into the revenue and expenditure analysis to ensure a conservative assessment of the potential fiscal viability of the proposed city.

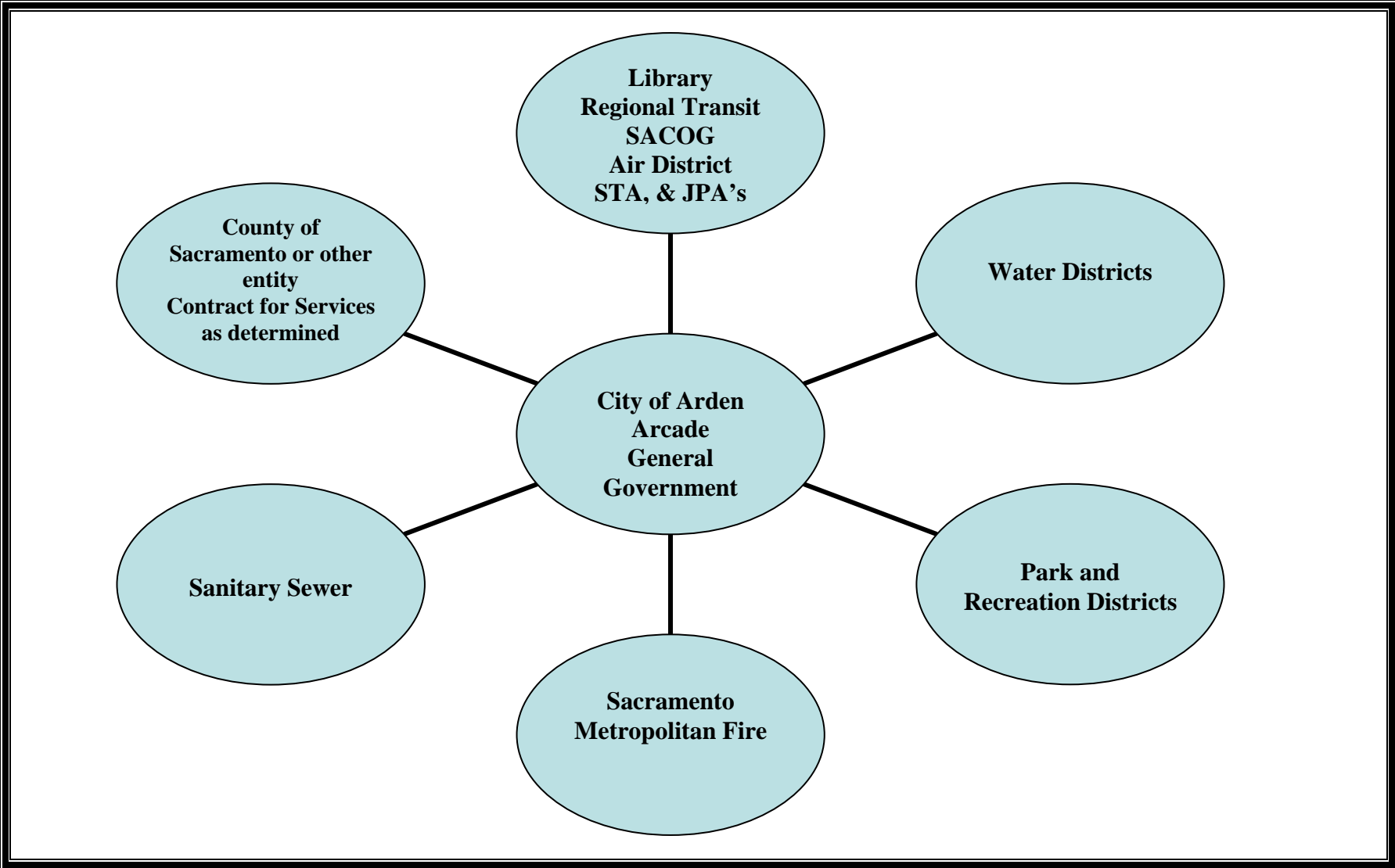
The second category of general government worth noting is the County loan repayment. This payment repays the County of Sacramento for services, which it continues to provide to the new city for the remainder of the first fiscal year following incorporation and includes the Revenue Neutrality Payment for the transition year to be paid over the first five (5) years. For example, if the effective date of incorporation is July 1, 2011, the County of Sacramento would continue providing services to the new city until June 30, 2012. For this year of service provided by the County, the new city has five years to pay for the borrowed service costs. This analysis assumes incorporation would take place on or shortly after July 1, 2011, thus providing the city a full year's worth of County provided services during the transition. Under this assumption, the County loan repayment is anticipated to be completed by the 2016-2017 fiscal year.

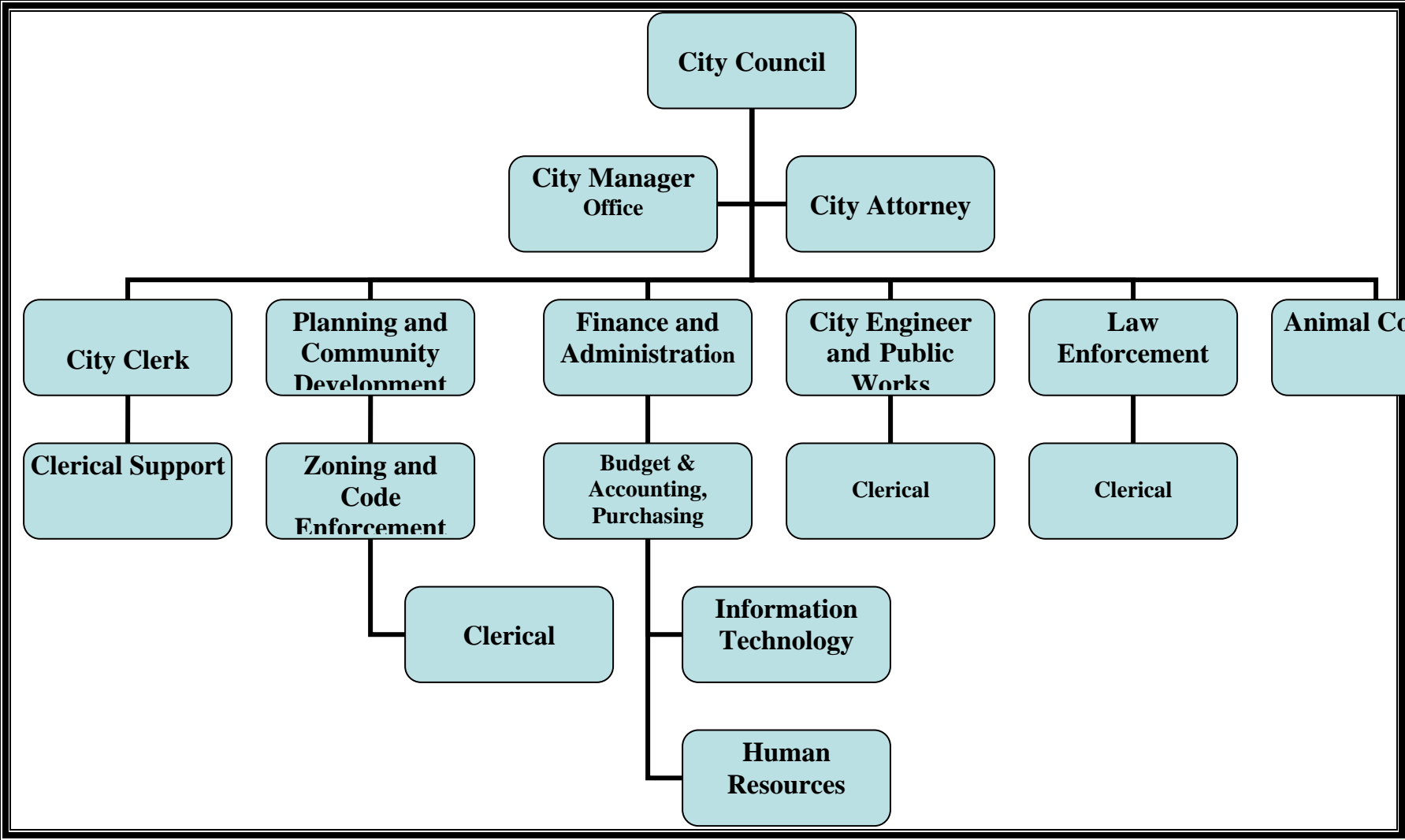
Arden Arcade Proposed Service Levels

The CFA has developed the Pro Forma City Budget that represents service levels to remain consistent with service levels provided by the County prior to incorporation. As a result, the City Budget is based on service levels and costs based on the County's actual expenditures based on data from the Base Year FY 2008-2009.

Typical Organization Chart for the City of Arden Arcade

The organization chart shown in the next section illustrates a typical organizational structure for a new city. The new city will establish its own structure based on decisions by the new City Council; however, the following is an example that has been used by LAFCo's financial consultant to estimate the cost and service levels of the proposed city.





The following table summarizes the estimated staffing levels used by LAFCo's Financial Consultant to estimate the annual costs to operate the proposed city of Arden Arcade. These staffing levels are comparable to similar cities and the County level of service provided in the FY 2008-09 Base Year.

Summary of Proposed Staffing by Department Scenario 2										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
City Manager	2.0	4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Attorney	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Clerk	3.0	3.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Administrative Services	4.0	7.0	14.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Development Services	6.5	11.75	19.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0
Law Enforcement	72.0	72.0	72.0	72.0	72.0	72.0	72.0	72.0	72.0	72.0
Total	90.0	100.25	117.5	120.5	120.5	120.5	120.5	120.5	120.5	120.5

Estimated Expenditures for Arden Arcade

In addition to continuing services that will be transferred or assumed by a new city, there are additional costs related to forming a new government entity. The following discussion highlights the estimated expenditures of the proposed city. (Detailed calculations and estimates can be found in the CFA.)

**Summary of Estimated Expenditures for the City of Arden Arcade
Fiscal Year 2012-13 (Scenario 2)**

Expenditures	Services and Expenditures
City Council	\$ 66,000
City Manager	458,000
City Clerk	405,000
City Attorney	1,025,000
Finance and Administration	752,000
Developmental Services	2,171,000
Police Services	15,131,000
Animal Control	415,000
Non-Departmental (rent, office supplies, insurance, etc.)	507,000
Property Tax Administration	209,000
Transition Year Repayment	275,000
Contingency (5%)	<u>1,113,000</u>
Sub-Total	\$22,527,000
County Loan Repayment	1,280,000
Revenue Neutrality Payment	<u>6,164,100</u>
Estimated Total Expenditures	\$ 29,971,100

Summary of Services and Estimated Expenditures to be Provided by Arden Arcade

General government reflects management, administration and support operations that will be provided by the new city of Arden Arcade. General government departments typically include the City Council, City Manager, City Clerk, City Attorney, Finance Department, Administration, and Non-Departmental Areas.

For the purpose of analyzing the costs associated with general government and administration, the following items have been included:

- (a) Staff salary, materials and supply cost;
- (b) Operating service costs, including legal, financial, and accounting services associated with running the new city;
- (c) Municipal liability insurance;
- (d) Municipal office rent;
- (e) Office furnishings, computers, and office supplies;
- (f) General Plan preparation and code development;

- (g) Contingency for emergencies, typically a 5% contingency in the city's General Fund expenses;

City Council

The City Council will be the governing body of the proposed city and will include six (6) council members elected by district and a mayor elected at large in accordance with the incorporation petition. The City Council will hire the City Manager and City Attorney, make service and budget decisions, enter into agreements with other governmental entities, and regulate land use within Arden Arcade.

The CFA assumes that council members will be paid a minimal monthly stipend, and other travel and membership costs will be incurred. The actual stipend will be decided as part of the city's formal budgetary process. The membership expenses include membership in organizations such as the League of California Cities and other professional organizations. The travel/meeting expenses include costs related to conference and meeting attendance.

Estimated Cost: \$58,000

City Manager's Office

The City Manager's Office, responsible for overseeing city operations, will include a City Manager, an Assistant City Manager, a secretary, and an administrative assistant. The Assistant City Manager position will be introduced in the second year of city operations, and the administrative assistant position will become full-time in the third year of operations.

Estimated Cost: \$458,000

City Finance and Administration

The Finance Department, responsible for financial oversight and budgeting, will include a Finance Manager, two accountant/ budget analysts, three accounting technicians, and one secretarial/ clerical position.

Administrative Services includes human resources functions and information services. The latter is assumed to be provided by contract initially. Start-up costs include computer hardware and software systems.

Estimated Cost: \$752,000

City Attorney

The city will likely initially contract with an attorney to provide legal expertise for the need city.

Estimated Cost: \$1,052,000

City Clerk's Office

The City Clerk's Office, responsible for a number of city administrative duties, will include a City Clerk and assistant. There will be one full-time and one part-time employee in the first year, with two full-time positions by the third year. Other costs include the cost of legal notices as well as supplies and materials.

Estimated Cost: \$405,000

Law Enforcement

The new city of Arden Arcade will have various options as it relates to the provision of police protection services. The proposed city has the ability to create its own city police department or contract with an existing law enforcement entity. The service provider could be the Sacramento County Sheriff's Department or another city police department.

In addition, the CFA and Executive's Officer's Report assumes that the "new police" services include traffic and collision enforcement currently provided by the California Highway Patrol (CHP). Upon incorporation, the CHP will not provide traffic enforcement after the transition period.

Estimated Cost: \$15,131,000

Animal Care and Regulation

The new city of Arden Arcade will assume the responsibility of providing animal care services, as currently provided by the Sacramento County Animal Care and Regulation Unit. The new city will have the option of providing the services directly by creating a city department to perform that function or by contracting with either the County of Sacramento or some other entity.

Estimated Cost: \$415,000

Public Works Administration and Maintenance

The new city of Arden Arcade can provide these services by a new city department, through contract with the County of Sacramento, or through contract with private entities. The provision of these services will require the new city to be responsible for the following costs associated with staff salaries and/or contracts, materials, supplies and equipment.

Basic road maintenance activity is funded through revenue sources such as gas taxes, road fund property tax, and any Measure A funds that are available. The city may contract with private companies and/or other public agencies for major maintenance and construction projects.

Estimated Cost: \$5,962,000

Planning, Building and Engineering Services

The city of Arden Arcade may provide these services through the creation of a city department, through contract with the County of Sacramento, or through contract with private entities. The provision of these services will require the new city to be responsible for costs associated with staff salaries and/or contracts, materials, supplies and equipment. Certain costs attributable to these services will be paid for through processing fees charged to future developers.

Estimated Cost: \$2,171,000

Non-Departmental

These are overhead costs that are not directly related to any department. Typically, these costs are allocated to departments by using an acceptable allocation methodology.

Estimated Cost: \$507,000

Property Tax Administration

This is the amount the County of Sacramento charges a city to administer collection and assessment of city property taxes.

Estimated Cost: \$209,000

Contingency

This is an amount of money that may be used for unanticipated budget issues: either higher expenditures that may occur during the budget year or lower revenues received during the budget year. The CFA estimates contingencies to be 5 percent of the total annual budget.

Estimated Cost: \$1,113,000

Transition Year Cost Repayment

The new city will be required to pay the County back for transition costs in excess of revenue received. The repayment is amortized over a five (5) year period.

Estimated Cost: \$275,000

First Year Revenue Neutrality Repayment

The CFA assumes that the City will not be able to make a Revenue Neutrality Payment during the first year in order to establish a Fund Balance Reserve. The amount owed will be amortized over five (5) years.

Estimated Cost: \$1,280,000

Revenue Neutrality Payment

The annual Revenue Neutrality Payment will be 90 percent of property taxes collected during the fiscal year.

Estimated Cost: \$6,164,100

Transition Period

The Cortese-Knox-Hertzberg Act provides for a period of time, typically called the “transition period,” during which the County is required to continue to provide services to a newly incorporated city. The purpose of the transition period is to provide a continuity of services to the incorporating territory while the new governmental entity is establishing itself. In this case, the transition period is the period of time when the new city will rely on the County of Sacramento for services [July 1, 2011 through June 30, 2011], under the terms specified in the LAFCo resolution.

The Cortese-Knox-Hertzberg Act provides for a transition period extending from the effective date to the end of the fiscal year in which incorporation occurs, or longer, by agreement of the parties. Elsewhere, the Act extends flexibility to the Commission in setting terms and conditions providing for the continuation of services and payment for those services for a longer period of time, so long as the Commission’s decision to do so is supported by substantial evidence in the record.

Transition Year Costs and Revenues

After the effective date of incorporation, the County continues to provide service to the city for the balance of the fiscal year in which the incorporation becomes effective. However, the transfer of revenue from the County to the new city begins almost immediately upon the effective date of incorporation. The service must be repaid by the new city over a five year period, normally beginning after the year of transition. The LAFCo staff and Arden Arcade Incorporation Committee propose that the effective date of the Arden Arcade incorporation should be July 1, 2011, resulting in a transition period of the entire FY 2011-12.

The following matrix illustrates the various municipal service providers after incorporation followed by a brief description of service responsibility and impacts:

Summary of Municipal Service Providers within the Proposed City of Arden Arcade		
Service Provider/Special Districts	Function and Services Provided	Future Provider
Prior to Incorporation		After Incorporation
Sacramento County General Government(1) Law Enforcement(1) Planning(1) Code Enforcement(1) Animal Control(1) Building Inspection(1) Public Works, Traffic, etc.(1) Storm Water Utility(1) Sacramento County Water Agency(1) Solid Waste(1) Street Lighting (CSA No. 1)(1) CSA No. 6(1) CSA No. 11(1)	Drainage Water Garbage and Recycling Paratransit (Inactive) Police and Animal Control	City City City City City City City County County County County County Detach
Sacramento Metropolitan Fire District	Fire and Emergency Response	No Change
Water Districts Sacramento Suburban Water District Del Paso Manor Water District Sacramento County Water City of Sacramento Carmichael Water District	Water	No Change
Park and Recreation Districts Fulton El Camino Rec. and Park Mission Oaks Rec. and Park District Arden Manor Rec. and Park District Arcade Creek Rec. and Park District Arden Park Rec. and Park District	Parks and Recreation	No Change
American River Flood Control District	Levee Maintenance and Flood Protection	No Change
Sacramento Regional County Sanitation	Sewer Treatment	No Change
Sacramento Area Sewer District	Sewer Collection and Distribution Systems	No Change
Sacramento Municipal Utility District	Electric Service	No Change
Sacramento-Yolo Mosquito and Vector Control Agency	Mosquito and Vector Control	No Change
Investor Owned Utilities		

Pacific Gas & Electric California American Water Company Southern California Water Company	Natural Gas for heating Water Distribution Water Distribution	No Change
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(1) After the transition year, the new city may or may not continue to contract with the County for many of the municipal services it provides to the unincorporated area. However, the city may hire or contract out for animal control, solid waste, planning, law enforcement, code enforcement, building inspection, drainage, etc. For example, after incorporation, the new city could detach from CSA No.1, however, this would require approval from LAFCo. In addition, the transfer of some of these services would require negotiations and agreements between the County and the new city depending on the type of service provided by the County. Generally, services that do not have capital or infrastructure components may be provided by the new city after incorporation.

Provision of Services During and After Transition Period

(1) Law Enforcement: Law enforcement is provided by the Sacramento Sheriff’s Department. In addition, the California Highway Patrol (CHP) provides traffic patrol services within the area and all other unincorporated areas throughout the State. After incorporation, the City will assume the burden of all law enforcement activity, including traffic enforcement. The requirement to offer police service can be met either through the existing provider, (The County Sheriff), the Sacramento City Police Department, or some other public or private agency.

Following incorporation, the CHP will continue to patrol the State highways and interstate freeways (Highway 80) within the incorporation boundary. In addition, the CHP will provide traffic enforcement for all roads in Arden Arcade free of charge for the first fiscal year during which the city is incorporated. (Note: CHP traffic enforcement services will terminate after the transition period. In order to continue to provide the current level of service, the new city has the ability to provide traffic or enforcement or contract with the CHP).

Issue: None.

Recommendation: None.

(2) Planning and Land Use Regulation: The Sacramento County Board of Supervisors has control over land use and planning activities within the proposed area of incorporation. Implementation of planning services is through the County’s Planning and Community Development Department. In addition, the Sacramento Area Council of Governments comprised of cities and counties of Sacramento, Placer (portion), Sutter, Yolo and Yuba assists in regional planning and coordinates transportation improvements in member jurisdictions.

Local Land Use Planning: Land use planning and regulation is performed by the Sacramento County Planning and Community Development Department.

Land use planning and zoning is a major regulatory power of local government. Under state law, land use and zoning power shifts to the new City Council upon incorporation. However, the County General Plan and all entitlements remain in place for 120 days after which time the City Council may adopt its own General Plan or it may adopt the County's General Plan. Upon incorporation, the new City Council will be responsible for all land use and zoning decisions within its corporate boundary subject to the County General Plan and Ordinances until the new city adopts its own General Plan and related Ordinances.

Currently, Arden Arcade is undergoing relatively minor new development and redevelopment. Some land use entitlements may be in the process of consideration for approval within the area proposed for incorporation. Moreover, many environmental mitigation measures have been approved to mitigate the impacts associated with several different development projects.

Issue: Incorporation law does not provide protection for zoning applications and subdivision maps in which entitlements have not been approved. The new City Council will have the authority to adopt, modify or deny the proposed project based on City planning policy, standards and regulations.

Statutory law does provide several protections for those developers who have projects that have been approved by the Board of Supervisors. **State law ensures that any development agreement entered into between the County and any development project applicant, and any condition of project approval imposed by the Board of Supervisors on a discretionary project, adopted or approved prior to the effective date of incorporation shall remain valid and enforceable.** In addition, any environmental mitigation measure approved by the Board of Supervisors prior to incorporation must be honored by the new city. Furthermore, projects in which permits have already been drawn from the County must also be honored.

Your Executive Officer recommends that current granted entitlements with all terms, conditions, and mitigation that were placed on the entitlement be maintained if the Commission approves the incorporation.

It should be noted that the County has established the Arden Arcade Community Planning Council within the proposed incorporation territory. This Planning Council has limited authority over planning and land use matters within this community. Upon incorporation it will need to be restructured if your Commission approves the proposal and the election is successful.

Recommendation: Any and all development agreements entered into between the County of Sacramento and any development project applicant, and any conditions of approval (including mitigation measures adopted pursuant to the California Environmental Quality Act) imposed by the County Board of

Supervisors on any and all discretionary projects adopted and approved prior to the effective date of incorporation shall remain valid and enforceable between the applicant and the new City of Arden Arcade, subject to Government Code Section 65865.3(a) and (b).

- (3) Regional Planning: The Sacramento Council of Governments (SACOG) consists of the counties and associated cities of Sacramento, Placer (portion), Sutter, Yolo and Yuba. SACOG coordinates regional transportation planning activities of member jurisdictions.

Issue: No comments have been received from SACOG.

Recommendation: The City of Arden Arcade shall petition SACOG for inclusion in its Joint Powers Agreement as a member city and participate in SACOG's regional planning activities as a non-member prior to membership.

- (4) Animal Care and Regulation: Currently, the County Department of Animal Care and Regulation provides for animal control in the proposed incorporation area. Animal Care and Regulation is a service that the new city will likely provide by contract. The city of Arden Arcade may contract with the County of Sacramento, as do other cities, hire employees, or contract with another entities such as the City of Sacramento to provide these services.

Issues: None.

Recommendation: The City of Arden Arcade, in addition to providing those services required by law, shall ensure provision of Animal Care and Regulation Services at a level at least equal to that which is currently provided by the County of Sacramento.

- (5) Building Inspection and Site Development Services: State law requires a new city to provide building inspection and site development services. Currently, the Sacramento County Department of Public Works Building Inspection Division provides these services to the territory within the proposed incorporation.

Issues: The city will have to enter into a contract with the County, hire employees, or enter into a contract to provide this service.

Recommendation: Pursuant to the requirements of State law, the new city shall establish a building inspection and site development function.

- (6) Street and Highway Maintenance: The Sacramento County Department of Public Works provides street and highway maintenance. Upon incorporation, State law requires that this service become a responsibility of the new city. Street and highway maintenance includes routine maintenance (i.e., pothole

repair); special maintenance (i.e., chip sealing), reconstruction of roads damaged by wear and tear; safety maintenance (i.e., road stripping and maintenance of signs); storm maintenance (i.e., removal of debris after storms); and traffic signal maintenance. Street maintenance is largely funded through the State Gas Tax (Street and Highway Code Section 2104 to 2107.5) and Measure A resources.

Issues: None.

Recommendation: (1) Pursuant to Government Code Section 57385, all roads and highways or portions of road(s) and highway(s), which had been accepted into the County road system pursuant to Section 941 of the Street and Highway Code, shall become City streets on the effective date of the incorporation. (2) The City of Arden Arcade shall enter into a joint maintenance agreement with the County of Sacramento and City of Sacramento for the maintenance of public streets that define common boundaries.

- (7) Services Not Transferred to the New City: A number of special districts provide water, sewer, fire, and park services to the Arden Arcade Community. The proponents' proposal provides that these special districts will continue to provide services after incorporation. Basically, there will be no change in either the service provider or level of service provision within the incorporation boundary to be adopted by the Commission.

The boundaries of the Special Districts were created by previous district formations and annexations. No changes in special district boundaries will result from the proposed incorporation. Services will continue to be provided based on current district boundaries and service delivery will not be changed as a result of this incorporation.

The description is not all inclusive. Rather, the services that are described are those that are most closely associated with the operation of the new city.

Fire and Emergency Medical Services: Fire protection and emergency medical services (including 911 ambulance transport), within the proposed incorporation boundaries are provided entirely by Sacramento Metropolitan Fire District. SMFD encompasses not only the proposed incorporation boundaries, but additional territory mainly to the north, south, and east. Funding for the SMFD comes from a dedicated share of the property tax and some fees associated with fire and ambulance services, which is the case for most fire districts. SMFD is an independent special district with an elected Board of Directors.

To exclude fire and emergency medical services from an incorporation proposal is not unique and certainly not unprecedented. In none of the incorporations which the Commission has considered, and ultimately approved

over the last two decades, has the Commission required as a condition of incorporation that the new city assume fire and emergency responsibilities from the special district providing those services.

Recommendation: None.

Park and Recreation Services: The proposed incorporation area is served by four (4) park districts: (1) Mission Oaks Recreation and Park District; (2) Fulton el-Camino Recreation and Park District; (3) Arden Manor Recreation and Park District; and (4) Arden Park Recreation and Park District. These Districts will continue to provide park services after incorporation. Funding for these Recreation and Park District comes from a dedicated share of the property tax and some fees associated with park services.

Water Supply: Existing development within the proposed incorporation boundary has an adequate water supply provided by a number of public and private purveyors in the subject area. The project does not include changes to the existing municipal water services and would not require additional water supplies.

As nearly everywhere in California, the provision of water is critical for both present and future growth development, financing and delivery. Both the project proponents and the County of Sacramento suggest that the new city not become involved in the provision of water services. The development and/or acquisition of public water districts or private concerns are not only very costly. For the short term, the current providers should maintain water distribution operations.

In addition, new development shall not occur until a reliable water supply is identified and all agreements and financing for said water supply are in place.

Issues: None.

Recommendation: None.

Flood Control and Drainage: Drainage services are provided by the Sacramento County Water Agency. The agency as one assessment district (Zone 13), a drainage impact fee zone (Zone 11), and a storm water drainage district (Zone 12 - Sacramento County Storm water Utility). The Water Resources Division of the Sacramento County Public Works Agency manages each of these entities. Each entity managed by the Water Resources Division has a specific task in the control of flood, storm water runoff, or other urban drainage, and each maintains its own funding source, which allows it to provide its own unique or geographically based services.

The entities managed by the Water Resources Division that will provide services to the territory within the proposed incorporation include:

Sacramento County Storm Water Utility – This utility funds all drainage maintenance efforts along with the capital improvement program, storm water quality program, flood response efforts, and portions of the National Flood Insurance Program (NFIP) and drainage master planning programs. The Storm water Utility Service Fee and an allocation of property taxes are the primary revenue sources for these activities.

Sacramento County Water Agency – Zone 11b. This zone primarily funds construction of new trunk drainage improvements (facilities that drain over 30 acres). These activities are funded by a drainage development fee. The County of Sacramento has indicated that Zone 11b will be detached from the incorporation boundary.

Sacramento County Water Agency – Zone 13. This zone funds long-range planning efforts, drainage master plans, and some NFIP programs. These activities are funded by a special benefit assessment. The Transfer of land use control to the new city and the development that occurs may impact flooding and storm water drainage within the proposed city and outside the boundaries of the proposed city. It is not anticipated that the new city will dramatically alter land use patterns, it is hoped that a dialogue will develop between the new city and the Sacramento County Water Agency and an agreement be formed which would ensure the new city's land use policies take into account certain critical policies that the Agency employs to control runoff and flooding.

In addition to services provided by the Sacramento County Water Agency, other services related to flood control and drainage may be provided by other entities such as the Sacramento Area Flood Control Agency and the American River Flood Protection District.

Issue: The County of Sacramento holds a National Pollution Discharge Elimination System permit, approved by the Regional Water Quality Control Board. The County of Sacramento is currently a co-permittee with the Cities of Sacramento, Folsom, Galt and Citrus Heights under this permit. All new municipalities formed within the County of Sacramento are required to become co-permittees under the Regional Board's NPDES permit. As a result, the proposed city of Arden Arcade shall become a co-permittee with the aforementioned cities should incorporation occur.

Recommendation: The city of Arden Arcade shall become a co-permittee under the terms associated with the existing Countywide National Pollution Discharge Elimination System Permit.

Water Quality (Sewage): Sacramento County Regional Sanitation District (SCRCSD) and Sacramento Area Sewer District SASD provide sewage collection and treatment service to the proposed territory. The new city may be eligible for representation on the respective District Boards.

Issue: None.

Recommendation: None.

Street Lighting: County Service Area No. 1 (CSA No. 1) currently provides street lighting to the proposal territory. CSA No. 1 is a special district that provides street lighting services to the entire unincorporated area of Sacramento County. Funding for CSA No. 1 is derived from a very small share of the property tax and an assessment on real property. There are two components to street lighting: highway safety lighting and street lighting.

Issue: The County (CSA No. 1) will continue to provide services (with reimbursement) after the effective date of the incorporation. The County will continue to collect the assessments and provide street lighting services unless the city of Arden Arcade chooses to detach from the district and provide the service independently.

Recommendation: None.

Public Transit and Paratransit Services: Transit and paratransit services are provided by Sacramento Regional Transit District (RT). The County of Sacramento currently contributes to RT in order to provide for transit services; although, there is no legal requirement to either fund RT exclusively or to provide any transit services.

LAFCo staff has concluded that it would be difficult for the new city to provide an “equivalent level” of transit service accessibility as that currently enjoyed by the residents within the proposed incorporation area without duplicating RT bus and Light-rail routes from within the new city to points throughout the RT District.

Staff recommends, and the project proponents agree and support, obtaining transit service from Sacramento Regional Transit District.

Recommendation: The City of Arden Arcade shall maintain existing public transit service including applicable paratransit service required under the Americans with Disabilities Act. This shall be accomplished by requiring annexation into the Sacramento Regional Transit District and activation of transit service within the city, in accordance with the procedures set forth in Sections 102052.5 and 102055 of the District’s enabling legislation (Part 14 of Division 10 of the California Public Utilities Code).

Solid Waste: Currently, Sacramento County Solid Waste provides refuse collection services. Issue: Upon incorporation, the new City Council may alter service provisions. This may consist of selecting a new private company, or the creation of a city department to provide collection and disposal services. Since the proponents are not proposing to change the current provision of service, LAFCo staff recommends that the new city contract with the County of Sacramento for the provision of solid waste collection service.

Recommendation: The City of Arden Arcade shall contract with the County of Sacramento to provide solid waste collection services.

Schools: The provision of schools will be unaffected by the incorporation. Grammar, middle and high schools will continue to be the responsibility of the School Districts serving the incorporation boundary. LAFCo has no purview regarding the provision of school services or the reorganization of school district boundaries. These matters are the prerogative of the State and local school boards.

Issue: None.

Recommendation: None.

Library: The provision of library services will be unaffected by the incorporation. The City of Sacramento/County of Sacramento Library Authority will continue to provide library services within the new city's boundary.

Issues: None.

Recommendation: None.

Utilities: The incorporation will have no impact on the provision of telephone, electric, gas, or cable television services. The only difference in incorporated and unincorporated territory regarding the provision of these services is that by law, utilities must pay a franchise fee to operate. The ability to impose the franchise fee(s) would transfer to the new city upon incorporation. The ability to collect utility user tax will also be transferred to the new city upon incorporation.

Issue: None.

Redevelopment Area: A portion of the proposed city of Arden Arcade lies within the Auburn Boulevard Redevelopment Project Area. This area will remain under the jurisdiction Sacramento Housing and Redevelopment Agency.

Recommendation: After incorporation the City of Arden Arcade shall establish a receiving agency pursuant to Health and Safety Code Section 33217 to comply with Sacramento Housing and Redevelopment Agency condition of approval.

Provision of Countywide Services

In addition to the services listed above, the County of Sacramento will continue to provide countywide services to residents within the proposed new city. The provision of countywide services is financed primarily by the County General Fund. Countywide services include:

- Agricultural Commissioner
- Coroner
- Courts
- District Attorney
- Public Defender
- Probation
- Jail
- Environmental Management and Health
- Human Assistance
- Health and Human Services
- Elections
- County/Clerk Reorder
- Assessments
- Tax Collection
- Regional Parks

FINANCIAL AND SERVICE IMPACT ANALYSIS RELATED TO THE SPECIAL DISTRICTS AND REGIONAL JURISDICTIONS

Regional Agencies and Joint Power Authorities (JPA’s)

There are a number of regional agencies and Joint Power Authorities that will continue to provide service to the area proposed for incorporation. The following table provides a summary of these agencies and their responsibilities.

Regional Jurisdiction	Service and Function Responsibility
Sacramento Regional Transit District	Mass transit, buses, light rail
Sacramento Public Library Authority	Library Services
Sacramento Air Quality Management District	Air Quality
Sacramento Transportation Authority	Transportation Funding
Sacramento Area Council of Governments	Transportation Planning
Sacramento Housing and Redevelopment Agency	Housing and Redevelopment
School Districts	Education
Sacramento Flood Control Agency	Flood Protection
Sacramento Employment and Training Agency	Job Creation
Sacramento Metropolitan Cable Commission	Regulate Cable and Internet
School Districts	No Change or impact

Analysis and Impacts on Regional Jurisdiction Resulting from the Proposed Incorporation

The incorporation to the new city would not result in any changes to the Regional Jurisdictions or Joint Power Authorities within Sacramento County. There are potential impacts on the governing boards of these respective agencies and potential impacts on representation issues. The new City may be required to contribute their fair share to operate these agencies if required, however, there should be no significant direct impact or costs to these agencies if the new city participates or appointed to these Boards.

Impacts to the County, Special Districts and Municipal Service Providers

A number of special districts provide water, sewer, fire, and park services to the Arden Arcade Community. The proponent’s proposal provides that these special districts will continue to provide services after incorporation. Basically, there will be no change in either the service provider or level of service provision within the incorporation boundary to be adopted by LAFCo.

The boundaries of the Special Districts were created by previous district formations and annexations and are not contiguous with one another. No changes in special district boundaries will result from the proposed incorporation. Services will continue to be provided based on current district boundaries and service delivery will not be changed as a result of this incorporation. Some of these districts currently provide services to the unincorporated area as well as cities. While Special District boundaries may overlap county and city boundaries, the boundaries of Special Districts that provide similar services do not overlap.

OTHER ISSUES

Impacts to the County of Sacramento

The main impact to the County of Sacramento is the financial impact that results in the loss of revenue if the Arden Arcade Community incorporates. The Revenue Neutrality Payment is required to mitigate the loss of this revenue.

In addition, there could be impacts to employees when and if services are transferred to the new city. These impacts cannot be determined at this time because there are a number of variables and factors that may influence the transition from County to City operations or contract service providers. These issues can only be dealt with when and if they occur.

Impacts to Special Districts

No Special District Reorganizations are proposed or required in order to incorporate the Arden Arcade area except detachment from County Service Area No. 11 (CSA No. 11). CSA No. 11 was formed on October 19, 2004 to provide supplemental law enforcement and animal control services to the unincorporated area. The District was established, however, no assessments or special taxes were levied. A special tax or property assessment would require a Prop 218 vote or a vote of the electorate.

Impacts to Regional Housing Needs Assessment Transfer and Allocation

In evaluating a proposal for incorporation, LAFCo must examine the extent to which the proposal will assist the new city in achieving its fair share of the regional housing needs as determined by the appropriate council of governments.

According to SACOG, the current Regional Housing Needs Plan (RHNP) assumed the need for only three hundred and five (305) housing units in the proposed incorporation area during the 2006 to 2013 planning period. Of these units, sixty seven (67) units are very low-income, forty six (46) units are low-income, and one-hundred ninety two (192) units are moderate and above moderate housing.

Pursuant to Government Code section 65584.07, the parties shall meet to determine the number of housing units that shall transfer from the County to the new City of Arden Arcade. In the event that the parties cannot agree, either party may request that SACOG determine the number of units to be transferred pursuant to section 65584.07.

In light of the low number of housing units assumed in the current RHNP for the Arden Arcade Area, the Executive Officer recommends that the Commission find that the incorporation will not affect the ability of the City or County to achieve their respective fair shares of the regional housing needs.

Impacts to Regional Transit

The project recommendation assumes that the new city will request to be annexed into the Regional Transit District or contract with the District to maintain existing levels of service. LAFCo does not have authority to annex a new city into this District but can recommend that they consider it.

Impacts to Agricultural Land and Open Space

The undeveloped areas within the proposed boundaries do not include any land that is considered to be prime agriculture.

Impacts to Auburn Boulevard Redevelopment Area

The Sacramento Housing and Redevelopment Agency administers the Auburn Boulevard Redevelopment Area located within the proposed city. There will be no change in the role and responsibility of SHRA upon incorporation. LAFCo is imposing a term and condition that requires SHRA and the City to enter an agreement for SHRA to continue operation of the redevelopment area. The new city is required to establish an agency to be the receiving agency.

The Auburn Boulevard Project Area comprises 118 acres within both the City and County of Sacramento along a two-mile commercial corridor fronting the Business 80 freeway. Because most of the Project Area is within county boundaries, the County acts as lead agency in administering the Project Area. The City portion comprises just four properties.

The Redevelopment Area was adopted in October 1992, in response to physical, economic and social deterioration. Since plan adoption, the area has also suffered from property tax reductions and exemptions.

There are 12 small motels along Auburn Boulevard, left over from the heyday of Business 80 as the main artery from the Bay Area to Lake Tahoe. Taken together, the motels occupy 26 acres, or 22 percent of the Project Area.

The poor structural condition of the motels, a result of long-term deferred maintenance, was also a critical concern. SHRA has successfully used multi-agency enforcement to address the health and safety issues involved. In addition, the Agency has funded two full-time sheriff deputies to address crime and coordinate the different enforcement agencies and programs operating in the area. Although not eradicated, crime has now been reduced to a level that facilitates private investment in the Project Area.

The Project Area also contains eight trailer parks with approximately 700 spaces. They are poorly maintained and mostly open to both the Boulevard and freeway visibility. The trailer parks encompass 19 acres, or 16 percent of the Project Area.

Freeway accessibility and visibility are important for Auburn Boulevard properties. General and light commercial businesses such as auto centers, car lots, furniture stores, auto service centers, repair shops and warehouses have been attracted to the Boulevard.

According to staff from the County, SHRA, and the City of Sacramento, the parties anticipate that SHRA will retain jurisdiction over the Project Area. Should the incorporation proposal be approved, the new City of Arden Arcade may request that jurisdiction over the Project Area be transferred to the new city.

In the event that the new city requests such a transfer, the transfer will be governed by Health and Safety Code section 33216. Under Health and Safety Code section 33216, SHRA and the new city would be required to negotiate and enter into a transfer agreement adopted by resolution by both agencies. In addition, the new city will be required to adopt an ordinance declaring the need for a redevelopment agency in the new city, and adopting the same redevelopment plan for the Project Area that was previously adopted by SHRA.

Should the new city initiate the transfer of jurisdiction under Health and Safety Code 33216, the parties will be required to meet and address the issues raised in SHRA's comments to the EIR and CFA.

ENVIRONMENTAL ANALYSIS

Purpose

The Final Environmental Impact Report (Draft EIR) was prepared in accordance with the California Environmental Quality Act (CEQA) to evaluate the potential environmental impacts associated with the incorporation of Arden Arcade (State Clearinghouse No. 2007102114). This document was prepared in conformance with CEQA (California Public Resources Code, Section 21000, et seq.) and the CEQA Guidelines (California Code of Regulations, Title 14, Section 15000, et seq.), and Sacramento Local Agency Formation Commission (LAFCo) rules and regulations. This Draft EIR is intended to serve as an informational document for the public agency decision makers and the public regarding the incorporation of Arden Arcade.

A petition and application for the proposed incorporation of the community of Arden Arcade (project) was submitted to the Sacramento LAFCo by the Arden Arcade Incorporation Committee (proponents or project applicant) in February of 2007. The petition provided that the effective date of incorporation shall be July 1, 2008. However, because of inadequate funding, the project was placed on hold; as a result, the new effective date of incorporation shall be determined by LAFCo. The proposed incorporation requires the discretionary approval of LAFCo, which is the Lead Agency for the project under CEQA.

Purpose

This Draft EIR provides a program-level analysis of the environmental effects of the project. The environmental impacts of the project are analyzed in the Draft EIR to the degree of specificity appropriate, in accordance with Section 15146 and Section 15180 of the CEQA Guidelines. This document addresses the potentially significant adverse environmental impacts that may result from future policy implementation and attempts to anticipate likely new development and service scenarios that could ultimately result from the incorporation of Arden Arcade. It also identifies appropriate and feasible mitigation measures and alternatives that may be adopted to significantly reduce or avoid these impacts.

The proposed incorporation should not result in any environmental impacts that cannot be mitigated under the proposed boundary (Scenario 1) or the alternative boundary (Scenario 2).

The Final EIR addresses and responds to the comments received on the Draft EIR. No new or significant impacts have been identified from the comments provided on the Draft EIR.

Sacramento LAFCo is designated as the lead agency for the project. CEQA Guidelines Section 15367 defines the lead agency as “. . . the public agency, which has the principal responsibility for carrying out or approving a project.” Other public agencies may use this Draft EIR in the decision-making or permit process and consider

the information in this Draft EIR along with other information that may be presented during the CEQA process. This Draft EIR reflects the independent judgment and analysis of the Sacramento LAFCo as required by CEQA.

This Draft and Final EIR addresses the potential environmental effects of the proposed project. The scope of this Draft EIR includes the areas of controversy identified by the Notice of Preparation (NOP) issued by LAFCo, comments obtained during a public scoping meeting, as well as issues raised by agencies and the public in response to the NOP. Although a Comprehensive Fiscal Analysis is required by state law for the incorporation of a future city, such information is outside the jurisdiction and requirements of CEQA and, therefore, will not be addressed in this EIR.

A Notice of Preparation (NOP) for the project was issued on October 26, 2007. The NOP describing the original concept for the project and issues to be addressed in the EIR was distributed to the State Clearinghouse, responsible agencies, and other interested parties for a 30-day public review period extending from October 26, 2007 through November 26, 2007. The NOP was recirculated on September 1, 2009, with a revised list of alternatives. Specifically, the Alternate Boundary Alternative was defined to include areas south of Fair Oaks Boulevard, islands located along the American River. The comment period for the 2009 Recirculated NOP ended September 30, 2009. The NOP identified the potential for significant impacts on the environment related to the following topical areas:

- Air Quality
- Biological Resources
- Hazards and Hazardous Materials
- Hydrology and Water Quality
- Land Use and Planning
- Noise
- Population and Housing
- Public Services and Recreation
- Transportation
- Utilities and Service Systems

Determination of Impact Significance

Pursuant to CEQA (Guidelines Section 15125(a)), an EIR must include a description of the physical environmental conditions in the vicinity of the project, as they exist at the time the Notice of Preparation is published (in this case, 2007). This environmental setting will normally constitute the baseline physical conditions by which a lead agency determines whether an impact is significant. The setting is presented from site, local, sub-regional and/or regional perspectives, as appropriate to each environmental topic. The environmental effects of the project are defined as changes to the environmental setting that are attributable to the project. The environmental setting is normally the baseline physical condition by which the lead agency determines whether an impact is significant.

According to the CEQA Guidelines Section 15382, a significant effect on the environment means “. . . a substantial, or potentially substantial, adverse change in any of the physical conditions within the area affected by the project.” For each category of physical condition evaluated in this EIR, thresholds of significance have been developed using criteria discussed in the CEQA Guidelines; criteria based on factual or scientific information; criteria based on regulatory standards of local, state,

and federal agencies; and criteria based on goals, objectives, and policies identified in the Sacramento County General Plans and Arden Arcade Community Plan.

Mitigation measures identified in this report are characterized by one of three categories:

1. Measures necessary to reduce the identified impact below a level of significance;
2. Measures recommended to reduce the magnitude of a significant impact, but not below a level of significance; and
3. Measures recommended to reduce the impacts to magnitude of a less than significant impact. Where implementation of more than one mitigation measure is needed to reduce an impact below a level of significance, this is noted.

The Cortese-Knox-Hertzberg Act Sections 56885.5 and 56886 provide the Sacramento County LAFCo with broad authority to condition incorporation projects that promote effective and orderly organization changes. However, Section 56886 does prohibit LAFCo from directly regulating (or mitigating) land use and property development (including the subdivision of land).

The proposed incorporation should not result in any environmental impacts that cannot be mitigated under the proposed boundary (Scenario 1) or the alternative boundary (Scenario 2).

The Final EIR addresses and responds to the comments received on the Draft EIR. No new or significant impacts have been identified from the comments provided on the Draft EIR.

Executive Officer Recommendation
Direct staff to prepare the following Resolutions: <ol style="list-style-type: none">1. Certify the Final Environmental Impact Report (SCH 2007102114)2. Adopt a Statement of Fact and Overriding Considerations3. Adopt the Mitigation Measures and Mitigation Monitoring and Reporting Program set forth in the Final Environmental Impact Report

SUMMARY OF FINDINGS AND CONCLUSION

City Fiscal Feasibility and Viability

By law, the Commission must be able to make a finding that the proposed city of Arden Arcade can sustain itself for three years after incorporation. Sacramento Commission policies extend this time limit to a ten year period. The financial viability of a city is determined by its capacity to generate revenue in excess of expenditures. LAFCo is required to forecast a city budget (revenue and expenditures) based on a comparison of cities of similar size.

The proposed city of Arden Arcade is economically viable (feasible) when the mitigation payment is extended an additional 6.5 years. In effect, the payment to the County of Sacramento is lowered in order for the city to maintain a fund surplus and to be able to meet its on-going expenditures. Repayment to the County is made by increasing the payment term.

Substantially Similar Revenue and Expenditures

Your Commission must also make a finding that substantially similar revenue and expenditures are transferred, i.e., service levels for the new city should be similar to the current (unincorporated) service levels.

The Comprehensive Fiscal Analysis for the proposed city of Arden Arcade has developed a pro forma budget based on the current service levels that are provided by the County of Sacramento. With one exception, the CFA finds that the estimated service levels for the proposed city will be substantially similar to the service levels currently provided by the County.

The proposed city of Arden Arcade is economically viable and the new city will be able to provide a substantially similar level of services to its residents. Based on a proposed revenue neutrality agreement with the County of Sacramento, the proposed city of Arden Arcade will be able to mitigate the estimated revenue loss to the County of Sacramento. The mitigation payment and term of the payment will be dependent upon whether or not the unincorporated residents approve the continuation of a 2.5 percent utility tax.

Revenue Neutrality Payments

The Commission finds that the terms and Conditions of the Revenue Neutrality Payments negotiated between the Arden Arcade Incorporation Proponents and the County of Sacramento are adequate to mitigate the estimated shortfall to the County of Sacramento and that the proposed incorporation is revenue neutral as set forth in Cortese-Knox-Hertzberg.

Boundary

The boundary of the proposed city is recommended to be Boundary Alternative Scenario 2 that includes the area lying south of Fair Oaks Boulevard and north of the centerline of the American River. The boundary is definite and certain in that it does not split parcels. The boundary of the proposed city has been adjusted and modified to address fiscal and service delivery issues concerns raised by the County of Sacramento.

Regional Housing Needs Allocation

Pursuant to Government Code section 65584.07, the parties shall meet to determine the number of housing units that shall transfer from the County to the new City of Arden Arcade. In the event that the parties cannot agree, either party may request that SACOG determine the number of units to be transferred pursuant to section 65584.07.

Airport Issues

The new city will have to comply with the rules and regulations related to land use and noise issues related to over flight from McClellan Air Park. The Sacramento Area Council of Government is the Airport Land Use Commission (ALUC) that regulates and has oversight. The new city will be required to comply with these regulations.

Environmental Justice

Environmental justice is defined as the fair treatment of people of all races, cultures, and incomes with respect to the development, adoption, implementation, and enforcement of environmental laws and policies. Fair Treatment means that no group of people including racial, ethnic, or socioeconomic groups should bear a disproportionate share of the negative environmental consequences resulting from industrial, municipal, and commercial operations or the execution of federal, state, local, and tribal environmental program and policies.

Environmental Justice exists when “environmental risks and hazards and investments and benefits are equally distributed with a lack of discrimination, whether direct or indirect, at any jurisdictional level; and when access to information, participation in decision making, and access to justice in environment-related in environment-related matters are enjoyed by all.

The project would not result in any physical changes to the environment. Accordingly, low-income populations located within the proposed incorporation area would not be exposed to proportionately greater risks or impacts compared to those borne by other individuals as a result of project implementation. Any changes in levels of service to the incorporation area would equally affect all population groups. No impact would occur.

Water Availability

The proposed City of Arden Arcade is not proposing to provide water service to the residents living in the incorporation boundary. However, the new city will be required to comply with current state laws when evaluating and approving development proposals to ensure that there will be an adequate water supply for new development projects within the project boundary.

Agricultural Land and Open Space

The Commission shall consider the following:

56377. In reviewing and approving or disapproving proposals which could reasonably be expected to induce, facilitate, or lead to the conversion of existing open-space lands to uses other than open-space uses, the commission shall consider all of the following policies and priorities:

(a) Development or use of land for other than open-space uses shall be guided away from existing prime agricultural lands in open-space use toward areas containing nonprime agricultural lands, unless that action would not promote the planned, orderly, efficient development of an area.

(b) Development of existing vacant or nonprime agricultural lands for urban uses within the existing jurisdiction of a local agency or within the sphere of influence of a local agency should be encouraged before any proposal is approved which would allow for or lead to the development of existing open-space lands for non-open-space uses which are outside of the existing jurisdiction of the local agency or outside of the existing sphere of influence of the local agency.

The undeveloped parcels within the proposed boundaries that do not have environmental constraints are not considered to be prime agriculture or open space.

The Arden Arcade has a number of properties designated open space and public. The proposed incorporation will not lead to the conversion of prime agricultural land or open space. The Arden Arcade Community has relatively few undeveloped parcels. Undeveloped parcels may be subject to environmental constraints

Williamson Act Contracts

No parcels or properties are currently under Williamson Act Contracts.

Consistency with Local Plans

The proposed incorporation is consistent with the Regional Transportation Plan, the Sacramento County General Plan, the Arden Arcade Community Plan and related County ordinances.

As discussed in the EIR, the proposed incorporation would result in a continuation of existing land use patterns. On this basis, it is reasonable to conclude that the plan is

consistent with the Regional Transportation Plan, the County General Plan, and the Arden Arcade Community Plan and related County ordinances.

Conclusion

Based upon the findings outlined in this report, previous staff reports, information provided by the public and other governmental agencies at public hearings before your Commission, and the findings of the Comprehensive Fiscal Analysis, I recommend that your Commission direct staff to prepare final Resolutions stating the terms and conditions for the approval of the proposed incorporation of Arden Arcade and certifying the Final EIR. Staff will present final Resolutions at the Commission meeting of May 19, 2010.

The information gathered by staff for your Commission analysis of the proposed incorporation of Arden Arcade is available to the citizens of the community and is, in my opinion, adequate for the citizens of the community to make an informed decision on this issue.

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

Respectfully Submitted;

Peter Brundage
Executive Officer

PB:pb:dl:dt:li
Attachments
5/14/2010 5:09 PM