

MEMORANDUM
LOCAL AGENCY FORMATION COMMISSION

TO: Local Agency Formation Commission

FROM: Stephen Lucas, Executive Officer

SUBJECT: **Agenda Item 5.3 - Review and Acceptance of Final Report Chapman, Mulberry, and Stewart Avenue Annexation Study for Butte County/City of Chico**

DATE: January 29, 2014 for the meeting of February 6, 2014

Background

For more than a decade now, the City of Chico (City), County of Butte (County) and LAFCo have had discussions concerning the need to annex pockets of unincorporated territory referred to as islands. Many islands have been successfully annexed over the years utilizing the island annexation provisions in the Cortese Knox Hertzberg Reorganization Act of 2000, specifically Government Code Section 56375.3. This law was established by the legislature with explicit intent to encourage island annexations by establishing an expedited process by which a City and LAFCo could annex islands without the need to conduct protest proceedings or costly elections. This legislated process acknowledged that the efficient delivery of government services and the need for orderly jurisdictional boundaries among other factors, at times, takes precedence over a resident's choice of what jurisdiction to live in.

In the case of Chico, the dramatic fragmentation of boundaries resulted in great confusion among residents concerning what jurisdiction they were in, a redundancy of services provisions, confusion over emergency response calls, oddly configured voting precincts, and a growing disparity in infrastructure standards and maintenance. In short, a far more homogenous City boundary has been the result of the island annexation program. An exception to this effort were three islands that have been nearly adjacent to the City's original boundaries since 1872 and effectively been surrounded by the City for over three decades. Now, with the availability of sewer services in these neighborhoods, the issue of annexation has come to the forefront as the preferred, logical and statutorily encouraged manner to extend City services and incorporate these communities into the City that they live. One critical part of this process was to determine what the fiscal impact of these annexations would be on both the City and County as the City has consistently observed that it cannot afford to annex these areas under current economic conditions. To this end, the [Chapman, Mulberry and Stewart Avenue Annexation Study](#) (Study) was prepared.

The Study

The [Chapman, Mulberry and Stewart Avenue Annexation Study](#) was initiated by the County of Butte in cooperation with the City of Chico to evaluate the fiscal conditions that would likely result from the annexation of three unincorporated island areas to be known as the 1) **Chapman** neighborhood; the **Mulberry** neighborhood; and the **Stewart Avenue** neighborhood. While LAFCO staff was included in the information collection process, by and large, this was a joint City/County effort which was funded within the County Service 114 (Chico Nitrate) budget at a

cost of \$23,990. The Study commenced March 4, 2013 with a scope of work developed and a consultant selected, jointly by City and County. All the data in the Study was provided directly to the consultant by City and County staff which was further supported by numerous meetings. The First Draft Study was completed and circulated to all parties on April 23, 2013 for comments. All comments were considered by the consultant and additional meetings were scheduled with City staff to further improve the Study. City and County staff had almost limitless opportunities to provide comments and these comments were incorporated into the Study. The Final Report was delivered by the consultant on December 9, 2013. The Final Report was a 9 month effort that included an abundance of City and County staff input to ensure the facts utilized in the report were correctly presented and evaluated.

The Methodology

The Study evaluated the fiscal impacts to the City and the County resulting from annexations of the three island areas. While it was important for each agency to understand its particular fiscal situation, this Staff report focuses on the fiscal impacts to the City resulting from annexation. This is not intended to diminish the County's losses or gains, but LAFCo's primary purpose is to implement state annexation law and its local policies which focus on the annexation of islands and creating logical boundaries. Given the City's consistent opposition to annexation of these areas due to the alleged cost of providing services, the impacts to the City are of paramount importance.

The Study considered all actual revenues (Table II -Page 12 of the Study) generated within the targeted areas based on actual values of taxes, fees and other income that could be documented. The Study did not speculate about future revenue that may result from redevelopment of the areas that could substantially effect property tax values or other changes in tax allocations that might be likely, but still speculative. Total revenues are projected at \$254,393.

The Study considered the fiscal impacts (expenditures) of annexation based on two methodologies: *Actual Costs* versus *Per Capita* Projections. Per Capita expenses are simply dividing current costs by population and then projecting what the cost of the additional population would be without regard for the identified need for services. The Study concludes that this methodology is inaccurate at best given that most services do not result in a proportional increase in costs. (see Pages 12-14 of the Study). However, for comparison purposes, the Study does conclude the Per Capita Cost methodology would result in City expenditures of \$792,767 (Table III - Page 13 of the Study).

The *actual* or real annual costs analyzed in the Study paint a much different and more accurate and defensible picture. This methodology drills down to what the actual costs of providing services is expected to be based on the actual services needed and expected to be provided. The cost of these services is then calculated based on current budgeted costs for various City departments. The Study concludes the actual or real cost methodology would result in expenditures of \$259,287 (Table IV - Page 18 of the Study). Of this cost, \$206,704 are directly related to hiring of an additional 1.0 FTE police officer, .5 FTE detective and a .25 FTE records clerk. It should be noted that while these positions are warranted, there is actually a minimal improvement to the City's overall response capability by adding these positions, (Page 16 of the Study).

The Result

The Study concludes, based on the actual cost methodology, that the annexation of all three islands would result in an annual increase in expenditures of \$4,894 as shown in Table V below.

Table V Summary of Annual Operating Revenues/Expenditures, Three Island Annexations 2012-13			
Methodology	Revenues	Expenditures	Surplus (Deficit)
Per Capita	\$254,393	\$792,767	(\$589,610)
Actual	\$254,393	\$259,287	(\$4,894) ⁽¹⁾

Broken down by area, the cost of annexing the Stewart Avenue neighborhood (55 parcels) would be approximately \$513/year; the Mulberry neighborhood (94 parcels) would be approximately \$876/year and the Chapman neighborhood (376 parcels) would be approximately \$3,504/year.

The Study ultimately concludes that:

"It appears that the annexation of the three unincorporated island will have little impact on the City's basic infrastructure. Further, the construction of major capital improvement projects is not contemplated if these areas are annexed" (Page 24).

The Study also concludes that the County will experience a total revenue loss of \$78,115 (Table VIII - Page 27 of the Study) with no appreciable reduction in expenses as limited County resources will most likely be reallocated throughout the larger County jurisdiction.

SUMMARY

The Study supports LAFCo's continued encouragement of annexation for unincorporated islands within the City of Chico and provides documented data that demonstrates the City will not incur significant fiscal impacts related to this effort. Further, given that state law requires LAFCo's to consider 18 different factors, (only one of which is fiscal impacts to the annexing agency) when evaluating annexation proposals, it is reasonable to conclude that the creation of logical boundaries, promoting efficiencies in service delivery, promoting environmental justice and the annexation of disadvantaged unincorporated communities among others, may be of paramount importance in the long run.

ACTION REQUESTED: Review report, offer any comments/responses and accept the Report for use as guidance for future considerations.

Attachments:

[Final Report Chapman, Mulberry, and Stewart Avenue Annexation Study for Butte County/City of Chico](#) can be viewed by clicking on the above link.