

Final Report
South Oroville Areas A & B
Annexation Study
for
Butte County/City of Oroville

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Chapter I

Introduction

Introduction

The City of Oroville is one of five incorporated municipalities in Butte County and is the county seat. The City's incorporated area consists of a 13-square mile area located 65 miles north of Sacramento, where the Sacramento Valley meets the Sierra Nevada Foothills. Oroville lies 5 miles east of Highway 99, along Highway 70, a primary transportation route, connecting Oroville with Sacramento to the south and Plumas County to the north.¹ The current City population is estimated at 15,979.

South Oroville Areas A and B have a combined population of 2,725 people. Area A has a population of 2,392 people, housed in 982 households. Area B's population is 333 people, housed in 162 households.² Area A constitutes 88% of the population that would be annexed and Area B constitutes 12% of the population. These areas, particularly Area A, are generally composed of lower-income, diverse populations, and have less developed infrastructure than incorporated areas of the City. The South Oroville area has been designated as a Disadvantaged Unincorporated Community, pursuant to Chapter 513, California Statutes of 2011. According to the Oroville Municipal Services Review approved by the Local Agency Formation Commission (LAFCO) in 2009, the fact that these areas have not already been annexed by the City has resulted in concerns regarding social equity of the City's annexation strategies.

In recent years, the City has been pursuing the annexation of several unincorporated islands and has discussed the annexation of communities on the City's fringe. The staff reports generally recognize the advantage to incorporate these urbanized areas into the City to improve the efficient delivery of municipal services and to capture revenues to compensate the City for the use of City services by residents of these unincorporated islands and urbanized fringe areas. The same reports express an intent to be cautious about ensuring that the City's service levels to its current population do not decline as a result of the incorporation of these areas into the City.

Area A is an urbanized area and fairly regular in shape. It is located south of Wyandotte Avenue and is bounded on the west by Lincoln Blvd., Ithaca Street comprises the southern boundary, and Area B comprises the eastern boundary. To the casual observer, it is not evident that the area is not already a part of the City. The area is mostly developed into standard single-family lots. There are a limited number of commercial parcels in Area A. The area shows signs of blight, such as dilapidated buildings, unkempt yards, and properties with overgrown weeds. Over half of the area lacks curbs, gutters, and sidewalks. There are a number of under-maintained alleys in the area. Drainage infrastructure is also substandard, relying on poorly maintained ditches along the frontages of homes. The area experiences high crime and code violations are readily observable.

Area B is more rural in character. It consists of larger undeveloped or under-developed parcels. These parcels appear to be in multiple ownerships and have the potential to be further subdivided. Typical of rural areas, there are no curbs, sidewalks, or gutters. Drainage is provided via ditches, along roadway frontages. Area B is bounded by Area A to the west, Lower Wyandotte Road to the North East, the current City limit to the east, and V-7 Road and Oro Garden Ranch Road to the South.

Area B offers a potential opportunity for further development. Many of the parcels within this Area can be further subdivided or assembled for master plan type development. Within Area B, there are a total of 192.42 acres: 9.83 acres are zoned Limited Commercial (C-1); 52.2 acres are zoned Single Family Residential (R-1); 107.79 acres are zoned Medium Density Residential (R-2); and 22.6 acres are zoned Rural Residential - 10,000 sq. ft. (RR-10).

¹ Excerpt from City of Oroville 2030 General Plan

² Butte County GIS data provided by Casey Hatcher

South Oroville Area A is served by the El Medio Fire Protection District. Area B is served by CAL FIRE / Butte County and first due response is provided through automatic aid agreements with the City and El Medio Fire Protection District. An El Medio Fire Protection District fire station is located within Area A. Reportedly, the residents of South Oroville Area A are satisfied with the services provided by El Medio Fire Protection District and would prefer to remain in the District's boundary, even after annexation. The City, the County, and LAFCO appear to support the plan for the areas to continue to be served by the El Medio Fire Protection District. Residents and property owners in the El Medio Fire Protection District boundary approved a special assessment to fund fire protection and the El Medio Fire Protection District feels that it is capable of and wants to continue to serve the area.³ If annexation occurs and Area A remains in the El Medio Fire Protection District jurisdiction, the residents of Area A would continue to pay the fire protection assessment.

Three Community Service Areas (CSA) also exist in the area proposed for annexation. These CSAs are funded via parcel taxes. CSA 17 has two zones of benefit. Zone 1 provides funds for street lighting and Zone 2 funds alley maintenance, mostly to Area A, but its boundary extends outside of Area A. CSA 33 provides funding for street lighting in Area B. CSA 164 provides funding for animal control services in the unincorporated areas of the County. These CSAs could be allowed to remain in place and the City and the County could work out a method for transferring funds from the County to the City.

The annexation of these areas would result in a significant increase in population (17%) to the City. While annexation of these unincorporated areas to the City would increase the need for emergency services and other public services, annexation has the potential to improve the level of service provided to residents of these areas and contribute to the resolution of local and regional equity issues. The City has expressed its intent to employ reasonable measures to annex the South Oroville areas.

In October 2006, the City completed an annexation feasibility study regarding the fiscal impacts of annexation of the South Oroville area. A key issue identified by the City in its annexation studies is that tax revenue generated by annexing residential areas would not offset the cost of providing services to these areas.⁴ That finding is also made in this report.

Population increases as a result of annexation would affect the City's population and would increase the need for certain services such as police, fire protection, code enforcement, road maintenance, and animal control. It would do so proportionally more than new development because the existing developed areas have older buildings, aging infrastructure, and relatively low-income populations. These issues will need to be addressed before the annexation process moves forward.

The following Map 1 shows the boundaries of the City. Map 2 shows the boundaries of South Oroville Areas A and B.

Purpose of Report

The purpose of this analysis is to identify fiscal and operational considerations of annexing a portion of South Oroville, referred to as Areas A and B to the City. This study is financed by the County and the City, and includes input from the City, the County, LAFCO, and others.

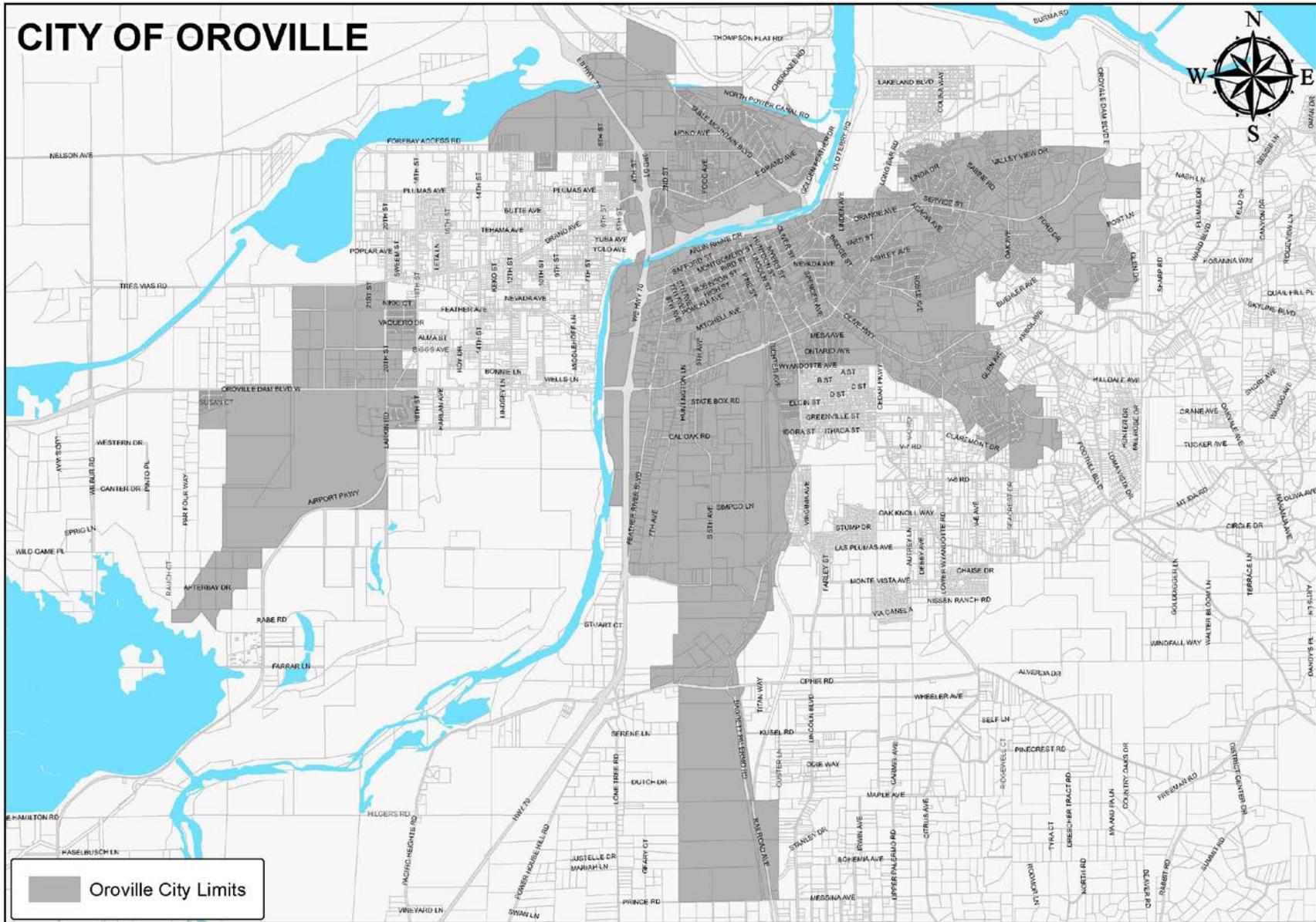
This study analyzes the fiscal impact of annexing the subject areas to both the City and the County, both in terms of operations and capital improvements. It evaluates the impact on City and County operations and public services. Finally, the study outlines the procedural steps needed for the City Council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

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

³ Interview with public safety staff, including Chris Haile, Division Chief Butte County Cooperative Fire Protection

⁴ Redevelopment / Annexation Feasibility Study, Community of South Oroville, prepared by RSG, 2006

Map 1 – City of Oroville City Limits

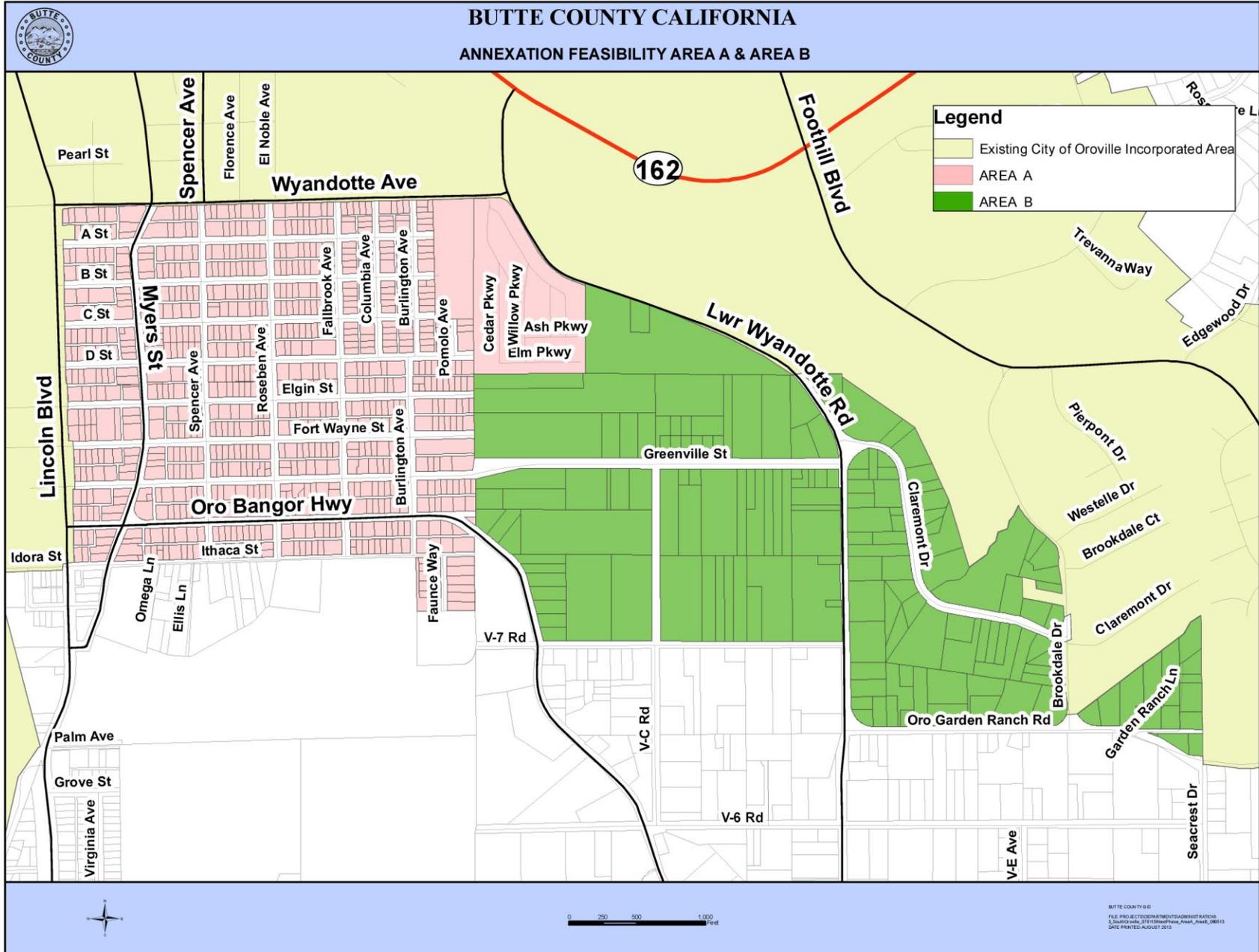


0 0.5 1 2 3 4 Miles



Produced By: City of Oroville
May 27, 2014

Map 2 - Map of South Oroville Annexation Area



The report specifically provides a fiscal and operational analysis of the annexation on the City (Chapter II); public service and infrastructure impacts on the City (Chapter III); fiscal, public service and infrastructure impacts on the County (Chapter IV); and a description of the LAFCO process required for annexation (Chapter V).

Methodology

The methodology of this study included reviewing documents and data supplied by the City, the County of Butte, and Butte LAFCO. Documentation included financial, operational, land use, and procedural information for Areas A and B. Kick-off interviews were conducted in Oroville with City staff, including the Police Chief, Planning Director, Senior Planner, Senior Engineer, Public Works representatives, and Economic Development staff. The initial meeting also included the County Assistant Director of Public Works, and the County's Program Development Manager. More in depth interviews were held subsequently in Oroville with the City Administrator, the County Chief Administrative Officer, the Chief of Police, the County Undersheriff, and a representative from CAL FIRE. The LAFCO Executive Officer was also interviewed in person. Subsequent telephone interviews were held with the Executive Director of Butte County Association of Governments, the County's Chief Financial Officer, the County's head of Animal Control, the Executive Director and the Board President of the Northwest SPCA, the City's Interim Chief Financial Officer, and the City's Auditor.

A site visit was included as part of this study in order to assess the condition of each of the areas proposed for annexation. This assessment involved driving every block in Areas A and B with the County's Road Maintenance Supervisor, noting the condition of these areas' land use patterns, housing stock, and public infrastructure.

Prior to the completion of this Report, the preliminary results from the analysis using the per capita and actual methodologies were presented in person-to-person meetings with the City Administrator and the County Chief Administrative Officer. The preliminary results were also presented in a meeting in Oroville with City Community Development staff, and City and County Public Works representatives. The purpose of these follow-up meetings was to explain the preliminary data and note any issues or concerns associated with the outcomes of the agreed upon methodologies. The preliminary public safety data was also discussed with the City's Police Chief and the County Undersheriff.

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 2013-14 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.

City staff expressed concerns that, although the methodologies used were acceptable and likely to predict accurately what may happen if Areas A and B are annexed, actual experience may result in unexpectedly high demands for City services. This could have the effect of reducing City service levels elsewhere in the City. While such an outcome cannot be ruled out, it cannot be modeled properly. It is possible that calls for service may exceed the numbers predicted by the agreed upon methodologies, particularly in the initial period after annexation, when expectations for improved service levels may result in an increase in calls for service. Over time, however, it is also possible that as the area becomes better serviced by the City some of the issues that plague the area may be lessened, reducing the overall level of calls.

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

South Oroville Areas A and B Annexation Study

Fiscal and Operational Analysis

Fiscal Analysis

Purpose

This fiscal analysis presents the projected revenues that would accrue to the City 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 expected actual cost basis. Revenues and expenditures will be applied to the County on an expected actual cost basis only.

City of Oroville Revenues

The projected revenues which would accrue to the City if Areas A and B 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 the County, and a variety of taxes and fees which would be collected from these annexed areas. Restricted revenue includes gas tax funds which are limited to street and road maintenance and construction, Transportation Development Act (STA and LTF) funds which can be used for public transit and road purposes, and Community Service Areas (CSA) revenues.

General Fund Revenues

Property Taxes

The Master Property Tax Agreement governs the sharing of property tax revenue between the City and the County. The agreement provides that the net general tax levy will be allocated as follows: 58 percent to the City and 42 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, successor agencies, and other special districts.

As provided by the County Auditor-Controller, the City's 58% share of the estimated property tax revenue from Area A is \$45,912 and \$13,254 for Area B, for a total property tax revenue of \$59,156.⁵

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

⁵ Report from Butte County Assessor, provided by Casey Hatcher

then split between the City and the County, each receiving \$.55 of the transferred value. Based on actual real property transfers over a six year period provided by the County, it is estimated that \$2,772 revenue is produced annually in Area A and \$506 is produced in Area B. With the 50-50 split, it is estimated that this revenue source would produce \$1,386 in Area A and \$253 in Area B for a total of \$1,639 for the annexation in new revenue to the City. The County would forego an equivalent amount.

Sales Tax

Areas A and B are primarily residential, with limited commercial activity. Based on figures developed by the County, there is very limited sales tax generated in these areas. It is estimated that \$22,299 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 two areas already occurs in Oroville and the shopping patterns would not change as a result of annexation.

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 in Area A, which is mostly developed, is unknown. Area B offers more opportunity for development, but it is not feasible, at this time, to estimate the potential or the timing for development.

For the purpose of this calculation, annexations are not considered growth. The two annexation 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 two areas were annexed to Oroville. 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.

Utility Users Tax

The Utility Users Tax (UUT) is a tax imposed on the users of certain utilities in the City including gas, electricity, telecom, and water. Based on the 2013-14 City Budget, the estimate of the income produced by this tax is \$302.34 per household (\$1,707,016 / 5,646). Applying this figure to the number of house-

holds which could be annexed into the City as determined by the County's GIS Department, the new income to the City from Area A would be \$296,898 ($\302.34×982) and \$48,980 ($\302.34×162) for Area B. The combined total for Areas A and B would be \$345,877. There would not be a corresponding loss in income to the County since it does not have a comparable revenue source. The City's Interim Financial Officer questioned whether the economic conditions of South Oroville may result in lower per-household UUT revenue. While it is possible that lower income households would spend less on utilities subject to the UUT, the per-household metric is based on a City-wide average which includes senior and lower income households. Data supporting an adjustment to the per-household average is not available.

Franchise Fees

The City receives franchise fees from utilities for the use of City streets and other rights-of-way and from the City's waste hauler. Income from this source is received for cable television, gas and electricity services, and the City's waste hauler. Applying the 2013-14 City Budget, the franchise fee produces \$81.59 per household. Applied to the two annexation areas, the revenue to the City would be \$80,121 ($\81.59×982) for Area A and \$13,218 ($\81.59×162) for Area B; for a combined total of \$93,339. There will be a reduction in revenue to the County, but not in the same amount since the per-household revenue from franchise fees is much lower in the County at \$41.75 per household vs. \$81.59 per household in the City. Much of the variance can be explained by the fact that the County does not collect a franchise fee from the waste hauler and the City does.

Business License Tax

County records identify twenty (20) retail or commercial establishments in Area A and none in Area B. The estimated Business License Tax revenue is low and is incorporated into the miscellaneous revenue category below.

Miscellaneous Fees and Other Income

There are a number of miscellaneous revenues shown in the City Budget. Typically in California cities, such revenues include items such as bicycle licenses, alarm permits, uniform fire code inspection fees, false alarm fines, weed and lot clearing fees, etc. Some of these revenues are directly related to population and some are not. The sources of these miscellaneous revenues are not detailed in the City Budget. Generally, such revenues tend to be relatively low. Due to staffing shortages, it was determined that the effort required to research each of these miscellaneous revenue would not be a productive use of limited staff time. Instead, both the City Administrator and the County Chief Administrative Officer stipulated to the amount of \$10,000 as the amount to be attributed to Areas A and B. This amount was apportioned to Areas A and B in proportion to their population. Area B is approximately 12% of the total population in the proposed annexation area. It was assumed that there would be a loss of approximately half of that amount to the County if Areas A and B were annexed to the City.

Total General Fund Revenues

Using the individual revenues identified in the preceding paragraphs, the total General Fund revenue that these two annexation areas could produce for the City is an estimated \$532,321. Area A would generate \$455,416 and Area B would yield \$76,905. This General Fund revenue is summarized in Table 1, labeled, "Projected Annual General Fund Revenues - City of Oroville, South Oroville Annexation, 2014."

Table 1
Projected Annual General Fund Revenues - City of Oroville
South Oroville Annexation, 2014

Revenue Source	Revenue Estimate		
	Area A	Area B	Total
Property Tax	\$45,912	\$13,254	\$59,166
Property Transfer Tax	\$1,386	\$253	\$1,639
Sales Tax	\$22,299	\$0	\$22,299
Property Tax In-Lieu of Vehicle License Fee	\$0	\$0	\$0
Motor Vehicle License Fee	\$0	\$0	\$0
Transient Occupancy Tax	\$0	\$0	\$0
Utility Users Tax	\$296,898	\$48,980	\$345,878
Franchise Fees	\$80,121	\$13,218	\$93,339
Miscellaneous Fees	\$8,800	\$1,200	\$10,000
Total General Fund Revenue	\$455,416	\$76,905	\$532,321

Other Municipal Revenues

There are no 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. Water and wastewater services are provided by a separate non-city entity and would not produce revenues to 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 annexation areas is gas tax revenue 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 Highways Code Sections 2103 – 2107. Only counties benefit from Section 2104 and only cities benefit from Section 2107.

If Areas A and B are annexed, gas tax funds received by the County, except for Section 2104 funds, would shift to the City. Oroville would receive Section 2107 funds for these areas. The projected gas tax funds to be received by the City in 2013-14 are:

Section 2103	\$186,000
Section 2105	60,000
Section 2106	56,500
Section 2107 and 2107.5	<u>101,000</u>
TOTAL	\$403,500

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. The per capita average is \$25.25

(\$403,500 / 15,979). Using this method, the gas tax funds produced from these two areas are projected to be \$60,398 in Area A (\$25.25 X 2392) and \$8,408 (\$25.25 X 333) in area B, for a total of \$68,806.

Local Transportation Fund

The City also receives revenues from the Transportation Development Act State Transit Assistance Fund (STA) and the Local Transportation Fund (LTF), also known as SB-325 Funds. These funds are generated by the ¼% State wide sales tax. This funding source was impacted negatively by the economic downturn, but it is now recovering. These funds are distributed by the County Association of Governments (BCAG) and are population based. The law requires that, before LTF funds can be used for general road purposes, they must first be considered for transit related uses. The City's current allocation is estimated at \$545,208 by Jon Clark, BCAG's Executive Director. He indicated that the City's full allocation is going to transit and that the City is currently experiencing a deficit of \$38,012. In other words, the amount of transit related costs exceeds the City's STA and LTF revenues by \$38,012.

The annexation should increase the City's STA allocation by \$14,978 and the LTF allocation by \$79,699 for a total increase of \$94,677.⁶ This would eliminate the deficit and leave \$33,380 available for road fund activities. Since this is a population based allocation, Area A would be allocated 88% of the total, or \$83,316 and Area B would be allocated 12%, or \$11,361. However, the City would only realize \$33,380 for road maintenance, since the rest of the funds would go to transit service provided by another agency.

The only revenue impact considered in this analysis is the amount available for road maintenance, \$33,380. This revenue, allocated by the population percentages, would yield \$29,375 for Area A and \$4,005 for Area B. This would be a new revenue source to the City, which could be added to the funds available for road maintenance. The long run availability of this revenue would be controlled by the economy and the cost of transit services. If sales tax revenues dropped, or if transit service costs allocated to Oroville increased faster than the sales tax generated revenue, this source of additional funds could decrease or go away entirely.

Since this funding level constitutes a redistribution of the funding pie, rather than a bigger funding pie, there would be revenue decreases to the County. This impact is discussed further in Chapter 4.

County Service Areas (CSAs)

The County has formed three County Service Areas (CSA) that serve Areas A and B. These CSAs are funded by parcel taxes and serve different purposes. The boundaries of these CSAs extend beyond the annexation area. These CSAs can be a source of revenue to the City if the City opts to keep them in place and LAFCO concurs with the choice.

CSA 17 covers Area A and has two zones of benefit. Zone 1 provides funds for street light maintenance and operations. Zone 2 provides funds for alley maintenance. All parcels within CSA 17 which are adjacent to an alley pay a \$10 per parcel annual assessment. Not all parcels within CSA 17 would be annexed under the proposed annexation of Area A. There would be a small number of CSA 17 parcels remaining in the unincorporated area. This situation is discussed further in the CSA discussion later in this report.

According to data supplied by the County, revenues in Zone 1 over the past 5 years averaged \$23,412. Revenues in Zone 2 averaged \$7,796 over the same period. Total revenues for CSA 17 averaged \$31,208 over the five-year period. Expenditure data is more difficult to analyze due to the broad variation from year to year. It appears that in normal years, revenues exceed expenses, with the surplus going into reserve funds. The reserve funds are used to do small capital projects, such as street light conversion, or large maintenance projects. For the purpose of this analysis, it is concluded that on average, the CSA income and outgo are generally balanced. CSA 17 has a small fund balance of under \$10,000 which could be transferred to the City if the City opted to dissolve the CSA. A portion of the fund balance could be used to pay off a loan from the County, with a remaining balance of \$452.43. Furthermore, a small portion of the fund balance should be retained by the County in an amount proportionate to the ratio between the CSA 17 parcels that would be annexed to those remaining in the unincorporated area.

⁶ E-mail from Jon Clark, BCAG Executive Director, dated May 23, 2014

CSA 33 covers Area B and is only for street lights. It produces annual revenues of approximately \$3,600 and spends approximately \$2,600 for street light maintenance and electricity. The remaining funds are used to pay for major expenses when needed. Again, for the purpose of this analysis, it is assumed that that, on average, revenues and expenses are generally balanced. There is a small fund balance in this account which would transfer to the City if annexation occurred.

It is concluded that street light costs would not burden the City's General Fund or Gas Tax funds if the CSAs were kept in place after annexation and a revenue transfer arrangement was worked out between the City and the County, because CSA street light revenues match street light expenditures. If the CSAs were dissolved the City would realize an annual cost of about \$23,412 in Area A and \$3,600 in Area B for street lighting. Alley maintenance would create a deficit, whether the CSAs were dissolved or not. This is explained later in this report.

CSA 164 provides funding for animal control. Each parcel in the unincorporated County pays \$5 per year. Using parcel data supplied by the County, there are 819 parcels in Area A and 158 in Area B. Revenue from this source would be \$4,095 for Area A (\$5 X 819) and \$790 for Area B (\$5 X 158), for a total of \$4,885 in the annexation area.

If annexation occurs, one option is for the City to form a maintenance district to generate funds to pay for 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 three CSAs since they do not need to be dissolved, if annexation occurs.

According to Steve Lucas, LAFCO Executive Officer, the existing CSAs could be maintained if the City requested their continuance in the annexation resolution. This would require concurrence from the County and the negotiation of an agreement that would address revenue transfers and CSA parcels remaining in the County after annexation.

City of Oroville Revenue Summary

The total General Fund, Other Municipal Revenues, and Restricted Revenues are summarized in Table 2, entitled, "Projected Annual General Fund and Restricted Revenues - City of Oroville." As can be seen from this Table, the City would generate more General Fund and Restricted Revenues if the annexation of South Oroville took place.

Revenue Source	Revenue Estimate		
	Area A	Area B	Total
General Fund	\$455,416	\$76,905	\$532,321
Restricted Revenues			
Gas Tax funds	\$60,398	\$8,408	\$68,806
Transportation Development Act Funds (STA and LTF)	\$29,375	\$4,005	\$33,380
CSAs	\$31,208	\$3,600	\$34,808
Animal Tax (CSA 164)	\$4,095	\$790	\$4,885
Subtotal Restricted Revenues	\$125,076	\$16,803	\$141,879
Total Municipal Revenues	\$580,492	\$93,708	\$674,200

Expenditures

Per Capita Projection of General Fund Expenditures

There are two City expenditure projections provided in this report. One is based upon a methodology of projecting the City's 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 2013-14 budget by the City's estimated population (15,979), and then projecting cost of the additional population that would be served, 2,392 in Area A and 333 in Area B.

Table 3, "Per-Capita General Fund Expenditures by Department - City of Oroville," and the revenue projections presented in Table 1, result in a deficit to the City of \$1,245,873 (\$1,920,073 - \$674,200), if the annexations occurred. Area A would generate a deficit of \$1,104,944 (\$1,685,436 - \$580,492) and Area B would generate a deficit of \$140,928 (\$234,636 - \$93,708) [See Table 5]. For the purposes of this analysis, restricted revenues are included in the per capita General Fund calculation because the City Budget uses a process whereby restricted funds are transferred into the General Fund and are shown as General Fund revenues and expenses. This is a common practice among cities in California. Budget detail is not available to accurately segregate these funds.

The problem with this approach in projecting prospective expenditures to serve the two areas considered for possible annexation is that many departments will not have any additional budget expense. For example, there might be minimal additional workload generated by these annexations for the City Administrator, 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 \$352,815 shown in Table 3 now or over the next several years. This is because the City will not provide fire protection services to this area, other than through mutual aid responses, which already occur and will not change after annexation. The El Medio Fire Protection District will continue to serve Area A and, even though the City would serve area B, because of automatic aid practices already in place, there would be no change in how fire service is provided to Area B. Neither City Public Safety personnel, CAL FIRE / Butte County Fire personnel, nor El Medio Fire Protection District personnel, anticipate a change in funding if these two areas were annexed by the City.

In addition, some of the projected per capita operating expenses in Table 3 may not involve General Fund revenue, but restricted revenues instead, such as gas tax funds, assessment districts, grants or inter 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 the annexation areas 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 Areas A and B annex into the City.

Table 3
Per Capita General Fund Expenditures by Department - City of Oroville
South Oroville Annexation, 2014

<u>Department</u>	<u>Oroville - Current Boundaries</u>			<u>Annex. Area A</u>		<u>Annex. Area B</u>		<u>Total</u>
	<u>2013-14</u> <u>Budget</u>	<u>Population</u> <u>Oroville</u>	<u>Per</u> <u>Capita</u> <u>Expense</u>	<u>Population</u> <u>Annex. A</u>	<u>2013-14</u> <u>Budget</u>	<u>Population</u> <u>Annex. B</u>	<u>2013-14</u> <u>Budget</u>	<u>2013/14</u> <u>Budget</u>
City Council	\$106,175	15,979	\$6.64	2,392	\$15,894	333	\$2,213	\$18,107
City Clerk	\$106,722	15,979	\$6.68	2,392	\$15,976	333	\$2,224	\$18,200
City Administrator	\$298,546	15,979	\$18.68	2,392	\$44,691	333	\$6,222	\$50,913
City Treasurer	\$26,630	15,979	\$1.67	2,392	\$3,986	333	\$555	\$4,541
Economic Development	\$192,186	15,979	\$12.03	2,392	\$28,770	333	\$4,005	\$32,775
Human Resources	\$136,522	15,979	\$8.54	2,392	\$20,437	333	\$2,845	\$23,282
Finance	\$609,049	15,979	\$38.12	2,392	\$91,172	333	\$12,692	\$103,865
Non-departmental Risk Management	\$391,291	15,979	\$24.49	2,392	\$58,575	333	\$8,154	\$66,729
City Attorney	\$373,000	15,979	\$23.34	2,392	\$55,837	333	\$7,773	\$63,610
Police	\$246,050	15,979	\$15.40	2,392	\$36,833	333	\$5,128	\$41,960
Fire	\$4,410,951	15,979	\$276.05	2,392	\$660,304	333	\$91,924	\$752,227
Planning	\$2,068,857	15,979	\$129.47	2,392	\$309,701	333	\$43,115	\$352,815
Building	\$244,794	15,979	\$15.32	2,392	\$36,645	333	\$5,101	\$41,746
Public Works Admin.	\$269,095	15,979	\$16.84	2,392	\$40,283	333	\$5,608	\$45,890
Public Works Streets	\$256,560	15,979	\$16.06	2,392	\$38,406	333	\$5,347	\$43,753
Parks and Trees	\$751,800	15,979	\$47.05	2,392	\$112,542	333	\$15,667	\$128,209
Total	\$11,259,025				\$1,685,436		\$234,636	\$1,920,073

General Fund Expenditure Projections (Actual), City of Oroville

This section presents estimates of real or actual annual recurring cost impacts if Areas A and B are annexed by the City of Oroville. 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 to serve these currently unincorporated areas. 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 867 registered voters in Area A and 143 in Area B, for a combined total of 1,010 registered voters. At the 2012 General Election cost for the City of Oroville, \$1.24 per registered voter, the additional cost to the City of Oroville would be \$1,075 in Area A (867 X \$1.24) and \$177 in Area B (143 X \$1.24), for a combined total of \$1,252. Since General Elections are held every two years, the average annual additional election expense will be \$626.

In addition, the County Clerk/Recorder reports that the cost of a special election is \$3.75 per registered voter. The total cost for these areas for a special election would be \$3,251 for Area A (867 X \$3.75) and \$536 for Area B (143 X \$3.75), for a combined total of \$3,787. 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 \$947 annually. Together with the average yearly cost of a General Election, an average annual amount of \$1,573 (\$626 + \$947) will be required in the City Clerk's budget. This amount will also be a revenue increase to the County.

Fire

Area A is served by the El Medio Fire Protection District. The City and the El Medio Fire Protection District agree that the area is being served adequately and that it should remain part of the El Medio Fire District. There is an El Medio fire station located within Area A. All mutual aid agreements would contin-

ue to exist. Since there would be no change in fire jurisdiction for Area A, the cost of fire protection to the City of Oroville, resulting from this annexation, would be \$0.

Area B is served by CAL FIRE / Butte County Fire. After annexation, Area B would come under the City's fire jurisdiction. The auto-aid agreement between the City Fire Department, the County Fire Department, and the El Medio Fire Protection District would be unchanged if Area B annexed into the City. Currently, there would be minimal impact to the City's Fire Department responses and no change in costs, because the auto-aid agreement would not change. As a result of this analysis, the cost of providing fire protection to Area B would be \$0.

The only additional cost identified related to the Fire Department is the annual payment of a financial contribution for the cost of operating a County-wide Hazardous Material Response Team. The Hazardous Material Joint Powers Agreement (Hazmat JPA) was initiated in December of 1990 by the County of Butte and the five Cities in Butte County, including Oroville. Each member of the Hazmat JPA pays a per-capita contribution of \$.15. This would represent an additional cost of \$360 for area A and \$50 for Area B, for a total of \$410. There would be a corresponding reduction in costs to the County.

Police

There will be a need to add staff to the Police Department in order to serve the areas proposed for annexation. Call for Service (CFS) data was supplied by the County Sheriff's Office. The City and the County use different computer programs to record data. The information supplied by the Sheriff indicated that there was an average of 3,440 CFS in Area A and 160 CFS in Area B, for a combined total of 3,600 CFS from calendar years 2011 to 2013. Data for 2011 only included the last quarter of 2011. The average was calculated by taking the yearly figures for 2012 and 2013 and converting them into quarterly averages and combining those averages with the fourth quarter average of 2011. The County Sheriff acknowledges that the area, principally Area A, experiences a relatively high crime rate involving both part 1 and part 2 crimes.

In order to estimate the cost of providing law enforcement service to these two 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. This analysis used the number of currently authorized positions, rather than currently funded positions to acknowledge the fact that the Police Department is understaffed due to funding cuts.

It is estimated that five additional patrol officers will be required to serve these two 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 it was assumed 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 50 minutes or .83 hours (based on the City's current data),⁷ approximately 5 officers would be required to meet the CFS workload in Areas A and B. Responses to calls in Area A would consume 2,855 hours ($3,440 \times .83$) and 133 hours for Area B ($160 \times .83$) for a combined total hours of 2,988. This would call for 5.14 officers ($2,988 / 581$).

Support personnel needs, both sworn and non-sworn, were estimated using current authorized staffing ratios and the staffing levels were modified to address probable staffing requirements. The current ratio of sergeants to patrol officers is relatively low at 1 / 3.2 (5 / 16). In a small police department, sergeants also assume patrol duties. The analysis derived 50 minutes of time per call included patrol officers and their supervising sergeants. If the Department adds 5 patrol officers, one could be a sergeant. If a sergeant was added, the ratio would remain relatively low at 1 / 3.3 (6 / 20). If no sergeants were added, the ratio would be 1 / 4.2 (5 / 21). This would still be considered adequate.

The current staffing levels include two detectives to support the activities of the field officers. There is a third detective assigned to the County-wide narcotics task force. This task force generates and supports

⁷ E-mail from Bill LaGrone, Oroville Police Chief, dated March 27, 2014

its own activity and would not be impacted by the annexation. Using current authorized staffing levels of 2 detectives to 16 officers as the basis for analysis ($2 / 16 = .1250$), the annexation would create the need for .63 detectives ($.1250 \times 5$).

The Oroville Police Chief observed that Area A tends to have crime rates that are higher than in the rest of the City and that serving this area could still be a burden to the Department, even if five additional officers were added. The benefit to the Police Department, on the other hand, is that when the additional officers are on duty, they are likely to be serving a larger area than Areas A and B. Even if a beat was modified to serve this area, the resulting beat area is still likely to be larger than the area being annexed.

The annexation would also trigger the need for additional non-sworn personnel. Using the current staffing ratio approach, there are .3462 ($9 / 26$) dispatchers per sworn position. After annexation, there would be a need for 1.95 dispatchers ($5.63 \times .3469$), rounded to 2 dispatchers. The Oroville Police Chief expressed an opinion that resources would be utilized more productively if the additional funding needs were directed to fund a second lieutenant than additional dispatchers. That discussion would be beyond the scope of the present analysis. In addition to dispatchers, the annexation would trigger the need for other support personnel. Clerical/records/CSO ratio to sworn is .1154 ($3 / 26$). When this ratio is applied to the resulting increase in sworn personnel, it yields the need for .65 support staff.

Another concern expressed by the Oroville Police Chief is the adequacy of current management supervision. The Chief feels that the existing one lieutenant is not adequate for the current operation and that the addition of sworn and non-sworn personnel would trigger the hiring of a second lieutenant. It is not unusual for a department with 41 employees (current authorized staffing) or 48 employees, as the calls for service staffing model suggests, to have two lieutenants overseeing the day-to-day operations. Typically, one lieutenant oversees field operations and the second lieutenant oversees supports services and administration. However, using the existing staffing ratios analysis, the funding for the second lieutenant is not warranted solely by the increase in personnel, resulting from the annexation. It is acknowledged there may be an existing staffing deficiency that may need to be addressed before any further expansion of the Department.

The Oroville Police Chief agreed with the methodology used in this analysis and is agreeable to the addition of 5.63 FTE sworn officers to the Department and 2.65 support personnel as a result of this annexation. Costs used to calculate the fiscal impact of the increased staffing were calculated on cost data supplied by the Oroville Police Chief. The cost data shows \$115,000 per patrol officer per year; \$135,000 per sergeant; \$60,000 per dispatcher; and \$65,000 for clerical/records support personnel.

Using these factors, the costs to the City for increases to police services would be:

5 X \$115,000	=	\$575,000
.63 X \$135,000	=	\$85,050
2 X \$60,000	=	\$120,000
.65 X \$65,000	=	<u>\$42,250</u>
Total:		\$822,300

The cost of increased staffing resulting from the annexation would be \$822,300 if dispatchers are added and \$702,300 if not. The per-capita based analysis shows that the cost of Police services would be \$752,227. For the purpose of this analysis, it was determined that the cost of \$822,300 would be used. Since Area B represents 4.4% of average CFS, the cost allocation to Area B would be \$36,181. Area A allocation would be \$786,119.

The service call data used in this report omits traffic related calls for service which are currently handled by the California Highway Patrol (CHP). CHP reports an average over the past two years of 13 stolen vehicles, 7 DUIs, and 15 collisions.⁸ This would result in a statistically insignificant impact to calls for service data used in the report. The traffic enforcement data is too diffuse to be analyzed. The area is covered by CHP beat 10 and includes an area much greater than South Oroville, including State highways and County roads.⁹ Considering that CHP activity is concentrated on State Highways and County roads,

⁸ Email from Mark Stokes, CHP Lieutenant, to Casey Hatcher dated May 30, 2014

⁹ Ibid.

the level of activity in South Oroville should also be statistically insignificant. The City Police Chief concurs with this analysis of traffic related impacts.¹⁰

Annexation of Areas A and B would result in a significant increase in police response. The Sheriff serves South County with shifts which include four Deputies and one Sergeant. Additionally, service to South County is augmented by a Gang Unit and Detectives, which serve the entire County and may, at times, focus in South County and specifically the South Oroville area. The Sheriff also has the potential to pull patrol staff from other areas of the County to support a large incident. South County is defined as the area south of Highway 149 and comprises several square miles. As a consequence of the large patrol area involved, law enforcement response tends to be slower than those experienced in the City. On the contrary, the City police response tends to be much faster, averaging under four minutes Citywide. Given the addition of 5 police officers to serve the annexation area, police response time in the City and in Areas A and B should continue to be below 4 minutes. Moreover, the police officer per 1000 population in the City is currently at 1.62 sworn officers per 1000 residents. The addition of 5.63 sworn personnel as a result of annexation would produce an officer per 1000 population ratio of slightly over 2.0 in the annexation area. The resulting Citywide staffing ratio would increase from 1.62 to 1.69 officers per thousand.

Animal Control

Animal Control in Areas A and B is currently provided by the County. County Animal Control personnel patrol the area and respond to calls. Animals are impounded at the Northwest SPCA (NWSPCA) facility in Oroville. The City contracts directly for animal control services from the Northwest SPCA. If Areas A and B are annexed into the City, animal control services, including field services and impoundment will be provided by NWSPCA.

County Animal Control does not track the cost of animal control services to South Oroville directly. The Animal Control Division, extrapolating from their budget, based on animal control activity, estimates that their cost to patrol the area is \$133,742. Sheltering costs are estimated at \$71,923. The total attributed to South Oroville is \$205,665.¹¹ It is difficult to judge the accuracy of this cost estimating procedure. Countywide operations for animal control tend to be provided to rural areas, primarily. The types of activities undertaken include large animals, rather than cats and dogs which tend to be the primary activity in urbanized areas. Linda Haller, the Animal Control Officer for the County, suggested that if the County no longer was responsible for patrol services in South Oroville, there would not be any direct savings to the County in the patrol activity because the resources would be shifted elsewhere. There would be savings in the cost to shelter the animals, perhaps as high as \$71,923.

The contract with NWSPCA costs the City \$286,869, including the cost of gasoline for the patrol trucks, standby charges of \$8,320, and call out charges of \$6,240. A credit of \$19,329 for costs recovered from customers at the shelter was applied, resulting in total animal control cost of \$267,540. Using a per-household distribution, the cost for animal control services is \$47.39 (\$267,540 / 5646). Using the per-household metric, the cost of animal control services to Area A would be \$46,537 (\$47.39 X 982). For Area B, the cost would be \$7,677 (\$47.39 X 162). The total for the annexation area would be \$54,214.

The per-household metric may not reflect accurately the actual cost of service. Animal control activity in Areas A and B is reportedly high. Data provided by the County shows an average of 560 cats and dogs impounded in Areas A and B over the past two years. According to representatives of the Northwest SPCA, the cost of impoundment is \$118 per animal, or \$66,080 for Areas A and B (\$118 X 560).¹²

Statistical information provided by the County shows an average of 935 responses to Areas A and B over the past two years. The NWSPCA reports total annual responses to the City of 1,225. According to these statistics, the annexation of Areas A and B would increase animal control related responses by 76%. The cost per animal control patrol officer provided by NWSPCA is \$67,374. Two Officers are assigned to the City, at a cost of \$134,748. Additional animal control officers would be needed if annexation of Areas A and B occurred. Based on responses, the increase would be 1.52 (2 X .76) animal control officers, at a cost of \$102,408 (\$67,374 X 1.52).

¹⁰ Email from Chief LaGrone, to Carlos Urrutia, dated 6/5/14.

¹¹ Document from Cathy Raevsky, Butte County Health Department, dated 4/21/14

¹² E-mail from Rainy Green, Director of NWSPCA, dated 5/7/14

Using the estimated actual methodology, the cost to provide animal control services to the two areas would be \$168,488. Since data is not available for Areas A and B individually, a pro-rata distribution based on households would result in \$144,900 ($\$168,488 \times .86$) to Area A and \$23,588 to Area B ($\$168,488 \times .14$). There are 1,144 parcels in the annexation area, 982 households in Area A and 162 in Area B.

The City and NWSPCA basis for determining contract costs are not strictly based on statistical data. The two parties negotiate the animal control services contract, adjusting costs as deemed reasonable. Discussions with the Director of NWSPCA and the NWSPCA Board President suggested that the cost could be adjusted down for the patrol operation and that the increase in patrol personnel may not need to be as high as indicated by this analysis. For the purpose of consistency, the analysis will conclude the cost, based on calls data, as calculated herein. The average license fee collection by the County over the past two years is \$9,050. Additional licensing revenue should be a factor in the future negotiations between the City and the NWSPCA.

Public Works

The Public Works Department provides street sweeping, street right-of-way maintenance, alley maintenance, and street tree maintenance in the City. Maintenance to public streets and other public right of way are funded from restricted funds directed at street maintenance activities and are generated by State taxes on Gasoline. Gas tax funds are allocated on the basis of population and these funds should increase proportionately to the increase in population. Therefore, the street related revenues should enable the City to provide a proportionately equal level of service to Areas A and B, including leaf pick up and services related to the drainage ditches that exist in the area, without impacting the City's General Fund. The City currently maintains 91 centerline miles of roadway. Areas A and B combined would increase the center-line street miles by 8.45 miles. This is a little less than a 10 percent increase.

A windshield survey of streets and general land use and infrastructure conditions, conducted by a consulting team member and County Public Works personnel, revealed the street surfaces mostly appear to be in good condition. The streets were recently resurfaced by the County with a cape seal. A cape seal is a combination of a slurry seal and a chip seal. The street base or foundation in Areas A and B do not appear to meet City standards. 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.

The same survey also revealed that Area A displays overgrown weed conditions in many of the street frontages and ditches. Alleyways are also overgrown and under maintained, as are the majority of street trees in the area, most of which are in need of pruning. City staff estimates the initial, one-time cost of bringing the area trees to City standard to be \$12,900 and the annual maintenance to be \$3,000. Both of these activities can be funded from Gas Tax revenues.

Alleys are not eligible to be funded from Gas Taxes, unless they are incorporated into the public street system. For the purpose of this report, it is assumed that the alleyways will not be part of the public street system and alley maintenance must be funded from other sources, such as CSA 17 and the General Fund. According to City Public Works staff, it currently costs \$150 to maintain 100 feet of alley. County Public Works reports that there are 22,740 feet of alley in Area A and no alleys in Area B. If Area A annexed into the City, there would be a shortfall in alley maintenance. Revenues are anticipated to be approximately \$7,000 per year vs. expenditures of \$34,110. This represents an annual deficit of \$27,110. Seven thousand dollars (\$7,000) in revenue was concluded to be the correct amount because some of CSA 17 Zone 2 is outside of the area being annexed. Approximately 78 parcels would not be annexed. Since each parcel pays \$10 per year, these parcels represent \$780.¹³

It is concluded that the cost of street light maintenance in Area A will be covered by the annual revenues and will not impact the City General Fund or the Street Gas Tax Funds. The County collects an average of \$23,412 and spends approximately \$20,000 in street light energy and maintenance.¹⁴ The difference is accumulated and used to do major maintenance projects. If the CSA was dissolved, then the City would have to absorb the annual cost of street light maintenance. In this instance, most funds in the reserve fund would be transferred to the City. A portion of the reserve would remain with the County in di-

¹³ Memo from Thomas Blix to Casey Hatcher, dated October 22, 2013

¹⁴ E-mail from Greg Iturria, Butte County Chief Financial Officer, dated 5/27/2014

rect proportion to the ratio of parcels remaining in the County vs. parcels being annexed. Also, a small portion could be retained by the County to pay of a small loan made by the County to CSA 17. Dissolution of CSA 17 in the annexation of Area A would have a direct impact on the County because the number of parcels remaining in Zone 17 would be too few to make economic sense. The cost of administering the remaining portion of CSA 17 would exceed revenues. This issue should be addressed during annexation discussions between the City, the County, and LAFCO.

It is concluded that street light costs in Area B would not burden the City's General Fund or Gas Tax funds if the CSA was maintained. Otherwise, the City would realize an annual cost of about \$3,600. This conclusion assumes that over time, revenues will be equal to expenditures, between routine annual costs and extraordinary costs.

If these two neighborhoods are annexed, the CSAs may dissolve and the City can attempt to replace them with a street lighting and maintenance district. Creation of the district is subject to a vote and it is unlikely that any attempt to create a district would be successful. 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 Areas A and B. It would be inefficient for the County to continue to maintain CSAs if these neighborhoods annexed into the City because the number of parcels remaining in the CSAs would be too few to make economic sense. Dissolution of the CSAs would result in some additional cost to the County.

There should be sufficient revenue to fund the general street maintenance function of Areas A and B. Gas Taxes and CSA revenues should cover the maintenance of the newly annexed streets and street appurtenances. There are, however, inadequate gas tax funds to bring the condition of the streets in Areas A and B to their current level in the future. Even with good routine maintenance, these roads will deteriorate. After ten years there likely will be a deterioration of the streets in these neighborhoods and a need to draw on existing City funds to maintain these streets. The City will experience a deficit in alley maintenance in Area A of \$27,110 per year.

Table 2 and Table 4 show a wash of street maintenance and street lighting revenues and expenses. For routine street maintenance, costs are shown at \$68,806 and an equal amount is shown in Gas Tax revenues. Similarly, the same two tables show revenues of \$34,808 from the CSA 17 and 33 and expenditures of \$34,808 for CSAs 17 and 33. The alley maintenance shortfall is shown separately in Table 4.

Code Enforcement

The code enforcement function is assigned to the City Building Department. The current budgeted amount for this activity is \$414,353 and includes a Code Enforcement Specialist; administrative and support personnel, funded from Community Development Block Grant Program Income funds; and a Senior Code Enforcement Specialist, funded by the Police Department. According to the Police Chief, the funding from the OPD is limited to this fiscal year. For the purposes of this report, the current budget is used as the basis of analysis.

Both the City and the County respond to complaints, rather than originate complaints directly by code enforcement personnel. Not all complaints result in cases being opened. The City reports an average of 489 code compliance opened cases per year over the past two years, which results in a per-call cost of \$847 ($\$414,353 / 489$). The County Data reports 18 code enforcement cases in Area A and 3 cases in Area B during calendar year 2013. Using a per-call based approach would yield a cost of \$15,246 for Area A ($\847×18) and \$2,541 for Area B ($\847×3), for a combined total of \$17,787. The data indicates that there are over 4 times as many recorded cases per household in the City, than in the County. This suggests that there is a higher propensity to file complaints within the City limits.

Using the per-household metric, the cost per household is \$73.39 ($\$414,353 / 5646$). The cost of service to Area A would be \$72,068 ($\73.39×982) and to Area B, the cost would be \$11,889 ($\73.39×162). The total cost to the annexation area for code enforcement, using the per-household metric, would be \$83,957. Given the high variation in cases per total households discussed above, the per-household metric may be more indicative of the potential actual cost, particularly given the condition of many of the households in Area A.

Other Departments

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 Treasurer, City Administration, Economic Development, Human Resources, Finance, and City Attorney. While there may be some additional workload 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 two annexation areas 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.

Projected Actual Operating Expense Summary

The projected actual operating General Fund expense and Restricted Fund operating expense that would be incurred by Oroville, if they annexed Areas A and B, is estimated at \$1,207,552. This includes activities requiring both General and Restricted Funds. This estimate is summarized in Table 4, entitled, "Projected Annual Estimated Operating Expense - City of Oroville."

Table 4			
Projected Annual Estimated Operating Expense - City of Oroville			
South Oroville Annexation, 2014			
<u>Cost Center</u>	<u>Area A</u>	<u>Area B</u>	<u>Annexation Area A and B</u>
Police	\$786,119	\$36,181	\$822,300
City Clerk	\$1,350	\$223	\$1,573
Animal Control	\$144,900	\$23,588	\$168,488
Fire	\$460	\$50	\$510
Public Works			
Alley Maintenance	\$27,110	\$0	\$27,110
Street Maint. (Gas Tax Revenue)	\$60,398	\$8,408	\$68,806
CSA Expenditures (CSA Revenue)	\$31,208	\$3,600	\$34,808
Subtotal Public Works	\$118,716	\$12,008	\$130,724
Code Enforcement	\$72,068	\$11,889	\$83,957
Total	\$1,123,613	\$83,939	\$1,207,552

The estimated income to support the provision of City services includes General Fund revenue of \$455,416 for Area A and \$76,905 for Area B, for a total General Fund revenue of \$532,321. Estimated income also includes restricted fund revenue at \$125,076 for Area A and \$16,803 for Area B, or a total annual restricted revenue of \$141,879. The combined total revenue for Areas A and B is estimated at \$674,200 (See Table 2).

Compared to the estimated actual annual expenses found in Table 4, expenditures would exceed revenue by \$533,352 (\$1,207,552 - \$674,200). Furthermore, 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, there will be either a reduction in street surface quality or a draw on City funds for street repairs in the future.

Summary of Fiscal Impacts, City of Oroville

Table 5 summarizes the results of the two methodologies used in this study, “per capita expenditures” vs. “projected actual revenues” and “projected actual expenditures” vs. “projected actual revenues”. General Fund and restricted annual revenues for Areas A and B are projected to be \$674,200. The annual estimated expenditures in providing services of using a per capita projection for each City office or department is \$1,920,073. The projected annual deficit using this methodology is \$1,245,873. A more realistic method of projecting actual expenditures results in a projected annual deficit of \$533,352.

Table 5			
Summary of Annual Operating Revenues/Expenditures - City of Oroville			
South Oroville Annexation, 2014			
	Per Capita		
	Area A	Area B	Total
Revenues	\$580,492	\$93,708	\$674,200
Expenditures	\$1,685,436	\$234,636	\$1,920,073
Surplus (Deficit)	(\$1,104,944)	(\$140,928)	(\$1,245,873)
	Actual		
	Area A	Area B	Total
Revenues	\$580,492	\$93,708	\$674,200
Expenditures	\$1,123,613	\$83,939	\$1,207,552
Surplus (Deficit)	(\$543,121)	\$9,769	(\$533,352)

Capital Expenditures

The County recently completed the street cape seal mentioned in the street maintenance discussion above and converted approximately 10% of the street lights serving Areas A and B to energy efficient LEDs. Additional street light conversions are not contemplated at this time due to lack of funds. There are no current plans for any major capital improvement to Areas A and B in either the County or the City. Since there are no capital projects currently planned for these neighborhoods, the cost of capital expenditures is \$0.

There are capital projects planned by the County just south of the annexation limit on Lincoln Blvd. A short portion of Lincoln Blvd. in the City will also be improved to provide for an efficient transition. This small section is already within the City and would not impact or be impacted by annexation. There was also discussion between the City and County about funding an under grounding project on Myers Street. This joint undergrounding project is on hold and the City would like to include discussions about this project during the annexation negotiations, should those negotiations take place. These projects are discussed further under the infrastructure discussion later in this report.

Chapter III

Public Service and Infrastructure Impacts

City of Oroville

Purpose

A task of this analysis of the potential annexation of Areas A and B is to assess the public service and infrastructure impacts the annexation may have on the City. First will be a discussion of the public service implications of the annexation of Areas A and B followed by its infrastructure impacts.

Public Service Impacts

The financial impact of the South Oroville Areas A and B annexation to the City's ability to provide public services to Areas A and B is considerable. For administrative, management, and support departments or divisions, the annexation of these areas should have little effect on the ability of these departments and offices to provide adequate service to these areas as well as to continue to maintain existing service levels to the remainder of the City. However, there would be a considerable shortfall in revenues to cover the expenditures associated with Police, Public Works, Animal Control, and Code Enforcement.

City Council, City Treasurer, City Clerk, City Administration, 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 \$1,573.

Building and Planning

The ongoing additional operating expense for Building and Planning, except Code Enforcement, should be minimal if the two areas were annexed. It would be expected that any increases in workload for these areas would be covered by fees charged to process this workload. Application fees for potential new development or for building modifications should pay for the staff time required for processing these applications. Area B has the potential for considerable development activity. Planning, zoning, and development permits require staff time, but that time should be 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 two areas or to the remainder of the City.

Code Enforcement is managed by the Building Division. The total cost to the annexation area for code enforcement, using the per-household metric, would be \$83,957. It is likely that the City would need additional code enforcement personnel, including field operations and staff support.

Public Works

Public Works is responsible for public right-of-way maintenance, street sweeping, and street tree maintenance. The annexation of Areas A and B 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 Areas A and

B without impacting service levels in the rest of the City. After 10 years, however, these gas tax funds will be insufficient to maintain the street condition currently experienced in these two areas.

The streets and other street appurtenances in Areas A and B currently appear to be in satisfactory condition. This is because the streets in the annexation area have recently been resurfaced by shaving the base and adding a cape seal which was funded by the County. County Public Works indicates that, after the recent substantial improvements to the streets in Areas A and B, the streets will not require additional work, other than normal routine maintenance, for 9 to 10 years.

There will be a need for ongoing street maintenance including pavement, street trees, signs, and street lights. Street sweeping will also be required in areas with curbs and gutters, which represent less than one-half of the streets in Area A and there are no streets with curbs and gutters in Area B. The street maintenance function will be funded by \$68,806 from gas tax revenue estimated to be produced from these neighborhoods. There will be new revenue of \$33,380 from LTF. This is a new revenue which would not be available to the City without the annexation and can only be used for street construction and maintenance. Street light maintenance would be fully funded from CSA 17, Zone 1 and from CSA 33 which currently serve Areas A and B.

There will be increased service demands related to alley maintenance. The cost for the City to maintain the alleys in Area A would be \$34,110. Revenues for alley maintenance from Area A, Zone 2 are approximately \$7,000 per year, leaving an unfunded balance of \$27,110.

It appears that, with the exception of alley maintenance, there will be sufficient resources for the City to provide adequate street maintenance service to Areas A and B, without impacting service levels in the remainder of the City for at least a period of 10 years.

Public Safety

There will be no impact to the Fire Department if Area A is annexed, because fire protection and rescue will continue to be provided by the El Medio Fire Protection District. The annexation of Area B would result in a jurisdictional change from County Fire Department to the City Fire Department. It is determined that the jurisdictional change would not result in additional cost to the City because the existing auto-aid agreements would remain in place and there would be no change in responses to incidents. There will be an increase in costs to the City of \$410 to cover an increase in the Hazmat JPA contribution which is based on population. There will be a corresponding reduction to the County.

Additional staff and financial resources will be necessary, however, for the Police Department to provide service to Areas A and B without impacting Citywide 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 5 full-time police officers, a .63 FTE detective and a 2.25 FTE dispatchers and records clerk. This added sworn and non-sworn staff will provide service at improved service levels to these unincorporated neighborhoods than what is now being provided. At the same time, the City's ability to provide law enforcement service to the remainder of the City should not diminish and could potentially improve as more resources are available within the Department. It is estimated that the cost of this additional staff is \$822,300.

In addition to the impact on police services, there will also be a need for additional resources for animal control services. The City would need to meet with NWSPCA to agree upon a new contract, incorporating the additional service demand. The estimated increase in costs will be \$168,488.

Summary

Several City departments or offices will be able to provide services to Areas A and B without increasing staff or resources. 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 two 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, and street lights) Building Department for code enforcement, Police services, and animal control. The gap between new revenues and expenditures is estimated at \$533,352.

Infrastructure Impacts

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

Drainage

The lack of curbs, gutters, and sidewalks in Areas A and B, mostly in Area A, has been an issue raised during annexation discussions, including 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. No drainage capital improvement projects have been identified or developed for this area. For the purposes of this report, curbs, gutters, sidewalks, and drainage in Area A 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.

Parks and Park Facilities

There is an approximately 5-acre park, Martin Luther King Park, within Area A. The park is owned and maintained by the Feather River Recreation and Park District. 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

The City and the County have been working jointly to fund an undergrounding project along Myers Street from Wyandotte Road to Oro Dam Road. This project would involve the entire length of Myers Street through Area A. The plan was to use Rule 20A¹⁵ funding for design and Redevelopment Agency funds along with County funds for construction. The Redevelopment Agency Contribution towards an approximately \$1 Million project became unavailable as a result of the dissolution of Redevelopment Agencies in California. Funding for the project is now uncertain, but the project is still desired by the City. This project would be beneficial to the annexation area and to the City. While the funding situation does not relate directly to the annexation, the City would like to include this issue in the annexation discussions with the County.

The County is planning a sidewalk improvement project on Lincoln Boulevard, perhaps as soon as this summer. The project does not directly involve the annexation area, but it does extend into a short segment of Lincoln Blvd, which is already in the City. The west half of Lincoln Blvd, adjacent to Area A, from Elgin Street to Greenville Street is already within the City limits.

Aside from the undergrounding project, there does not appear to be a plan for capital improvement projects for streets and roads in Areas A and B. There may be future street infrastructure constructed by developers in Area B, which offers various opportunities for further development. The overall condition of streets in Areas A and B improved because of the recent street cape seal project which was funded by the County. 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.

¹⁵ Rule 20A is an under grounding program financed by tariffs collected from all users of the public electric utility, in this case, P G & E.

Chapter IV

Public Service and Infrastructure Impacts

Butte County

Purpose

This Chapter reviews the impacts of the proposed Areas A and B annexations on the County. The analysis discusses what will happen to the County's revenues, expenditures, its ability to continue to provide public service, and whether or not any infrastructure plans or projects will be affected by these potential annexations.

Butte County Revenues

If the annexation of Areas A and B occurs, there would be a shift in revenues to the City. Correspondingly, there would be a reduction in some of these revenues to the County. Not all of the revenues accruing to the City will be a loss to the County. For example, income from sources like the Utility Users Tax does not apply to the County. This section will identify the revenue impact on the County if Areas A and B were annexed to the City.

General Fund Revenues

Property Tax

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 58% of this income and the County 42%. Using this formula, \$59,167 will accrue to the City as General Fund revenue. This means that there will be a corresponding loss to the County of \$59,167. The loss from Area A will be \$45,913 ($\$79,160 \times .58$) and the loss from Area B will be \$13,254 ($\$22,852 \times .58$).

Property Transfer Tax

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 \$1,386 would be lost from Area A and \$253 from Area B. There would be a total revenue loss to the County of \$1,639 from this revenue source.

Sales Tax

It is estimated that the South Oroville annexation area produces \$22,299 in sales tax income, all from Area A. If these areas were annexed to Oroville, there would be a revenue loss to the County of \$22,299.

Franchise Fees

It is estimated that the City will receive \$93,342 in franchise fees from the local cable company, the garbage franchise, and P.G. & E. in Areas A and B. This estimate is based upon a per-household projection as discussed in the City revenue section and totals \$93,342. The Countywide total franchise fee per household, as reported by the County is much lower than the City franchise fee per household (\$41.75 County vs. \$81.59 City). The fact that the County does not collect a franchise fee from the waste hauler explains this variance, in part. Using the County per-household amount, the County would forego \$40,998 from Area A (\$41.75 X 982) and \$6,764 from Area B (\$41.75 x 162) for a total loss of \$47,762 if the annexation occurred.

Business License Tax

There is minimal business activity in these two areas which are primarily 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 South Oroville Annexation 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 \$10,000. While the County does not have all of these fees, it is estimated by the County Chief Financial Officer that the County would lose approximately one-half of the City's revenue projections, or \$5,000. This loss, apportioned by population, would result in a loss of \$4,400 (\$5,000 x .88) to Area A and \$600 (\$5,000 X .12) to Area B.

The County will receive miscellaneous revenue from the City since Oroville 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 \$1,662 (\$1,439 from Area A and \$223 from Area B. See revenue analysis, City). The Miscellaneous Fees entry on Table 6 reflects this adjustment to revenues.

Total General Fund Revenues

The total General Fund revenue loss to the County is estimated at \$134,305 if Areas A and B were annexed into the City. The revenue loss from Area A would be \$113,557 and from Area B, the revenue loss would be \$20,748. This information is presented in Table 6, "Projected Annual General Fund Revenue, Butte County, South Oroville Annexation, 2014."

Table 6			
Projected Annual General Fund Revenue - Butte County			
South Oroville Annexation, 2014			
Revenue Source	Revenue Estimate		
	Area A	Area B	Total
Property Tax	(\$45,913)	(\$13,254)	(\$59,167)
Property Transfer Tax	(\$1,386)	(\$253)	(\$1,639)
Sales Tax	(\$22,299)	\$0	(\$22,299)
Property Tax In-Lieu of Vehicle License Fee	\$0	\$0	\$0
Motor Vehicle License Fee	\$0	\$0	\$0
Transient Occupancy Tax	\$0	\$0	\$0
Utility Users Tax	\$0	\$0	\$0
Franchise Fees	(\$40,998)	(\$6,764)	(\$47,762)
Miscellaneous Fees	(\$2,961)	(\$477)	(\$3,438)
Total General Fund Revenue	(\$113,557)	(\$20,748)	(\$134,305)

Restricted Revenues

The restricted income areas where the County would experience a reduction include Transportation Development Act funding (State Transit Assistance and Local Transportation Fund), animal tax, animal licenses, and CSA revenues. The County is not expected to experience a reduction in gas taxes. While the City share of gas tax funds is mainly based on population the County share is based on road mileage. Since the road mileage in the South Oroville annexation areas being studied is miniscule compared to the mileage in the Countywide system, the gas tax revenue loss will be insignificant. The County's Chief Financial Officer indicates that it will "be an immaterial amount."

Community Service Areas

The County will also see a reduction in CSA revenue, but since this revenue is used to pay for services such as alley maintenance and street light costs, the revenue loss would be offset by the reduction in service obligations and street lights costs, which would be assumed by the City. Since the revenue and expenses offset, the loss of CSA revenue is shown in Table 7, but the revenue is shown as an offset expenditure reduction in Table 8.

Animal Tax – CSA 164

The County also generates revenue for animal control from a parcel tax collected in the unincorporated County area through CSA 164. Each parcel in the unincorporated County pays \$5 per year. Using parcel data supplied by the County, there are 819 parcels in Area A and 158 in Area B. Revenue from this source would be \$4,095 for Area A (\$5 X 819) and \$790 for Area B (\$5 X 158), for a total of \$4,885 in the annexation area. This revenue would no longer be available to the County.

Animal Licenses

The County has collected an average of \$9,050 in animal license fees during 2012 and 2013. Distributed by household, the revenue from Area A is \$7,783 and from Area B the revenue is \$1,267. The revenue would be forgone if the areas annexed to the City. However, the County will also see a considerable reduction of \$71,923 in sheltering costs and a reduced demand for services, as the City takes over responding to Areas A and B calls for animal control services. The County treats animal license revenue as a restricted revenue. All funds are deposited into a special revenue fund and are used for animal control and rabies control.¹⁶ The County would forego \$9,050 in animal license revenue.

Transportation Development Act Funds

The County receives revenues from STA and LTF funds distributed by BCAG. The current allocation is \$493,173 from STA and \$2,352,788 from LTF, for total transportation revenues of \$2,845,961. After deducting the portion of these funds spent on transit, the County has available for road maintenance and construction purposes \$1,310,808. The shift in population from the County to the City would reduce the County's allocation because the allocation is based on population. After annexation, the County would receive \$478,194 in STA and \$2,273,089 from LTF. The amount left over for road purposes would be \$1,239,415. This represents a reduction in road revenues of \$71,393. The reduction in total transportation revenues is greater than the loss of road funds because the cost of transit service would also decrease for the County, but not proportionately.

Summary

The total revenue loss to the County if this annexation takes place is summarized in Table 7, "Projected General Fund and Restricted Revenues, Butte County, 2014." Table 7 shows that the County would forego \$254,441 in General Fund and Restricted Revenue Funds.

¹⁶ E-mail from Greg Iturria, Butte County Chief Financial Officer, dated May 27, 2014.

Table 7
Projected General Fund and Restricted Revenues - Butte County
South Oroville Annexation, 2014

Revenue	Area A	Area B	Estimated Gain/(Loss)
General Fund	(\$113,557)	(\$20,748)	(\$134,305)
Restricted Revenues			
Gas Tax Funds	\$0	\$0	\$0
Transportation Development Act Funds (STA and LTF)	(\$62,826)	(\$8,567)	(\$71,393)
CSAs	(\$31,208)	(\$3,600)	(\$34,808)
Animal Tax	(\$4,095)	(\$790)	(\$4,885)
Animal Licenses	(\$7,783)	(\$1,267)	(\$9,050)
Subtotal Restricted Revenues	(\$105,912)	(\$14,224)	(\$120,136)
Total Revenue Gain/(Loss) - Butte County	(\$219,469)	(\$34,972)	(\$254,441)

Expenditures

This section outlines the estimated actual annual recurring cost impacts if Areas A and B were annexed into the City. 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 two annexation areas.

Public Safety

Fire

The Annexation of Area A will not result in any change to the fire jurisdiction. Therefore, there would be no service or fiscal impact to the County. The annexation of Area B will change from the County Fire Department to the City Fire Department. However, due to the manner of responding through auto-aid agreements, there should not be an increase in cost to the City, or a reduction in cost to the County for fire response. The County's contribution to the Hazmat JPA will be reduced by \$410.

Sheriff

While the annexation of Areas A and B will have a reduction in service calls to the County Sheriff, it does not appear that this will result in any savings in the Sheriff's annual budget. The annexation area is a small part of a much larger beat that extends to the entire County area south of Highway 149. According to the County Sheriff a reduction in service calls to Areas A and B would result in a more efficient allocation of existing resources, which are already underfunded. It is likely that service to other areas of South County would improve as a result of no longer having to respond and handle calls and incidents in South Oroville Areas A and B. After annexations, police response and services to Areas A and B are likely to improve considerably under the City's jurisdiction, with the addition of 5.63 sworn personnel and 2.25 police support personnel.

Public Works

There should be a slight reduction in workload in the County Public Works Department since the Department will not be responsible for street or alley maintenance in Areas A and B. 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

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.

Health Department / Animal Control

According to information provided by the County Animal Control Officer, there will be a reduction in shelter cost to the County in the estimated amount of \$71,923. While there would also be a reduction in calls for service and patrol of Areas A and B, the reduction is not likely to result in savings, since resources would be reallocated, according to the County Animal Control Officer. The County will forgo \$9,050 in animal license income and \$4,885 in animal parcel taxes.

Other County Departments

There does not appear to be any cost savings as a result of this potential annexation. Compared to the County as a whole, this is a small service area, and the cost of providing Countywide service would not be felt by 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.

As indicated on Table 8, "Fiscal Impact of South Oroville Annexation, Butte County – South Oroville Annexation 2014," the estimated negative fiscal impact on the County will be \$147,300 using the actual cost methodology. There will not be a significant amount of savings from the reduction in service demand, except for animal sheltering costs and CSA expenditures, because existing resources will, most likely, be shifted to other areas of the County. There will be a relatively slight reduction in overall County workload for public works services and code enforcement. The Sheriff's Office and Animal Control will experience a more considerable reduction in service demand, because the area proposed to be annexed has a high activity level.

	<u>Area A</u>	<u>Area B</u>	<u>Total Areas A and B</u>
Estimated Revenue Loss	(\$219,469)	(\$34,972)	(\$254,441)
Estimated Expenditure Reduction			
Animal Sheltering Costs	\$61,854	\$10,069	\$71,923
Hazmat JPA Fee	\$360	\$50	\$410
CSA Maintenance Obligations	\$31,208	\$3,600	\$34,808
Subtotal Expenditure Reduction	\$93,422	\$13,719	\$107,141
Negative Fiscal Impact	(\$126,047)	(\$21,253)	(\$147,300)

Public Service Impacts

For major County departments and offices, it appears that the annexation of Areas A and B in Oroville'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, Employment and Social Services, Fire, and Child Support Services, where the annexations would have no impact on the current provision of service.

There will be some efficiency created by these potential annexations in the areas of law enforcement, animal control, and street maintenance. The Sheriff's Department will no longer need to respond to these areas. 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 to other nearby unincorporated areas. However, because of the relatively 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, street lights, and alleys in the two areas. 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. There will be a reduction of road maintenance funds in the amount of \$71,393 from the reduction of TDA revenues.

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 of street resurfacing has already been accomplished. 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 Areas A and B into the City of Oroville. 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 56000 et seq. of the California Government Code. While these areas are adjacent to the City of Oroville, they do not meet the criteria for being substantially surrounded, and are, therefore, not considered unincorporated islands.

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. Both Areas A and B are within the City of Oroville's Sphere of Influence and a Municipal Services Review for the City of Oroville was approved in 2009. The financial data in the Municipal Services Review is currently being updated, as part of the City's update of its SOI, but this would not interfere with an annexation application. Therefore, both of these areas are eligible to be considered for annexation into the City of Oroville.

LAFCO has determined that South Oroville is a Disadvantaged Unincorporated Community (DUC), as defined in Chapter 513, California Statutes of 2011. Generally, this statute prohibits LAFCO from approving an annexation to a city of any territory greater than 10 acres, or as determined by commission policy, where there exists a DUC that is contiguous to the proposed annexation area, unless an application to annex the contiguous disadvantaged DUC to the subject city has been filed with LAFCO. The practical impact of this rule is that territory contiguous to Area A or B or portions of Area A or B could not be annexed into Oroville, without the City also filing an application annexing the rest of Areas A and B. Either a combined Area A and B application or separate application could be filed for each Area and each would be evaluated and processed independently through the normal LAFCO process, and either may or may not be approved.

Pursuant to Government Code Section 56767, annexation proceedings can be initiated by a petition of registered voters or by landowners. Five percent (5%) of registered voters must sign the petition for it to be valid for a registered voter annexation petition. For a land owner initiated annexation, 5% of the number of owners of land within the territory proposed to be annexed who also own not less than 5% of the assessed land value must file the petition. Annexations can also be initiated by a resolution of the legislative body of any affected city, county, or district. For the purpose of describing the annexation process, it is presumed that the annexation of Areas A and B would be initiated by a resolution of the City of Oroville.

Within this general context, the following paragraphs outline the steps required to annex Areas A and B. Annexation applications require the payment of fees to LAFCO to process the application and there are also State processing fees. According to the, LAFCO Executive Officer, the fee is based on actual time requirements and can vary broadly, depending on the complexity of the annexation. Also, according to the Executive Officer, a deposit would be negotiated with the City to cover the initial costs of annexation. State fees vary, but they cannot exceed \$3,500.

Steps Toward Annexation

If the Oroville City Council determines to initiate the annexation of Areas A and B, the steps summarized in the following paragraphs would need to be followed.

1. Before submitting an application, the City of Oroville should meet with Butte LAFCO to discuss the proposal and discuss the particular requirements and the basis for any fees to be charged.
2. The City of Oroville would submit a complete application to the Butte LAFCO which would generally contain the following information and related materials.

- a. 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. LAFCO normally requires a deposit upfront;
 - b. A statement justifying the proposed annexation;
 - c. A Plan of Services;
 - d. CEQA documents;
 - e. Resolutions by the City and the County agreeing to a transfer/split of the ad valorem property tax revenues generated in the submit territories (Note: the City of Oroville and County of Butte currently have a valid master property tax exchange agreement in place);
 - f. Pre-zoning;
 - g. Indemnification agreement signed by the applicant.
3. Within 30 days of the application, LAFCO will send a status letter notifying the City that the application is either complete or incomplete.
 4. 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 within 90 days of deeming the application complete.
 5. LAFCO notices and holds a public hearing on the proposed annexation. The LAFCO Commission takes one of the following actions:
 - a. Approves the application; or
 - b. Approves the application with modifications and subject to terms and conditions ; or
 - c. Denies the application.
 6. 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.
 7. If the application is approved, LAFCO sets a protest hearing for an annexation that is not consented to by all affected voters or landowners. In Butte County, the Executive Officer has been designated as the Official to hold the protest hearing. If less than 25% of registered voters/property owners protest, the annexation is ordered complete. If between 25% and 50% of registered voters protest, an election is ordered. If more than 50% registered voter/landowners protest, the proceedings are terminated. 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 area prior to consideration of the annexation by the LAFCO Commission. The parcels in Areas A and B 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 Oroville 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 the rest of the City and other agencies. These considerations are addressed by this study and report. It should be noted that 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's consideration.