

Final Report  
Chapman, Mulberry  
and Stewart Avenue  
Annexation Study  
for  
Butte County/City of Chico

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# Table of Contents

<b>CHAPTER I – INTRODUCTION .....</b>	<b>1</b>
Map I-A – City of Chico .....	2
Map I-B – Chapman / Mulberry Area .....	3
Map I-C – Stewart Avenue Area .....	4
Purpose of the Report .....	6
Methodology.....	6
 <b>CHAPTER II – CHAPMAN/MULBERRY/STEWART ANNEXATION STUDY, FISCAL AND OPERATIONAL ANALYSIS.....</b>	 <b>8</b>
Purpose .....	8
<b>Fiscal Analysis .....</b>	<b>8</b>
City of Chico Revenues.....	8
General Fund Revenues .....	8
Property Taxes .....	8
Property Transfer Tax.....	9
Sales Tax.....	9
Property Tax In-Lieu Vehicle License Fee (VLF) .....	9
Motor Vehicle License Fees .....	9
Transient Occupancy Tax.....	10
Utilities Users Tax.....	10
Franchise Fees .....	10
Business License Tax.....	10
Miscellaneous Fees and Other Income.....	10
Total General Fund Revenues .....	10
Table I – Projected Annual General Fund Revenue, City of Chico, Three Island Annexations, 2013 .....	11
Other Municipal Revenues .....	11
Restricted Revenues .....	11
Gas Tax Funds.....	11
County Service Areas (CSAs).....	12
City of Chico Revenue Summary.....	12
Table II – Projected General Fund, Other Municipal and Restricted Road Revenues City of Chico, 2012-13.....	12
Expenditures .....	12
Per Capita Projection of General Fund Expenditures .....	12
Table III – Per Capita General Fund Expenditures Serving Three Island Annexations .....	13
General Fund Expenditure Projections (Actual), City of Chico .....	14
City Clerk .....	14
Fire .....	14
Police .....	15
General Services/Public Works .....	17
Other Departments .....	18
Projected Actual Operating Expense Summary.....	18

Table IV – Annual Estimated Actual Operating Expense, Three Island Annexations, 2012-13.....	18
Summary of Fiscal Impacts, City of Chico.....	19
Table V – Summary of Annual Operating Revenues/Expenditures, Three Island Annexations, 2012-13.....	19
Capital Expenditures .....	19
Capital Improvement Expenditures, Per Capita Basis .....	20
Capital Improvement Expenditures, Actual Cost Basis .....	20
Table VI – Summary of Annual Capita Expenditures, Three Island Annexations .....	20
<b>CHAPTER III – PUBLIC SERVICE AND INFRASTRUCTURE IMPACTS, CITY OF CHICO .....</b>	<b>21</b>
Public Service Impacts.....	21
City Council, City Clerk, City Management, Environmental, Economic Development Human Resources, Finance and City Attorney.....	21
Building and Planning .....	21
General Services/Public Works .....	22
Public Safety .....	22
Summary .....	22
Infrastructure Impacts .....	23
Drainage .....	23
Fire Station .....	23
Parks and Park Facilities .....	23
Streets and Roads.....	23
Sewers.....	23
Summary .....	24
<b>CHAPTER IV – FISCAL, PUBLIC SERVICE AND INFRASTRUCTURE IMPACTS, BUTTE COUNTY .....</b>	<b>25</b>
Butte County Revenues .....	25
General Fund Revenues .....	25
Property Tax .....	25
Property Transfer Tax.....	25
Sales Tax.....	25
Property Tax in-lieu Vehicle License Fee.....	26
Franchise Fees.....	26
Business License Tax.....	26
Miscellaneous Fees and Other Income.....	26
Total General Fund Revenues .....	26
Table VII – Projected Annual General Fund Revenue, Butte County, Chico Island Annexations, 2013.....	26
Restricted Revenues .....	27
Summary .....	27
Table VIII – Projected General Fund and Restricted Revenues, Butte County, 2012-13 .....	27
Expenditures.....	27
Public Safety.....	27
Fire .....	27
Sheriff.....	28
Public Works.....	28
County Clerk – Recorder .....	28

Other County Departments.....	28
Table IX – Fiscal Impact of the Three Islands Annexation, Butte County .....	29
Public Service Impacts.....	29
Infrastructure .....	30
<b>CHAPTER V – ANNEXATION PROCESS .....</b>	<b>31</b>
Steps Toward Annexation .....	31

# Chapter I

## Introduction

Located on the northeast edge of the Sacramento Valley, the City of Chico is the most populous city in Butte County, with 87,500 inhabitants according to the January 1, 2012 estimate by the State Department of Finance. It is the economic, educational and cultural center of the northern Sacramento Valley, in the midst of one of the richest agricultural areas in the world. It is home to California State University, Chico. According to the 2010 U. S. Census, the City had a median annual household income of \$41,835.

The City has experienced significant population growth over the past two decades, growing from 26,716 in 1980, to 40,079 in 1990, 60,516, and 86,187 in 2010. Much of this growth has been the result of annexing already developed, unincorporated areas within and surrounding the original city. As can be seen on two maps (See Map I-A) depicting the City's incorporated area, through annexation the City's incorporated area grew from 22.8 square miles in 1990 to 33.2 square miles in 2008.

As the City's aggressive annexation program slowed in 2006 a number of unincorporated developed pockets remained. These islands are still served by the County, while City services are being provided in the areas immediately surrounding these "islands".

The focus of this study is to analyze fiscal issues associated with the City potentially annexing three County islands. Two of these islands are near one another and are called the Chapman/Mulberry Area. This area consists of 138 acres, with 559 households. Map I-A depicts the unincorporated islands of the Chapman/Mulberry Areas.

The Chapman area has historically been called Chapmantown, a working class community, characterized by County development standards such as the absence of sewers, curbs, gutters and sidewalks, similar to other unincorporated areas. This neighborhood is generally bounded by the Little Chico Creek, Boucher Street, Guill Street, and East Sixteenth Street. The estimated population for Chapman is 1,131. The estimated population for Mulberry is 201.

One issue which likely distinguishes this neighborhood from other areas which have been annexed by the City or other unincorporated areas adjacent to or in Chico, is that there is an organized community identity. Not only has the area been identified historically as Chapmantown, but the community is organized as well. An organization called Love Chapman has represented the interests of this area in a variety of areas. Further for both the Chapman and Mulberry neighborhoods, the "Chapman/Mulberry Neighborhood Plan" was adopted by the City of Chico in 2004. This plan sets forth a description of community character, and policies for land use, neighborhood design and buffers, circulation, and public facilities and services.

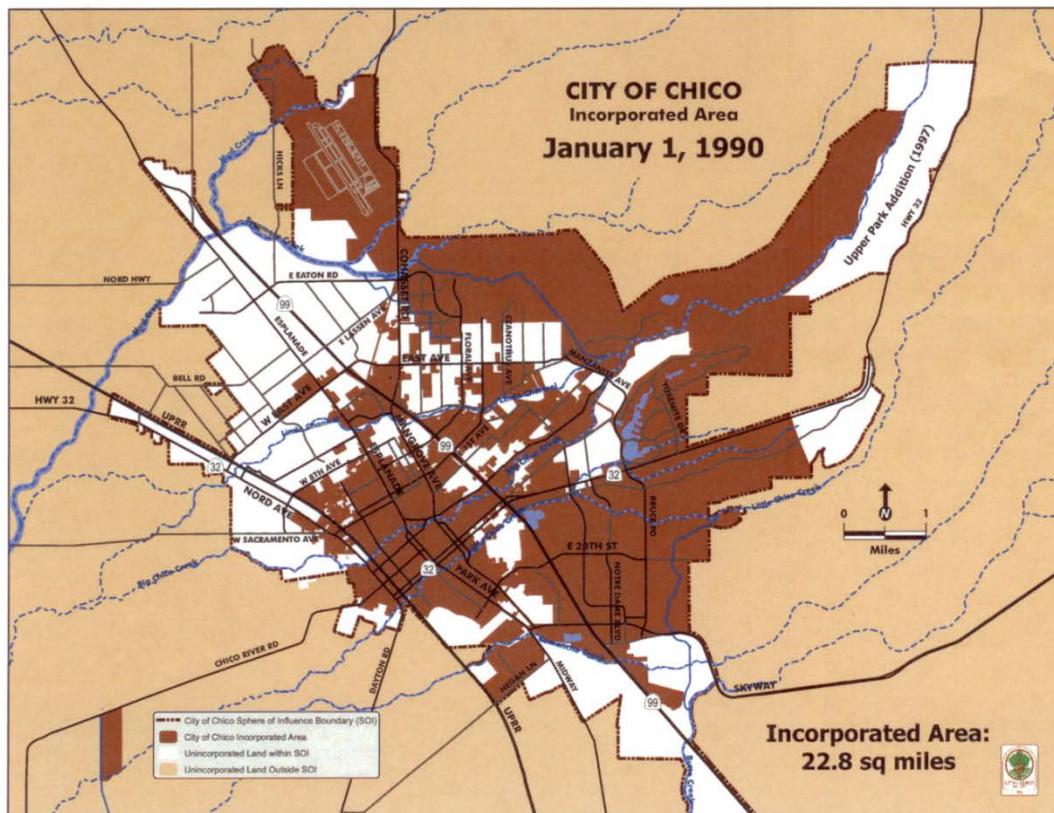
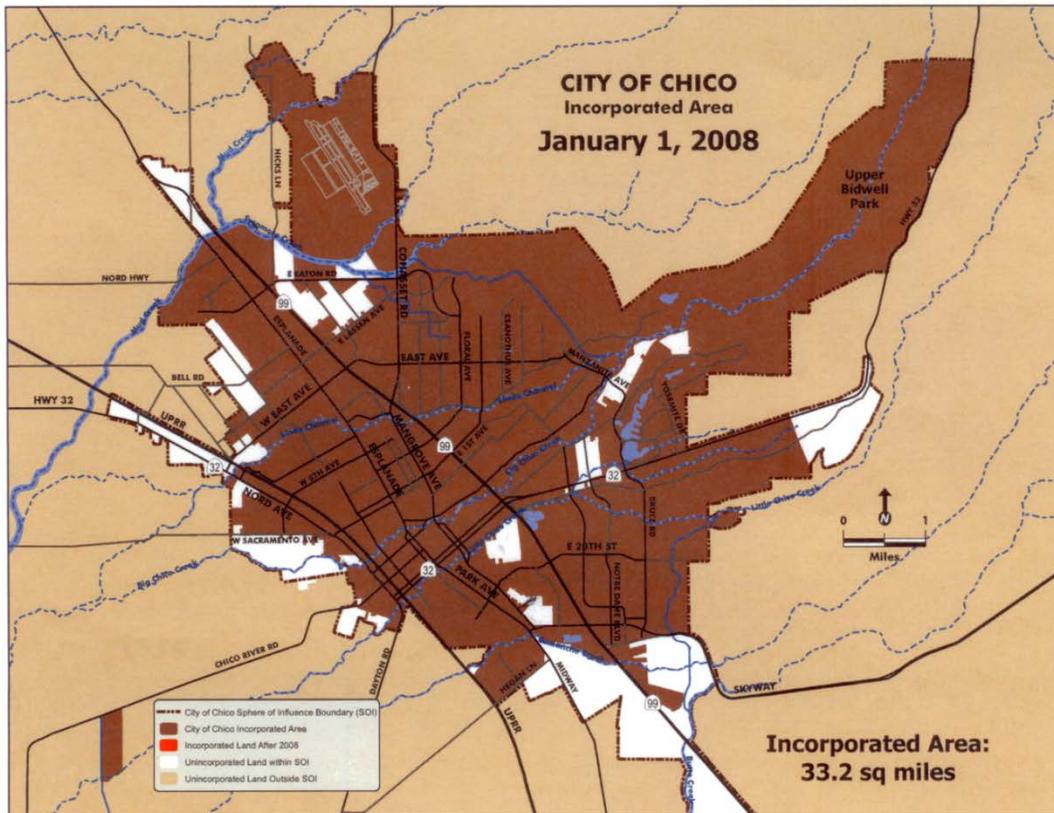
The third neighborhood analyzed is the Stewart Avenue Area, located between Nord and Bidwell Avenues. It is approximately 22 acres, with 100 households. This area is shown on Map I-C. Its estimated population is 239. In total, the three areas comprise 160 acres and 659 households with a population of 1,571.<sup>1</sup>

The question of whether or not these three areas will be annexed by the City is based upon a number of issues related to state law, local LAFCO policies and intergovernmental relationships between the City and County. The issue is a complex mix of the need to create logical jurisdictional boundaries, provide greater efficiencies in service delivery, and integrate urban populations into the City's social and political fabric. One of several complex issues is groundwater nitrate contamination as a result of a high density of residences on septic tanks in the Chico area. As a result of this contamination, a Nitrate Action Plan was developed in 1985, County Service Area 114 (CSA 114) was created in 1988, a Water Quality Control

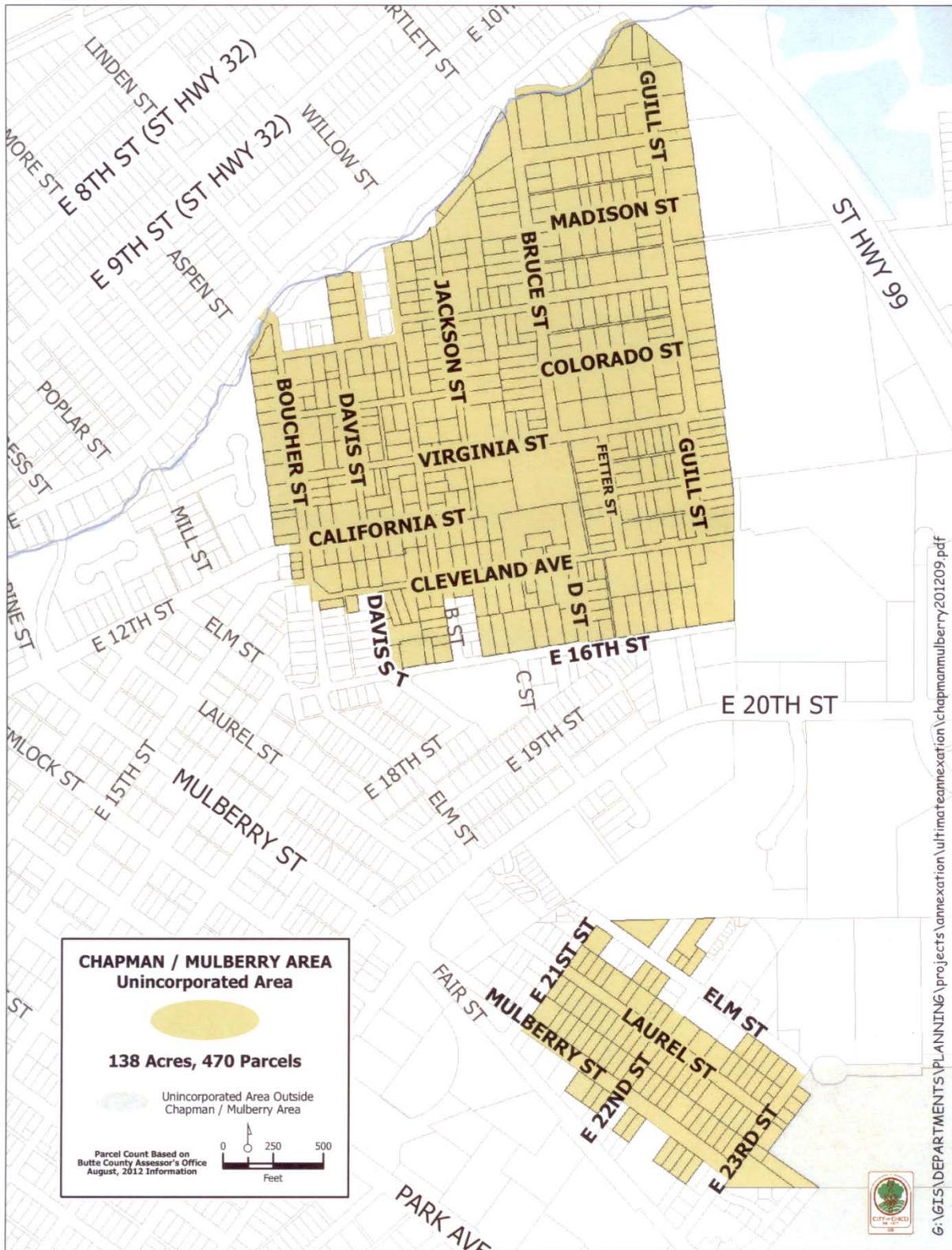
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<sup>1</sup> Butte County GIS Department per March 12, 2013 email, Casey Hatcher.

Map I-A



Map I-B





Board Prohibition Order was issued in 1990, a Chico Urban Area Nitrate Compliance Plan was adopted by the County in 2000, and a Chico Urban Area Joint Powers Financing Authority was formed between the County, the City, and the former Chico Redevelopment Agency in 2006.

Based on the 2000 Nitrate Compliance Plan, 135 annexations have occurred involving approximately 42 islands of unincorporated territory. This has allowed affected parcels in these areas to connect to the municipal sewer system.

With a \$38 million loan from the State Water Resources Control Board, and project planning costs funded through CSA 114, the City sewer system is being extended in phases through various neighborhoods and communities. In 2012 extension of the sewer system was completed in the Chapman/Mulberry neighborhood, making it physically possible for parcels in this neighborhood to connect to the City's sanitary sewer system.

However, the Butte Local Area Formation Commission (LAFCO), which is ultimately the regulating body for changing local agency boundaries, must blend the need for providing sewer services with its larger state mandates to form logical boundaries, encourage greater efficiencies in the delivery of governmental services and address environmental justice concerns for disadvantaged, unincorporated communities. In order to achieve these mandated goals, there is a concern that if connections to the sewer system are permitted without a commitment for these areas to annex into the City, these neighborhoods would remain unincorporated islands long term and the inefficiency created by the County continuing to serve these isolated areas would not be resolved. LAFCO's stated concern is that the efficient provision of local service to these "islands" by the City would not be obtained and the establishment of logical City service boundaries would not be achieved.

Butte LAFCO has the authority to review sewer connections in accordance with State Government Code Section 56133 since the City will be extending services outside its jurisdictional boundaries. Because Butte LAFCO has review and approval authority over these sewer service connections, this agency has expressed concern that "...once the core sewer service is provided by the City, there are few other City services that may compel a resident to demand annexation. Absent such demand from property owners, the City has no incentive to proceed with annexation and it may be impossible to ever obtain annexation."<sup>2</sup>

By letter dated May 11, 2011 from the City of Chico, Butte LAFCO received a request from the City to allow extension of sewer services up to 2,991 unincorporated developed parcels outside its jurisdictional boundaries, but within its Sphere of Influence (SOI). This was an application for a Master Agreement for Extension of Services within Chico's SOI for all eligible properties. This application was authorized by City Council Resolution 42-11.

The Commission supported authorizing these service extensions, but contingent upon:

1. Individual landowners signing a binding covenant in support of annexation;
2. The City agreeing to an annexation plan that would ensure all unincorporated parcels receiving sewer service being annexed to the City in a logical and timely manner; and
3. The City utilizing the island annexation provisions of state law wherever possible.<sup>3</sup>

Subsequently, on August 4, 2011, the Commission agreed to a six month authorization to allow a maximum of 100 sewer connections contingent upon the execution of a landowner consent to annexation and the pursuit of a Master Sewer Service Extension and Annexation Agreement within six months. There were time extensions of this authorization, but only 15 connections have been authorized. The core concern for LAFCO was establishing a fixed and certain annexation outcome that was determined by the current Council rather than merely delaying such a decision to a later date depending on future circumstances.

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<sup>2</sup> Memorandum, Local Agency Formation Commission Executive Officer, May 31, 2012.

<sup>3</sup> Ibid.

The City in response to LAFCO's draft Master Sewer Service and Annexation Plan, took the position that:

"Upon achieving '50% plus 1' covenants in a given unincorporated area, staff will initiate the annexation process through the City Council. During this process, Council will have the opportunity to determine if adequate resources are available for the City to provide services to the unincorporated area, and based on that determination as well as that of the community response, either proceed or wait until resources improve. (emphasis added)"

According to City staff, this response reflects concerns of an uncertain financial future for the City, concern that the City may be unable to provide adequate services to its existing residents, and an acknowledgement that a future City Council has the authority to make an independent decision on this issue. Also, there is a view that the City's ability to provide adequate services to existing residents may have been impacted by 407 annexations involving 17.7 square miles of unincorporated County areas that were annexed into the City between 1981 and 2006.

At this point in time the City of Chico and Butte County are working collaboratively to evaluate whether annexation of the unincorporated areas addressed in this study will create a financial hardship to either the City or the County. Informed by this analysis, the City can determine if it wishes to initiate annexing these areas in the near term, or develop a timeline for their annexation. An annexation plan with a timeline might meet the requirements of LAFCO in order to allow these unincorporated parcels to connect to the City's sewer system. All three agencies (City, County and LAFCO) are cognizant of the health issues facing the area due to nitrate contamination in the water supply from existing septic tanks.

## Purpose of Report

The purpose of this analysis is to identify fiscal and operational considerations of annexing the Chapman/Mulberry and Stewart Ave neighborhoods into the City of Chico. This study is financed by County Service Area 114, and includes input from the City, the County, and LAFCO.

This study provides a fiscal impact analysis of annexing the subject areas on both the City and the County, both in terms of operations and capital improvements. It evaluates the impact on City and County operations and public services. Finally, the study outlines the procedural steps needed for the City Council to proceed with annexing these areas into the City of Chico.

The report provides the Chico City Council and other affected agencies with the information and analysis related to fiscal, operational and infrastructure impacts associated with annexing these unincorporated "islands." This report supplies baseline information for that decision, whether an annexation plan is structured for immediate initiation, or over a period of time. It provides Butte County with information regarding the fiscal impact of these potential annexations on its operations and services. It also provides Butte LAFCO with useful background information if it processes the annexation of these areas.

An issue raised by City staff is whether the report should consider whether existing City service levels are adequate. This is not a purpose of this report since it not within the scope of the study authorized for this project. Plus, no metrics were offered to determine what is or is not an adequate level of service for the various functions provided by the City. Therefore, the purpose of this report is not to determine the adequacy of existing City service levels, but to determine the discreet fiscal, operational and infrastructure impacts of annexing these three neighborhoods.

The report specifically provides a fiscal and operational analysis of the annexation on the City of Chico (Chapter II), public service and infrastructure impacts on the City of Chico (Chapter III), fiscal, public service and infrastructure impacts on Butte County (Chapter IV), and an outline of the annexation process (Chapter V).

## Methodology

The methodology of this study included reviewing documents and data supplied by the City of Chico, the County of Butte, and the Butte LAFCO. Documentation included financial, operational, land use, and pro-

cedural information for the Chapman/Mulberry and Stewart Avenue areas. After a telephone conference “kick off” meeting that included the County’s Chief Administrative Officer, interviews were conducted with City staff including the Police Captain, Finance Director, Planning Director, Senior Planner, Senior Engineer, General Services Director and the City and County Fire Chiefs. Also interviewed were the LAFCO Executive Officer and the County’s Chief Financial Officer, Undersheriff, Economic and Community Development Manager, and Program Development Manager.

A site visit was included as part of this study in order to assess the condition of each of these neighborhoods. This assessment involved driving every block in the three neighborhoods with the County’s Program Development Manager, and the City’s Senior Planner and Senior Engineer, noting the condition of these areas’ land use patterns, housing stock, and public infrastructure.

The methodology for projecting current and future revenues and expenditures for the fiscal analysis in this report is based upon historic and current budget and expenditure information from the City and the County. City operating or General Fund expenditures were projected using two methodologies: (1) operating expenditures based on the City’s 2012-13 budget with expenditures projected for each department on a ‘per capita’ basis; and (2) forecasting operating expenditures on an actual basis with expenditures by departments projecting actual estimated expenditures. City General Fund and restricted revenues are projected on an actual basis as are the revenues and expenditures for the County. The fiscal analysis also identifies capital expenditures as well as other discretionary expenses associated with these potential future annexations.

Even though a significant effort has been made to obtain accurate and precise information, the estimated revenues and expenditures identified in this report should be considered only estimates. They are calculated based on information supplied by either City or County staff, or by other local agencies which serve these areas. They are not precise figures that guarantee actual revenues or expenditures that will be received or expended should the potential annexation occur.

It should also be noted that portions of this report provide some general conclusions regarding the reading of state law and other documents. These conclusions are based solely on the “plain reading” of this material, and should not be considered a legal interpretation of this material. Any legal opinions of these documents are the province of either the City Attorney or County Counsel, and should be referred to these offices for further comment, if needed.

# Chapter II

## Chapman/Mulberry/Stewart Annexation Study

### *Fiscal and Operational Analysis*

#### **Purpose**

The purpose of this Chapter is to determine the fiscal and operational feasibility of the City of Chico annexing three unincorporated islands, specifically the neighborhoods of Chapman, Mulberry and Stewart Avenue. The fiscal analysis will examine potential additional revenue which would be received by the City compared to the estimated expenditures to serve these neighborhoods. It also evaluates the revenue and expenditure impacts on Butte County if the annexations occur.

#### **Fiscal Analysis**

This fiscal analysis presents the projected revenues that would accrue to the City of Chico along with the corresponding expenditures. The expenditures for the City will be projected by department on a per capita basis as well as on an actual cost basis. Revenues and expenditures will be applied to Butte County on an actual cost basis only.

#### **City of Chico Revenues**

The projected revenues which would accrue to the City of Chico if the three neighborhoods were annexed into the City are categorized into three categories:

1. Income which would accrue to the City's General Fund;
2. Other municipal revenue; and
3. Restricted revenues, such as gas tax funds.

The revenues would include a shift of sales tax revenue to the City, the reallocation of property taxes per the Master Property Tax Agreement between the City and Butte County, and a variety of fees which would be collected from these annexed areas. It appears that the only restricted revenue is gas tax funds which are limited to street and road maintenance and construction.

#### **General Fund Revenues**

##### **Property Taxes**

The Master Property Tax Agreement governs the sharing of property tax revenue between the City and Butte County. The agreement provides that the net general tax levy will be allocated as follows: 45 percent to the City and 55 percent to the County. This amount is net of the County's contribution to the Educational Revenue Augmentation Fund and other taxing entities, such as school districts, redevelopment agencies, and other special districts.

As provided by the County Auditor-Controller, the City's 45% share of the estimated property tax revenue from the three neighborhood areas is **\$53,097**.

## **Property Transfer Tax**

When new property is sold or when an existing property is resold, a property transfer tax of \$1.10 per \$1,000 of transferred value is levied on the sale of real property. The revenue produced by this tax is then split between the City and Butte County, each receiving \$.55 of the transferred value. Based on actual real property transfers over a five year period as determined by Butte County, it is estimated that \$1,632 revenue is produced annually. With the 50-50 split, it is estimated that this revenue source would produce **\$816** in new revenue to the City.

## **Sales Tax**

The three neighborhoods being studied are residential. Based on figures developed by Butte County, there is very little sales tax generated in these island areas. It is estimated that **\$813** in sales tax revenue would be received by the City, with a corresponding loss of that amount to the County. It should be noted that it is likely that most of the shopping and generation of sales tax from the residents of these three neighborhoods already occurs in Chico.

## **Property Tax In-lieu Vehicle License Fee (VLF)**

Referred to as property tax in lieu of vehicle license fee (VLF), this is property tax revenue cities and counties receive in lieu of the vehicle license fee. Prior to fiscal year 2004-05, a license fee equivalent to 2% of the market value of vehicles was imposed annually by the State "in-lieu" of personal property taxes and was passed on to the cities and counties. After 2004-05, the property tax in lieu of VLF for each city and county is adjusted annually in proportion to the growth in gross assessed valuation in that jurisdiction from the prior year.

This revenue source was protected by AB1602, but the hastily crafted State budget bill of 2011 deleted this revenue as it applies to new incorporations and annexations. Still, the property tax in lieu of VLF for each City, including newly annexed areas, is adjusted annually in proportion to the growth of gross assessed valuation. The result is that there will be no new income to the City during the first year after annexation, but in subsequent years any assessed valuation growth in these areas would be added to the City's assessed valuation, resulting in additional income to the City. The amount of this increased revenue is unknown since the amount of new development or redevelopment of these mostly developed areas is unknown.

For the purpose of this calculation annexations are not considered growth. The three neighborhood areas would not be factored into the assessed valuation for the City or the County at annexation. Overtime, however, there would be small annual increases accruing to the City from this revenue source.

It is estimated, therefore, that initially this revenue source would produce **\$0** to the City if the three areas were annexed to Chico. There is no revenue loss to the County from this revenue source.

## **Motor Vehicle License Fees**

Recently, the Motor Vehicle In-lieu fee produced an important amount of revenue to the City. However, this revenue source has been usurped by the State, with the result that the City will not receive any revenue from this source on an on-going basis. Therefore, the projected revenue from this source due to annexation will be **\$0**. An annexation of these areas will not have any impact on revenue accruing to the County.

## Transient Occupancy Tax

The City's Transient Occupancy Tax (TOT) is 10% of the rent charged for staying at a hotel, inn, or motel. Since there are no lodging facilities in the areas being studied, the revenue from this source as a result of annexation would be **\$0**. There is no revenue loss to the County from this revenue source.

## Utilities Users Tax

The Utility Users Tax is a tax imposed on the users of certain utilities in the City including gas, electricity, telecom (excluding cell phones), and water. The City's Finance Department provided an estimate that the income produced by this tax is \$182.52 per household. Applying this figure to the number of households which could be annexed into the Chico as determined by the County's GIS Department, the new income to the City would be **\$120,281** ( $\$182.52 \times 659$ ). There would not be a corresponding loss in income to the County since it does not have a comparable revenue source.

## Franchise Fees

The City receives franchise fees from two utilities for the use of City streets and other rights-of-way. Income from this source is received for cable television and gas and electricity services. Using a per capita household projection, the City's Finance Department estimates that these two utilities produce \$32.68 per household based on the 2012-13 budget. Applied to the three island neighborhoods, the revenue to the City would be **\$21,536** ( $\$32.68 \times 659$ ). There will be the same reduction in revenue to the County.

## Business License Tax

There appear to be no retail establishments in the three areas being studied, and a very limited number of businesses since the areas are residential. Since there are a limited number of businesses in these areas, and the amount of business license tax revenue produced is unknown, only a minimal amount of income from this source is projected: **\$200**.

## Miscellaneous Fees and Other Income

There are a number of miscellaneous fees and fines charged by the City which would apply to these three neighborhoods. These include criminal fines, impound fees, animal and bicycle licenses, alarm permits, uniform fire code inspection fees, false alarm fines, etc. The City Finance Department concludes that these fees and fines should be applied to the areas proposed for annexation either on a per capita or household basis. Using data from the Finance Department, applying the per capita amount to Animal Licenses, Bicycle Licenses, Uniform Fire Code Permits, Impound Fees, Criminal Fines and Administrative Citations, the revenue derived from this source would be **\$5,373** ( $\$3.42 \times 1,571$ ). Applying the per household figure to Alarm Permits, Weed/Lot Cleaning Fees, Uniform Fire Code Inspection Fees, and False Alarm Fines, it is estimated that **\$1,041** ( $\$1.58 \times 659$ ) would be secured from these revenue sources. Together, the total annual amount of miscellaneous fees which would be received by the City of Chico would be **\$6,414**. It is estimated that there will be a reduction in revenue to the County of about one-half of this amount.

## Total General Fund Revenues

Using the individual revenues identified in the preceding paragraphs, the total General Fund revenue that these three annexations could produce for the City of Chico is an estimated **\$203,157**. This General Fund revenue is summarized in Table I, labeled, "Projected Annual General Fund Revenue, City of Chico, Three Island Annexations, 2013."

<b>Revenue</b>	<b>Estimated Amount</b>
Property Tax	\$53,097
Property Transfer Tax	816
Sales Tax	813
Property Tax in-lieu Vehicle License Fee	0
Motor Vehicle License Fee	0
Transient Occupancy Tax	0
Utility Users Tax	120,281
Franchise Fees	21,536
Business License Tax	200
Miscellaneous Fees	6,414
<b>Total General Fund Revenue</b>	<b>\$203,157</b>

## Other Municipal Revenues

There are not other significant Other Municipal Revenues such as special property tax collections for particular functions such as police, fire or libraries. Other revenues in this category such as investment income likely would be minimal. Current and future water and wastewater fees would be collected by the City's utility enterprise fund. Therefore, for the purposes of this analysis, projected Other Municipal Revenues which can be used for general City operations would be **\$0**.

## Restricted Revenues

### *Gas Tax Funds*

The major restricted revenue accruing to the City from the three "islands" is gas tax funds collected by the State and, in part, distributed to cities and counties. Revenues from gas taxes are deposited into the Highway Users Tax Account in the State's Transportation Tax Fund. These funds are then apportioned to cities and counties by the State Controller. The distribution of this revenue is governed in large part by the Streets and Highway Code Sections 2103 – 2107. Only counties benefit from Section 2104 and only cities benefit from Section 2107.

If these three island neighborhoods are annexed, gas tax funds received by Butte County, except for Section 2104 funds, would shift to the City. Chico would receive Section 2107 funds for these areas. The projected gas tax funds to be received by the City in 2012-13 are:

Section 2103	\$1,175,448
Section 2105	405,620
Section 2106	340,740
Section 2107	598,973
Section 2107.5	7,500
<b>TOTAL</b>	<b>\$2,528,281</b>

While some sections of the Streets and Highways Code allocate gas tax funds by population and street miles, it is assumed for the purposes of this report that the revenue from this source will be in proportion to the increase in population as a result of the potential annexations. Using this method, the gas tax funds produced from these three areas are projected to be **\$45,386** ( $\$2,528,281/87,500 = \$28.89 \times 1,571$ ).

### County Service Areas (CSAs)

CSA 14 provides street light service to the Chapman community and CSA 161 provides the same service to the Mulberry neighborhood. Currently, these two CSAs produce about \$10,500 in revenue and expends \$5,850 for service. Collectively, these two CSAs had a cash balance of \$13,799, although most of the CSA 14 cash balance was spent on new street lights and upgrading to LED lights in 2012.

CSA 14 is AB8 funded and CSA 161 is funded by a charge of \$25.72 per parcel. If annexation occurs, one option is for the City to form a maintenance district to maintain the street lights. Since this requires a vote of approval by area voters, the district likely would not be formed. The other option is to continue the two CSAs since they do not need to be dissolved, if annexation occurs.

It is estimated that revenue from this source will be **\$5,850 if either a maintenance district is formed or the two CSAs are continued and not dissolved.**

## City of Chico Revenue Summary

The total General Fund, other municipal revenues and restricted road revenues are summarized in Table II, entitled, "Projected General Fund, Other Municipal and Restricted Road Revenues." As can be seen from this Table, the City would gain \$254,393 in General Fund and Restricted Revenues if the annexation of the three islands occurred.

Revenue	Estimated Amount	
General Fund		\$203,157
Other Municipal Revenues		0
Restricted Revenues		51,236
Gas Tax Funds	45,386	
CSAs	5,850	
<b>Total City Revenues from Three Island Areas</b>		<b>\$254,393</b>

## Expenditures

### Per Capita Projection of General Fund Expenditures

As mentioned earlier, there are two City expenditure projections provided in this report. One is based upon a methodology of projecting the City's General Fund, or operating budget, on a per capita basis. A per capita expense for each City department or key City service is determined by dividing each department/service adopted modified 2012-13 budget by the City's estimated population (87,500), and then projecting cost of the additional population that would be served (1,571).

As presented in Table III, "Per Capita General Fund Expenditures Serving Three Island Annexations," this projection would mean an increase in City operating expenses of \$792,767. Compared to the revenue projections presented in Table I, this would mean a deficit to the City of \$589,610 (\$792,767 - \$203,157), if the annexations occurred.

**Table III  
Per Capita General Fund Expenditures Serving Three Island Annexations**

Department	Current			Three Island Expense/Per Capita Projection		
	2012-13 Budget Modified	Population	Budget Per Capita	Budget Per Capita	Population	Budget Per Capita
City Council	\$277,290	87,500	\$3.17	\$3.17	1,571	\$4,980
City Clerk	468,570	87,500	5.36	5.36	1,571	8,420
City Management	762,421	87,500	8.71	8.71	1,571	13,683
Environmental	67,123	87,500	.77	.77	1,571	1,210
Economic Development	260,093	87,500	2.97	2.97	1,571	4,666
Human Resources	438,480	87,500	5.01	5.01	1,571	7,871
Finance	1,045,410	87,500	11.95	11.95	1,571	18,773
City Attorney	930,238	87,500	10.63	10.63	1,571	16,700
Police	21,230,652	87,500	242.64	242.64	1,571	381,187
Animal Services	512,992	87,500	5.86	5.86	1,571	9,206
Fire	13,148,890	87,500	150.27	150.27	1,571	236,074
Planning	508,726	87,500	5.81	5.81	1,571	9,128
General Services	214,801	87,500	2.45	2.45	1,571	3,849
Building	54,278	87,500	.62	.62	1,571	974
Code Enforcement	194,539	87,500	2.22	2.22	1,571	3,488
Street Cleaning	849,307	87,500	9.71	9.71	1,571	15,254
Right of Way Maintenance	2,116,516	87,500	24.19	24.19	1,571	38,002
Street Trees	1,074,235	87,500	12.28	12.28	1,571	19,292
<b>Total</b>						<b>\$792,767</b>

The problem with this approach in projecting prospective expenditures to serve the three islands considered for possible annexation is that many departments will not have any additional budget expense. For example, there might be additional, but minimal additional workload generated by these annexations for the City Manager, City Attorney, Human Resources and Finance. That extra workload, however, would not be enough to generate an increase in the budgets of these offices or departments. This additional work would be absorbed and prioritized within the normal workload of these offices.

Even a major public safety function, such as Fire/EMS service, will not have nor need a budget increase of \$236,074 shown in Table III now or over the next several years. This is because the City and County Fire Departments already serve these neighborhoods and surrounding areas through an automatic aid arrangement called a "boundary drop." There is a County fire station near the Chapman/Mulberry area which serves these areas as well as the City which surrounds these neighborhoods. The Interim Fire Chief and the County Fire Chief do not anticipate a change in funding if these three areas were annexed by the City. (Note: Please see further discussion of this issue on page 15).

In addition, some of the projected per capita operating expenses in Table III may not involve General Fund revenue, but restricted revenues instead, such as gas tax funds, assessment districts, grants or in-

ter fund transfers. Increases in routine street right-of-way maintenance, for example, likely would be covered by the additional gas tax funds, at least for ten years.

There probably will be some additional permit and entitlement processing in Planning and Building. But this work should be offset by fees and absorbed by existing staff by prioritizing permit applications within the existing workload. Potential additional income from planning and building fees from these three island annexations were not included in projected City revenues because of the expected expenditure offset. Also, if fees are inadequate to meet permit processing expenditures, there may be a need to review these fees to avoid general tax dollars subsidizing the development permit review process.

The next section provides an estimate of the expected “real” or “actual” additional expenditures if the three island neighborhoods annex into the City of Chico.

## General Fund Expenditure Projections (Actual), City of Chico

This section presents estimate of real or actual annual recurring cost impacts if the three subject areas are annexed by the City of Chico. These costs are only estimates and have been prepared with input from City and County staff. The cost estimates are for operating or General Fund expenses for those Departments likely to need an increase in their budget in order to serve these unincorporated islands. Also, even though there are no additional expenses expected in major City departments, such as Fire, it is briefly discussed in this section because it is a major part of the City’s budget.

### City Clerk

According to the County Registrar of Voters, there are 801 registered voters in the three areas being evaluated by this study.<sup>4</sup> At an average cost of \$1.49/voter for a General Election, the additional cost for each election is \$1,194 (801 x \$1.49). Since General Elections are held every two years, the average annual additional election expense will be \$597.

In addition, the cost of a Special Election is \$3.75 per voter. The total cost for these areas for a Special Election would be \$3,004 (801 x \$3.75). However, it is difficult to project when Special Elections will be called. For the purposes of this report, it is estimated that a Special Election will be called every two election cycles (four years), or an additional expense of roughly \$750 annually. Together with the average yearly cost of a General Election, an average annual amount of **\$1,347** (\$597 + \$750) will be required in the City Clerk’s budget. This amount will also be shown as revenue to the County for the conduct of these elections.

### Fire

After initially conferring with the City and County Fire Chiefs in March 2013, it was concluded that no additional Fire Department expense will be required if the three island neighborhoods were annexed by the City of Chico. A County fire station is across the street from the Mulberry area. And even though there are plans to move that station, it will still remain in the same general vicinity to continue to serve Mulberry, Chapman and adjacent City areas as well as other unincorporated areas under an agreement between the City of Chico and Butte County.

Operationally, the City responds from six fire stations with three firefighters assigned to an engine (3-0 staffing). The City staffs one engine with four firefighters (4-0 staffing). This level of staffing, however, was reduced during the 2013 – 14 budget process. The County, through Cal Fire, responds from three fire stations in the Chico area with two firefighters (2-0 staffing). The two fire departments respond using a “full boundary drop” which means that the nine stations function as one unit and responds to each Call for

<sup>4</sup> 560 in Chapman, 111 in Mulberry and 130 in Stewart Avenue.

Service (CFS) with the closest available fire engine or truck. The departments train together and the ranking officer of whichever unit arrives first is the incident commander until a chief officer from the jurisdiction in which the fire or other emergency is located arrives on the scene.

The County Fire Chief and the City's Interim Fire Chief agreed that the following language reflects the impacts of the annexation of the three unincorporated areas. "The auto-aid agreement between City Fire Department and Butte County Fire Department would be unchanged if the Chapman, Mulberry or Stewart Avenue neighborhood areas were annexed to the City of Chico. Currently, there would be minimal impact to Chico Fire Department responses and no change in costs if the Chapman, Mulberry or Stewart neighborhood areas were annexed because the auto-aid agreement would not change.

"In the future, Butte County Fire may relocate Station 44. When Station 44 relocates, the Chico Fire Department and Butte County Fire will still operate under the auto-aid agreement. When Station 44 moves there would be minimal impact to Chico Fire Department responses and no change in costs because the auto-aid agreement would not change and there would be no requirement for additional firefighters or stations to serve the areas."

As a result of these joint comments by the two current Fire Chiefs, and the analysis of this report, the projected cost of serving these three island neighborhoods if they are annexed is projected to be **\$0**.

## **Police**

There will be a need to add staff to the Police Department in order to serve the three areas proposed for annexation. Call for Service (CFS) data was supplied by the Butte County Sheriff's Office. While the City and the County use different computer programs to record data, the information supplied by the Sheriff indicated that there were 716 CFS in 2011 and 866 CFS in 2012. The two year CFS average is 791. Sheriff's management describes most of the crimes in these areas as burglaries, thefts, domestic disputes, drug offenses and serving warrants, plus "other calls" such as phone call transfers, sidewalk contacts, unfounded and no one at the scene. They describe law enforcement activity as these types of CFS rather than so-called FBI Part I crimes such as homicides or aggravated assaults, although occasional Part I crimes are committed.

In order to estimate the cost of providing law enforcement service to these three areas, a patrol staffing model was used to determine the number of patrol officers required to serve these areas. From that model, the patrol staffing requirements are built to determine the number of other sworn and non-sworn staff that will be required to support police services.

It is estimated that one additional patrol officer will be required to serve these three areas using the patrol staffing model. This was determined by assuming 2,080 hours available annually for a full-time patrol officer, then reducing that amount by 320 hours for vacation leave, sick leave, and other leave/training. This would provide a total of 1,760 hours of active time that would be served by a full-time patrol officer during the course of a year. Further assuming that of the remaining 1,760 hours, 1/3 of these hours would be allocated for patrol, 1/3 for administrative time (report writing, line ups and other tasks) and 1/3 for unassigned patrol time. This would mean that 581 hours would be available for active patrol ( $1,760 \times .33$ ). Assuming that over the period of a year the average time spent on each CFS will be .75 hour, approximately one officer would be required to meet the CFS work load in these three areas. There are 581 available patrol hours per this analysis versus the required 593.25 hours to address the CFS ( $791 \text{ CFS} \times .75 \text{ hours}$ ).

It should be noted that this analysis assumes an average of .75 hours (45 minutes) per call. This includes the initial response to a call for service (32 minute average) plus factoring in time for "cover calls" for a percentage of the calls requiring back up.

To support the activities of this patrol officer, it is estimated that .25 - .50 full-time equivalent (FTE) Detective will be required for case follow up and a .25 FTE Records Clerk to support this additional work load. It

is not expected that additional supervision (Sergeant, Lieutenant, or Captain) will be required to supervise the law enforcement activities for these small annexations. The total level of staffing which would be funded for police would be 1.75 FTEs, with 1.50 sworn FTEs.

The cost of providing police service assumes that cost of one officer will be \$122,459.<sup>5</sup> The cost of a Detective is \$134,705<sup>6</sup> and \$63,568 for a Records Clerk.<sup>7</sup>

Another measure for determining the adequacy of the additional sworn officers required for this annexation is to project the number of officers per 1,000 population served. In the City's 2013-14 budget there are 81 sworn officers including five unallocated grant officers. It is calculated there are .93 officers per 1,000 population served for the current City. With 1.5 sworn officers assumed to be funded if these three areas with a population of 1,571 are annexed, a ratio of .96 officers per 1,000 would be produced for these three areas. Using this metric it would appear that annexation of these three areas would produce a very slight improvement in sworn staffing levels for the Chico Police Department based on the 2013-14 staffing levels.

Another metric is comparing the increase in the City's population as a result of the annexation to the increase in the number of sworn officers. The population would increase to 89,071 (87,500 + 1,571), or an increase of 1.80%. The number of sworn officers would increase from 81 to 82.5 (81 + 1.5), or an increase of 1.85%.

It was observed by the Police Department representative that, while an officer could be added upon annexation, that officer would only provide service for one shift four days a week. The concern is that the rest of Beat 2 would be expanded by adding the Chapman/Mulberry areas without additional staffing to serve these neighborhoods the rest of the week. The benefit to the Police Department, on the other hand, is that when the additional officer is on duty, he/she will be serving a much larger area than Chapman/Mulberry. The average population served per beat is 14,583 (87,500/6). This means that the Chapman/Mulberry area constitutes about one-tenth of a beat. This means that a new officer would cover 9/10ths of a beat four shifts a week that will not require deployment of an existing officer, thereby benefiting the Department's staffing.

Still, there is concern from the Department's representative that this level of staffing may not be enough. This view is likely being expressed within the context that the Department's current staffing is inadequate. The perspective is that the Department is understaffed, with a lower service being provided to the City compared to previous years.

In any event, the Department's representative agreed with the methodology used in this analysis and is agreeable to the addition of 1.75 FTE (1.50 sworn officers) to the Department as a result of this annexation. It was also agreed that service by the City Police Department to this area will be more efficient since Chapman/Mulberry can be folded into Beat 2 compared to service by the Sheriff where patrol deputies must respond from further distances and drive through the City to serve this area.

Based on these costs, and assuming that a .5 FTE Detective will be required in this scenario, the estimated expense for providing police services to the three island neighborhoods is summarized as follows:

1.0 Police Officer	(\$122,459 x 1)	\$122,459
.5 Detective	(\$134,705 x .5)	67,353
.25 Records Clerk	(\$ 63,568 x .25)	<u>15,892</u>
<b>Total Police Staff Costs</b>		<b>\$206,704</b>

<sup>5</sup> G-Step salary of \$71,219 + \$51,240 average benefit expense.

<sup>6</sup> Salary of \$78,341 + \$56,363 in average benefit expense.

<sup>7</sup> Salary of \$39,811 + \$23,756 in average benefit expense.

Based on this analysis the total additional law enforcement expense to serve these unincorporated areas is estimated at **\$206,704**.

## **General Services/Public Works**

General Services, which is now the Public Works Department, provides street sweeping and street right-of-way maintenance in the City. As it applies to the three island neighborhoods there should not be any impact on General Fund revenues. However, there will be expenses related to leaf pickup. It is estimated by staff that the cost for leaf pickup will be \$3,133 annually. The \$3,133 for leaf pickup can be covered by the projected gas tax revenues produced from these neighborhoods. This would mean, however, that there would be less money available for routine street and sign maintenance.

Second, after a windshield survey of streets and general land use and infrastructure conditions, the street surfaces mostly appear to be in good condition. The streets were recently resurfaced by the County with a cape seal using Prop 1B funds, in coordination with the sewer installation project. A cape seal is a combination of a slurry seal and a chip seal. The street base or foundation in the Chapman/Mulberry area does not meet City standards and is not in good condition. Butte County Public Works evened the pavement before the cape seal was applied to slightly improve the base. It is estimated that with the pavement evening and the application of the cape seal the estimated life of the seal is 9 – 10 years.

If the annexations occur, the City will receive \$45,386 in gas tax funds which can be used for street maintenance staff or contracts to repair and maintain the streets and their appurtenances such as street trees and signs in the annexed areas.

Third, there are two County Service Areas (CSAs) that serve two of the areas, with CSA 14 serving Chapman and CSA 161 serving Mulberry. The revenues produced by these CSAs pay for CSA administration and to energize and maintain the street lights. CSA 14 is AB8 funded and receives about \$8,300 in revenue each year, and expends about \$4,200 annually. This CSA recently had a balance of \$11,591.

CSA 161 is funded by assessments which currently amount to \$25.72 per parcel. This CSA receives about \$2,200 in annual revenue, spending about \$1,650 per year on street light costs. Recently there was a cash balance of \$2,208 in this CSA. Last year the excess funds from CSA 14 and 161 were used to replace street lights and convert to LED lighting as a cost saving measure.

If these two neighborhoods are annexed, the CSAs may dissolve, and any remaining cash balances would be transferred to the City. These funds may be used to form a maintenance district to provide street light service to the Chapman/Mulberry areas. Assuming that the creation of a maintenance district would not be approved by the voters, the other option is to retain the two CSAs. In this case the County would receive the funds from the CSAs and may pass this money on to the City to maintain and energize the PG&E owned street lights serving the Chapman/Mulberry area. It would be inefficient for the County to continue to maintain the street lights if these neighborhoods annexed into the City.

As a result of the annexation, there would be an expenditure of restricted funds in the amount of **\$45,386 for the maintenance of streets, street trees and signs**, and a street light maintenance district created, or the two CSAs retained, beginning with any remaining cash balances against normal annual expenditures of **\$5,850**. There is an estimated total of **\$51,236** in restricted funds available for all related street maintenance activities. The impact on the General Fund for the annual routine maintenance of streets, street lights, street trees and signs should be **\$0**.

There are, however, inadequate gas tax funds to bring the condition of the streets in the Chapman/Mulberry neighborhoods to their current level in the future. The County's cost to accomplish the cape seal project was \$608,980. After the 10 year life of the cape seal, only \$453,860 in gas tax funds theoretically could be accumulated, assuming the unlikely event that no funds would be expended for routine annual maintenance. Therefore, while there should be sufficient gas tax funds for routine maintenance, after

10 years there likely will be a deterioration of the streets in these neighborhoods or a need to draw on existing City funds to maintain these streets.

## Other Departments

As mentioned earlier in this report, it is not expected that there will be any additional expense in the City's General Fund for the offices or departments of City Council, City Management, Environmental, Economic Development, Human Services, Finance and City Attorney. While there may be some additional work load in these offices or departments from these small neighborhoods, it is not expected that this work load will require additional budgeted expense. It will, however, require a slight adjustment of work priorities for these offices, with the potential that this will marginally impact the availability of service to the community.

The ongoing operating expense for Building and Planning should be minimal, with any increases in workload covered by the fees for this work. For example, it is expected that any building permit applications from the three mostly built-out neighborhoods would pay for the staff time spent reviewing and processing these applications. It is generally assumed that there will be a wash between revenues and expenditures.

In terms of the cost of Code Enforcement it was determined that there were only 18 code enforcement complaints in the Chapman/Mulberry area during the previous 24 months. Therefore, funds were not allocated in this report for this purpose. This data indicates that there will be a marginal increase in workload on City Code Enforcement staff which could have a minor impact in service to the rest of the community.

## Projected Actual Operating Expense Summary

In reviewing the projected actual operating expense that would be incurred by Chico if they annexed the three islands, it is estimated that this additional cost would be \$259,287. This includes activities requiring both General and Restricted Funds. This estimate is summarized in Table IV, entitled, "Annual Estimated Actual Operating Expense, Three Island Annexations, 2012-13."

Table IV Annual Estimated Actual Operating Expense, Three Island Annexations, 2012-13	
Activity	Amount
<b>General Fund</b>	
City Clerk	\$1,347
Police	206,704
Other Departments	
<b>Total General Fund Actual Expense</b>	<b>\$208,051</b>
<b>Restricted Funds</b>	
General Services	\$51,236
<b>Total General Fund and Restricted Fund Actual Expense</b>	<b>\$259,287</b>

As mentioned earlier in the report, the estimated income to support the provision of City services is General Fund revenue of \$203,157 and Restricted Fund revenue of \$51,236, or a total annual income of \$254,393 (See Table II). Compared to the estimated actual annual expenses found in Table IV, expenditures would exceed revenue by \$ 4,894 (\$259,287 - \$254,393). It should be noted that, however, within the context of these figures there will be some marginal service reduction within the City because of the additional workload generated from these neighborhoods. Also, as just pointed out, there will be either a reduction in streets surface quality or a draw on City funds for street maintenance. In comparing General Fund revenues/expenditures as a result of the annexation, the additional cost to the City would be \$4,894 (\$208,051 - \$203,157).

## Summary of Fiscal Impacts, City of Chico

As indicated earlier in this chapter, the estimated General Fund and restricted annual revenues for the Chapman, Mulberry and Stewart Avenue neighborhoods are projected to be \$254,393. This is compared to annual estimated expenditures in providing services of \$792,767 using a per capita projection for each City office or department, or \$259,287 using a more realistic method of projecting actual expenditures. This amounts to expenditures exceeding revenues by \$589,610 using the per capita projection method, or \$ 4,894 using the actual expenditure approach. This data is summarized in the following Table V, "Summary of Annual Operating Revenues/Expenditures, Three Island Annexation, 2012-13."

Methodology	Revenues	Expenditures	Surplus (Deficit)
Per Capita	\$254,393	\$792,767	(\$589,610)
Actual	\$254,393	\$259,287	(\$4,894) <sup>(1)</sup>

## Capital Expenditures

While the County maintains a capital improvement list, there are no capital projects currently planned for these neighborhoods. Capital projects have been recently completed such as the extension of sewer lines into the Chapman and Mulberry neighborhoods so that residents can attach these lines to the sewer and disconnect the use of septic tanks. This project already has been completed, however, with the ancillary benefit that nearly all of the streets in these two areas, using a different funding source, were resurfaced with a cape seal.

At the same time, the two CSAs which serve Chapman and Mulberry have used cash reserves to replace street lights and convert street lights to LED lighting. It does not appear that street light improvements will be needed in the foreseeable future.

Another obvious potential infrastructure need is the absence of curbs, gutters and sidewalks in the Chapman and Mulberry neighborhoods. There does not appear, however, to be an expressed need from the areas' residents to make these types of roadway improvements. The lack of interest in these improvements is reflected in both the City's and County's adopted Chapman Mulberry Neighborhood Plan. In addition, the City does not have the financial ability to install these improvements. In communities where an unincorporated area is annexed which had been developed under more rural standards, the City usually will provide these neighborhoods the opportunity to install curbs, gutters and sidewalks using some form of financing such as a local improvement district. Also, to the extent that development occurs in these neighborhoods, as is presently occurring in the Stewart Avenue area, basic street and drainage improvements will be the responsibility of the developer. It is assumed that assessment districts or developer requirements will constitute the financial techniques to construct street and drainage improvements in these neighborhoods.

It should be noted that the County Public Works Director indicates that the County has spent substantial funds making improvements in the Chapman area. The Director indicates that likely very little will be needed to be done to the streets in these neighborhoods for the next several years.<sup>8</sup>

Regarding other improvements, these areas are essentially developed so there is no room for adding parks and recreation facilities as an example. Plus there is a school and a large park and recreation facility immediately adjacent to the Chapman neighborhood.

<sup>8</sup> Email, April 8, 2013.

There is discussion of moving the leased County Fire Station near the Mulberry neighborhood. However, this is a County-wide issue, and both the City and the County are cooperating in determining the next location for this station. This project would not have any cost impact on the neighborhoods considered for annexation and as a result no cost implications for this project are contained in this report.

Based on this analysis there does not appear to be any capital improvement projects in these three island areas that would require funding from the City's General Fund or its other capital funds.

## Capital Improvement Expenditures, Per Capita Basis

City staff indicates that the annexed areas should assume a share of the City's Capital Improvement Budget. After deleting gas tax funds, general fund, park funds and JAG grants, and retaining 41% of Development Impact Funds attributable to existing development, staff estimates that there would be a per capita \$62.27 cost for those living in the three neighborhoods. This would amount to \$97,826 annually required to maintain the average for capital improvements currently provided by existing City citizens.

## Capital Improvement Expenditures, Actual Cost Basis

On an actual cost basis no additional capital costs are projected attributable to the annexation. This is for two reasons. First, the demand for capital improvements as indicated in the previous paragraphs would be minimal and not a financial drain on the City. The County has no further projects scheduled for these neighborhoods based on their capital improvement list. The City does not have any projects identified for these areas in the adopted neighborhood plan or on their list of capital projects. This likely is because the sewer project is completed, and a developed park is adjacent to the Chapman neighborhood. The sewer fund will collect revenue from fees to cover their costs.

Second, the City will either continue to fund its Capital Budget at its current level, or possibly at a higher or lower level depending upon available revenue. This level of capital expenditure by the City will occur whether or not these island areas are annexed. Therefore, on an actual cost basis there does not appear to be additional capital cost attributable to this annexation.

There is a perspective by City staff that the residents of the unincorporated islands have been benefitting over time from the construction of capital improvements by the City. While this is probably true, the study is not designed to determine the amount of past cost impacts, but only to project discreet financial and service impacts at the time of annexation and for the future. It should also be noted that, while property tax revenue from these areas has accrued over time to the County, the residents in these neighborhoods likely have been spending most of their sales tax dollars in Chico over several decades without receiving any City services such as police protection. It is difficult to assess past benefits, both positive and negative, which occurred prior to an annexation. Based on available information, it appears that the annexed areas would not generate the same level of funds for capital improvements as in the rest of the City, but would also not generate the need for identifiable capital improvements at the neighborhood level.

A summary of potential capital expenditures using the per capita and actual methodologies is summarized in Table VI.

<b>Methodology</b>	<b>Expenditures</b>	<b>Deficit</b>
Per Capita	\$97,826	(\$97,826)
Actual Cost	0	0

# **Chapter III**

## **Public Service and Infrastructure Impacts**

### **City of Chico**

A portion of this analysis of the potential annexation of the Chapman, Mulberry and Stewart Avenue neighborhoods is to assess the public service and infrastructure impacts it may have on the City of Chico. First will be a discussion of the public service implications of the annexation of these three unincorporated islands followed by its infrastructure impacts.

### **Public Service Impacts**

The financial impact of the three potential island annexations on the City's ability to provide public services to the Chapman, Mulberry and Stewart Avenue neighborhoods as well as to the City as a whole appears very limited. For major service departments, and administrative, management and support offices, the annexation of these areas should have little effect on the ability of these departments and offices in providing adequate service to these areas as well as to continue to maintain existing service levels to the remainder of the City. As pointed out in the previous chapter, however, there will be marginal increases in service levels to the City as a whole for some City services.

These impacts are discussed in the following paragraphs. It should be noted that the City department or office names are those reflected in the City's 2012-13 budget, not any changes in nomenclature as a result of any city-wide reorganization.

### **City Council, City Clerk, City Management, Environmental, Economic Development, Human Resources, Finance and City Attorney**

While there may be a slight increase in workload for each of these offices due to these potential annexations, these increases should be able to be absorbed by each office and not cause a requirement for any additional staff or for any budget increases. The only exception is the City Clerk's Office where additional election costs will be required for General Elections and, if needed, Special Elections. As indicated in the City fiscal impact section, the average annual election expense is projected at \$1,347.

### **Building and Planning**

The ongoing additional operating expense for Building and Planning should be minimal if these three unincorporated islands were annexed. It would be expected that any increases in workload for these large built out neighborhoods would be covered by fees charged to process this workload. Application fees for new development (limited in these areas) or for building modifications should pay for the staff time required for processing these applications. Planning and zoning permits also should require a minor amount of staff time from these areas, with that time covered by processing fees. It is assumed that this workload would be prioritized with other applications received from other parts of the City, therefore not requiring the addition of more staff. It is not expected that these annexations will have an adverse impact on service provided to these three areas or to the remainder of the City.

## General Services/Public Works

General Services/Public Works is responsible for public right-of-way maintenance, street sweeping, and street tree maintenance. The annexation of these three areas will place additional work load on the Department. There will be resources, however, to fund routine service levels for a substantial period of time for the three unincorporated islands without impacting service levels in the rest of the City. After 10 years, however, these gas tax funds will be insufficient to support the level of street condition currently experienced in these three neighborhoods.

The streets and other street appurtenances currently appear to be in satisfactory condition. This is because streets serving Chapman/Mulberry have recently been resurfaced by shaving the base and adding a cape seal which was funded separately as part of the sewer installation project. County Public Works indicates that substantial improvements to the Chapman/Mulberry area infrastructure have been made which will not require additional work, other than normal routine maintenance, for 9 - 10 years +/-.

Street lights have been replaced or the source of illumination has been changed to LED lighting. Further, since there are no curbs, gutters and sidewalks in the Chapman/Mulberry areas, there will be no requirement for street sweeping per City practice.

There will be a need for ongoing street maintenance including pavement, street trees, signs, and street lights. This will be funded by \$45,386 from gas tax revenue estimated to be produced from these neighborhoods, and \$5,850 for street light maintenance which would be provided from two CSAs which currently serve the Chapman and Mulberry areas.

It appears that there will be sufficient resources for the City to continue the level of service currently received by the three island annexations without impacting service levels in the remainder of the City for at least a period of 10 years.

## Public Safety

The **Fire** Department does not need additional staffing or other budgeted costs as a result of the potential annexation of these three unincorporated islands. This is because the City and County Fire Departments have a coordinated response system for both incorporated and unincorporated areas in and around the City. This system and the resources needed to activate this system will not change as a result of these three potential annexations.

Additional staff and financial resources will be necessary, however, for the **Police** Department to provide service to these three areas without impacting city-wide service levels. As more fully explained in the City's fiscal impact analysis in the previous chapter, using a patrol staffing model based on workload (calls for service (CFS), the Police Department will need additional staff, including a full-time police officer, a .5 FTE detective and a .25 FTE records clerk. This added sworn and non-sworn staff will provide service at current or improved service levels to these three unincorporated neighborhoods than is now being received, while at the same time not diminishing the City's ability to provide law enforcement service to the remainder of the City. It is estimated that the cost of this additional staff is \$206,704.

## Summary

Most City departments or offices will be able to provide services to the three areas proposed for annexation without increasing staff or resources. This is because the areas are small and minimal work load impacts are expected. While there will be some increase in work load generated by these areas, it will not be sufficient to require additional financial support for these departments or offices. On the other hand, minor work load increases for some City services will produce marginal reductions in service to the remainder of the City.

There are, however, departments or offices which will require additional financial resources to provide at least the level of service now received by the three unincorporated neighborhoods without sacrificing service levels in the remainder of the City. These departments or offices, include the City Clerk (elections),

General Services (street maintenance, street trees, street lights), and Police. To a major extent, these additional costs will be paid for by taxes or fees generated by the three areas considered for annexation.

## **Infrastructure Impacts**

This section describes the impacts on the City's infrastructure, or infrastructure that the City would assume if the three island areas were annexed by Chico. Generally, there does not appear to be any immediate major infrastructure problems or issues. These infrastructure issues are discussed in the following paragraphs.

### **Drainage**

City engineering staff has raised questions about the lack of curbs in the Chapman area, and the overall issues of drainage. The County Public Works Department which has maintained this area for decades, however, does not feel that there are major drainage issues in this neighborhood. Clearly, no drainage capital improvement projects have been identified or developed for this area. For the purposes of this report, drainage in the Chapman area is called out as an issue that may need to be studied in the future, but there is no current basis for budgeting a capital project for this area.

### **Fire Station**

There is a leased County fire station across the street from the Mulberry neighborhood. While it is expected that this station will be relocated somewhere in the current service area, the Chapman/Mulberry areas will continue to be served by the coordinated City/County system of fire stations. There will be no fiscal impact because of this station relocation on the City or the County due to the potential annexation of these three unincorporated areas.

### **Parks and Park Facilities**

There are no future park sites in these three unincorporated islands. In fact, there is a developed park with park facilities which serves the Chapman neighborhood. It is not anticipated that any additional expenditures for parks or park facilities will be required as a result of these potential annexations.

### **Streets and Roads**

There does not appear to be a need for capital improvement projects for streets and roads in the three unincorporated areas, except those that will be constructed by developers for the limited number of new development opportunities in the Chapman and Stewart Avenue neighborhoods. The overall condition of streets in the Chapman/Mulberry areas improved because of the recent street cape seal project which was paid for by Prop 1B funds. However, to maintain these streets in their current condition, additional funds will need to be expended for resurfacing after an estimated 10 years.

There will be a need for the maintenance of the streets, street trees, street signs, and street lights. Gas tax and maintenance district funds will be available to provide this maintenance.

### **Sewers**

Currently, most of the dwellings in the Chapman/Mulberry neighborhoods are served by septic tanks. With the recent construction of the sewer mains through these two neighborhoods, residents ultimately should be able to connect to these sewer mains. So there is no major sewer capital improvements required as part of these potential annexations. There will be homeowner expense, however, in connecting to the sewer mains.

## **Summary**

It appears that the annexation of the three unincorporated islands 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.

# Chapter IV

## Fiscal, Public Service and Infrastructure Impacts

### Butte County

This Chapter reviews the impacts of the proposed three island annexations on Butte County. These impacts review what will happen to the County's revenues, expenditures, ability to continue to provide public service as well as whether or not any infrastructure plans or projects will be affected by these potential annexations.

### Butte County Revenues

If the annexation of the three islands occurs, there would be a shift in revenues to the City of Chico. Correspondingly, there would be a reduction in some of these revenues to Butte County. Not all of the revenues accruing to the City will be a loss to the County, For example, income from sources like the utilities' users tax does not apply to the County. This section will identify the revenue impact on Butte County if the three islands were annexed to the City of Chico.

### General Fund Revenues

#### Property Tax

As mentioned earlier, the Master Property Tax Sharing agreement governs the sharing of property tax income between the City and the County. The agreement provides that the property tax revenue from any annexed area will be shared with the City receiving 45% of this income and the County 55%.

Using this formula, \$53,097 will accrue to the City as General Fund revenue. This means that there will be a corresponding **loss to Butte County of \$53,097.**

#### Property Transfer Tax

In discussing new revenue to Chico it was mentioned that the City and the County share 50 percent of the transfer value of property that is sold or resold when the sale is in the City limits. The property transfer tax is \$1.10, with each jurisdiction receiving \$.55 of the transferred value of real property. It is estimated that \$816 would accrue to the City if these three were annexed, meaning that there would be a revenue **loss to Butte County of \$816.**

#### Sales Tax

It is estimated that the three island neighborhoods only produce \$813 in sales tax income. If these areas were annexed to Chico, there would be a revenue **loss to Butte County of \$813.**

## Property Tax in-lieu Vehicle License Fee

As discussed earlier in this report the impact on the County would be the **loss of \$0** from this revenue source.

## Franchise Fees

It is estimated that the City will receive \$21,536 in franchise fees from the local cable company and P.G.&E., which use the public right-of-way in the three island areas. This estimate is based upon a per household projection as discussed in the City revenue section. Since the County has comparable fees from the two utilities, it is estimated that the revenue **loss to Butte County is \$21,536** from this income category.

## Business License Tax

There is minimal business activity in these three areas which are residential. The County does not have a Business License Tax. Therefore, there will be a **\$0** revenue loss to the County from this revenue source.

## Miscellaneous Fees and Other Income

The City has a number of miscellaneous fees that would apply to the three islands as discussed above. These include fees such as criminal fees, impound fees, animal and bicycle licenses, weed and lot cleaning charges, uniform fire code inspection fees, etc. Income from these fees is estimated at \$6,414. While the County does not have all of these fees, it is estimated by the County Chief Finance Officer that the County would lose approximately one-half of the City's revenue projections, or \$3,200.

On the other hand, the County will receive miscellaneous revenue from the City since Chico would be required to pay for the elections that would be conducted in the areas considered for annexation. It is estimated that this additional income to the County would be \$1,347 (See revenue analysis, City of Chico). Overall, Butte County would see a **revenue loss of \$1,853** (\$1,347 - \$3,200) in miscellaneous fees and other income.

## Total General Fund Revenues

In summarizing the individual revenue categories from the preceding paragraphs, the total General Fund revenue loss to Butte County is estimated at \$78,115, if the three island neighborhoods were annexed into the City. This information is presented in Table VII, "Projected Annual General Fund Revenue, Butte County, Chico Island Annexations, 2013."

<b>Revenue</b>	<b>Estimated Amount</b>
Property Tax	(\$53,097)
Property Transfer Tax	(816)
Sales Tax	(813)
Property Tax in-lieu Vehicle License Fee	0
Motor Vehicle License Fee	0
Transient Occupancy Tax	0
Utility Users Tax	0
Franchise Fees	(21,536)
Business License Tax	0
Miscellaneous Fees and Other Income	(1,853)
<b>Total General Fund Revenue</b>	<b>(\$78,115)</b>

## Restricted Revenues

The restricted revenue which Butte County would lose if annexation of these three islands occurred is a portion of the gas tax funds produced from this area. As was pointed out in the Chico revenue analysis, the City receives gas tax income from Sections 2103, 2105 – 7 of the Streets and Highway Code, and the County receives funds from Sections 2103 – 2106 of the same Code. Income from Section 2104 received exclusively by the County will not be affected by this potential annexation.

While the share of gas tax funds is mainly based on population the County share is based on road mileage. Since the road mileage in the three areas being studied is miniscule compared to the mileage in the county-wide system, the gas tax revenue loss will be insignificant. The County's Chief Financial Officer indicates that it will "be an immaterial amount."<sup>9</sup>

## Summary

The total revenue loss to Butte County if this annexation takes place is summarized in Table VIII, "Projected General Fund and Restricted Revenues, Butte County, 2012-13."

<b>Revenue</b>	<b>Estimated Amount + / (-)</b>
General Fund	(\$78,115)
Restricted Revenue Funds	0
<b>Total Revenue Gain (Loss), Butte County</b>	<b>(\$78,115)</b>

As can be seen from Table VIII the County would lose \$78,115 in General Fund and Restricted Revenue Funds, primarily Gas Tax Funds.

## Expenditures

This section outlines the estimated actual annual recurring cost impacts if the three unincorporated islands were annexed into the City of Chico. Again, these costs are only estimates and have been developed with the cooperation of County staff. Generally, since the area is so small compared to the overall County service area, there is little reduction in expenditures as a result of various County agencies no longer serving these three areas.

## Public Safety

### *Fire*

As was mentioned previously, the City and County Fire Departments have an integrated emergency response system in and around Chico consisting of six City fire stations and three County stations. One of the County fire stations is across the street from the Mulberry neighborhood. This is a leased station, which will be relocated in the future. While the new station location has not been determined, it will still be in the same general service area as the current station and will still be integrated with the nine fire stations serving the Chico area.

<sup>9</sup> Email April 16, 2013.

This fire station relocation would occur whether or not the three island annexation takes place. The annexation would not generate any additional or reduced expense, either in terms of this prospective capital expenditure, or in terms of County Fire operations. As a result, there will be **no savings** to the County Fire Department if the annexation occurs.

### *Sheriff*

As mentioned earlier in this report, there are an estimated 716 calls for service (CFS) in 2011 and 866 CFS in 2012 for the Chapman/Mulberry and Stewart Ave areas. The Undersheriff indicates that these CFSs mostly involve burglaries, thefts, domestic disputes, and serving warrants. The “other calls” that are part of the CFS include telephone call transfers, sidewalk contacts, unfounded, no one at the scene, and so on.

If these areas are annexed by the City, this will decrease the workload of the Butte County Sheriff's Office. It does not appear, however, that this will result in any savings in the Sheriff's annual budget.

In the area north of Highway 149, the Sheriff deploys a day shift and a night shift, overlapping with 10 hour shifts. Each shift deploys of a team consisting of one Sergeant and 3 – 4 Deputies, which is the unit that patrols the Chapman/Mulberry neighborhoods. Since the area north of Highway 149 is already underserved, Sheriff's management staff does not anticipate that there would be a reduction in staff as a result of these annexations. Therefore, there would be **no reduction in expenditures** for this Department with this annexation even though there would be a reduction in workload. Service to the area north of the 149 will be more efficiently provided, however, since the Sheriff's response area would no longer be responsible for these three unincorporated islands and driving through the City to respond to calls in these neighborhoods.

### **Public Works**

There should be a slight reduction in workload in the Public Works Department since the Department will not be responsible for street maintenance in these three neighborhoods. The Department will still need to maintain certain basic staffing and maintenance contracts to provide existing services throughout the County since the area proposed for annexation, even though it is developed, is so small compared to the entirety of the County service area. It is estimated for the County Public Works Department there will be **an unspecified minimum workload reduction**.

### **County Clerk – Recorder**

As mentioned previously, it is estimated that there would be additional income accruing to the County since the City will pay for election expense if these areas are annexed. This will not result in a cost savings to the County since the Registrar of Voters will still need to incur costs to conduct the elections. Therefore, there will be **no reduction in expenditures** in this office.

### **Other County Departments**

In reviewing the service provided by other County departments there does not appear to be any cost savings as a result of this potential small annexation. This is a small service area, and the cost of providing county-wide service would not be affected for departments such as the District Attorney, Public Health, Employment and Social Services, Child Support Services, Library, General Services, Development Services, or the Offices of Assessor or Auditor-Controller. The result is **no reduction in expenditures** in these offices or departments.

Table IX Fiscal Impact of the Three Islands Annexation Butte County	
Estimated Revenue Loss	(\$78,115) <sup>(1)</sup>
Estimated Expenditure Reduction	\$0
Negative Fiscal Impact	(\$78,115)
<sup>(1)</sup> See Table V.	

As indicated on Table IX, there will be a negative fiscal impact on the County of \$78,115. There is no offset in expenditure savings to the loss of \$78,115. The estimated negative fiscal impact on the County will be \$78,115 using the actual cost methodology. Also, there will be a relatively slight reduction in overall County workload for public works services. For the City, except for police for which additional resources are provided for an increased workload, public works and fire, these neighborhoods will produce a marginal increase in service demand which will have a minor impact on services provided to the remainder of the community. Of course, over the long term the annexation would allow for the provision of more efficient services by both the City and the County since these three isolated unincorporated, inhabited islands would be included in the City and not served separately by the County.

## Public Service Impacts

For major County Departments and Offices, it appears that the annexation of the three unincorporated islands in Chico's Sphere of Influence will have little impact on the ability of these Departments and Offices to continue to meet the service needs of the remaining unincorporated areas. In fact, there may be a very slight increase in the ability to service these remaining areas.

As cited above, there are a number of departments and offices, such as the District Attorney, Public Health, Employment and Social Services, and Child Support Services, where the annexations would have no impact on the current provision of service. Even the County Fire Department which presently serves the Chapman and Mulberry neighborhoods will have no change in the way they respond to fires and other emergencies since they coordinate their responses with the City Fire Department.

There will be some efficiency created by these potential annexations in the areas of law enforcement and street maintenance. The Sheriff's Department will no longer need to travel through incorporated Chico to reach these isolated unincorporated enclaves. This will likely allow for slightly better response times to some other parts of the County served by the Sheriff's unit assigned to this general area. This is because there will be a reduction in calls for service as a result of these potential annexations. Deputies will no longer be called into these unincorporated neighborhoods and can devote more time other nearby unincorporated areas. However, because of the small size of these neighborhoods proposed for annexation there will not be the ability to save money by reducing sworn or support staff.

There will also be a reduction in workload in the Public Works Department. There will no longer be the need to maintain streets, street trees, street signs and street lights in the three neighborhoods. However, the streets are in satisfactory condition, and there will be no cost savings for several years by eliminating these neighborhoods from the Department's workload. At a minimum, County road maintenance staff will no longer be required to respond to complaints and service calls in these areas, thereby slightly increasing the efficiency of the road crews in other parts of the County.

Overall, there does not appear to be any negative public service impact on the remaining portion of the County. In fact, there should be a slight increase in service and service level efficiency by the Sheriff and Public Works Departments. However, as indicated in the fiscal analysis for the County, there will be a reduction in revenue which supports law enforcement.

## **Infrastructure**

If these annexations occur, there will not be a major impact on County infrastructure plans. The major capital improvement project of extending sewer mains to this area has already been accomplished, along with improved street resurfacing. Some street lights have been upgraded to LED lighting. These improvements, along with the responsibility for maintaining these improvements, will be transferred to the City if these annexations occur. In any event, there are no County capital improvement projects which will be blocked or delayed if these annexations take place. It is therefore concluded that there will be no negative impact on County infrastructure, or its plans for future capital improvements, if these annexations occur.

# Chapter V

## Annexation Process

This portion of the report outlines the procedures required to annex the three unincorporated areas into the City of Chico. Annexations, detachments, consolidations and other forms of governmental reorganization are overseen by the Butte Local Agency Formation Commission (LAFCO). Established in 1963, LAFCOs in each county have the authority to approve annexations per Sections 560000 et. seq. of the California Government Code.

State law and most counties and LAFCOs throughout the state encourage the elimination of unincorporated “islands” due to the inefficiency and cost of providing local services to these small, isolated areas and the environmental justice concerns related to community involvement and equality in service provisions.<sup>10</sup> Also, pursuant to Government Code Section 56425, LAFCOs are required, as a planning tool, to identify logical municipal service providers for areas throughout a county and to establish Spheres of Influence (SOI) for cities and other local government entities. To encourage the accomplishment of logical service areas for small “island” annexations (under 150 acres), the state has created a streamlined process to accomplish such annexations.

Since each of the three unincorporated “islands” are less than 150 acres, the annexations can be processed under the provisions of Government Code Section 56375.3. This means that LAFCO shall approve the annexations without protest provisions if initiated by the City.

Within this general context, the following paragraphs outline the steps required to annex these three unincorporated islands.

### Steps Toward Annexation

If the Chico City Council determines to initiate the annexation of the Chapman, Mulberry and Stewart Avenue neighborhoods, the steps summarize in the following paragraphs would need to be followed.

1. The City of Chico would submit an application to the Butte LAFCO which would contain the following information and related materials.
  - LAFCO processing fees which are based on a variety of factors and cannot be accurately determined until such time as an application is initiated and the annexation areas defined;
  - A statement justifying the proposed annexation;<sup>11</sup>
  - A Plan of Services;<sup>12</sup>
  - CEQA documents (this may involve a Negative Declaration or less);
  - Resolutions by the City and the County agreeing to a transfer/split of the ad valorem property tax revenues generated in the submit territories;<sup>13</sup>
  - Pre-zoning;
  - Indemnification agreement signed by the applicant.

<sup>10</sup> These areas are isolated in the sense that they are separated from the rest of the areas served by the County.

<sup>11</sup> This requirement is covered by this report

<sup>12</sup> Ibid.

<sup>13</sup> This is already addressed in the Master Property Tax Agreement between the two agencies.

2. Within 30 days of the application, LAFCO will send a status letter notifying the City that the application is either complete or incomplete.
3. Upon determination by the LAFCO Executive Officer that the application is complete, the Executive Officer issues a Certificate of Filing and sets a hearing date for the annexation proposal.
4. LAFCO notices and holds a public hearing on the proposed annexation. The LAFCO Commission takes one of the following actions:
  - Approves the application; or
  - Approves the application with modifications and subject to terms and conditions.<sup>14</sup>
5. Within 35 days of the hearing, LAFCO adopts a resolution making determinations and approving the application. LAFCO sends a copy of the resolution to the applicant.
6. If the application is approved, normally LAFCO sets a protest hearing for the annexation that is not consented to by all affected landowners. For island annexations, however, state law requires that the LAFCO Commission approve the annexation and waive the protest proceedings.
7. If the annexation is ordered, LAFCO sends a Certificate of Completion to the County Recorder's Office, following a 30 day reconsideration period, and upon the satisfaction of all terms and conditions in the resolution ordering the annexation.
8. Upon recordation, LAFCO sends all documents and required fees, which are paid by the applicant, to the State Board of Equalization for the purpose of altering their TRAs to reflect the change of organization. At this point, the annexation is complete.

One requirement of the initial LAFCO application is to "pre-zone" the three islands prior to consideration of the annexation by the LAFCO Commission. Following the City's comprehensive General Plan update in April 2011, the City updated its zoning map, and the parcels in the island areas discussed in this report as well as in other neighborhoods have been pre-zoned by the City. It should be noted that state law requires that zoning designated during the pre-zoning process remain in place for two years.

Important to the City of Chico is an analysis of this annexation to determine the financial and operational impacts on the City. It is also important for LAFCO to determine whether the annexed area will continue to receive the same level of service as it currently receives as well as to learn what impacts the potential annexation may have on other agencies. These considerations are addressed by this study and report. It should be noted that the LAFCO will evaluate each annexation application for consistency with the entirety of its policies and factors required by state law. No one factor has any greater weight than any other, therefore, the results of this fiscal analysis will represent only one factor for LAFCO consideration.

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<sup>14</sup> Under state law the LAFCO Commission does not have the discretion to deny an application for island annexations initiated by the City.