



Preliminary Feasibility Analysis Of Nipomo Incorporation

Final Report

**Presented To
The Nipomo Community Services District**

*By
The Davis Company, Los Angeles and Sacramento, California
February 2005*



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February 15, 2005

Mr. Larry Vierheilig, Chair, and
Members of the Board of Directors
Nipomo Community Services District
148 S. Wilson Street
Nipomo, CA 93444

Dear Mr. Vierheilig and Members of the Board:

We are pleased to submit this Final Report on the feasibility of municipal incorporation for the Nipomo area.

As you know, a preliminary report was submitted to your Board in October 2003. At that time, the feasibility project was deferred due to substantial uncertainty and speculation over local government finance policies in California. This Final Report indicates that incorporation is even further into the future than previously estimated. This condition is solely due to recent changes in State law that negatively impacts the prospective revenue of new cities generally, including Nipomo.

Local Government Fiscal Policy Changes

The local government fiscal situation is even more complex and tenuous than it appears. While the recent voter approved initiative, Proposition 1A, is seen as a bright spot on the horizon for most cities it is not proving to be so for communities that are working to form a new municipality. Specific impacts of the new policies that have so negatively affected Nipomo, and other communities that want to incorporate, are discussed more fully in Section III of this report. In general, however, most of the \$720,000 amount that was originally projected from Vehicle License Fees has now been eliminated from the revenue estimates for the new city. Only a residual estimate of \$61,000 remains.

The change means that the fiscal viability of incorporation is well beyond the three – five year period originally estimated. For example, current estimates indicate that, in the year 2008, a new city would still be almost \$600,000 short of breaking even. To assist your early review of these conclusions, a summary table from Section VI is included below:

**Summary of Revenue & Expenditure Projections
For Nipomo Incorporation Area**

(Table repeated in Section VI)

	Base Year	2005-06	2006-07	2007-08
Revenue:				
City Revenues – General Fund	2,635,000	2,777,006	2,994,216	3,189,298
NCSD – Utility Charges *	3,157,000	3,251,710	3,349,261	3,449,739
Total Revenue	5,792,000	6,028,716	6,343,477	6,630,037
Expenditures:				
City Operations	3,549,000	3,620,405	3,693,249	3,767,560
NCSD Admin. + Operations *	3,157,000	3,251,710	3,349,261	3,449,739
Total Expenditures	6,706,000	6,872,115	7,042,510	7,217,299
Balance	(\$914,000)	(\$843,399)	(\$699,033)	(\$587,262)

* NCSD revenues and expenditures are intentionally offsetting in this calculation.

Movements To Find Replacement Revenue Are Being Considered

This condition effects several incorporation movements in various parts of California. Accordingly, if the revenue losses can be restored through special legislation, a Nipomo incorporation effort may be able to move forward within the original time frame of three to five years. While efforts toward a legislative solution are under discussion in various quarters, the prospects of this occurring are unknown at this time.

We are available for further discussion of our findings and conclusions as deemed appropriate by the District.



Michael Davis

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Three-Year Projection: Revenues and Expenditures – Nipomo Incorporation

Base Year Revenue Estimate Detail: Nipomo Incorporation

Base Year Expenditure Estimate Detail: Nipomo Incorporation

Comparative Characteristics of Charter and General Law City Governments

Survey Data:

- Municipal Revenues: San Luis Obispo County Cities
- Municipal Expenditures: San Luis Obispo County Cities

San Luis Obispo County: LAFCO Process Re: Incorporation

Assessed Values: San Luis Obispo County Cities

Nipomo Community Service District, 2003-04 Draft Budget Data

- Personnel List
- Monthly Employee Compensation
- Administrative and Operational Budgets

Governor's Office of Planning and Research, Incorporation Guidelines 2002 (Excerpts)

INTRODUCTION

The Davis Company was charged with determining if it is feasible for the Nipomo community to pursue formation of a city and, thereby, assume responsibility for most local government services from the County.

This Report

This report addresses this question and provides information to help those interested in incorporation decide if and when to pursue a more extensive and costly incorporation process. The report includes fact-finding and discussion on the following topics:

- Section I: Municipal Services - discussion of the services that Nipomo residents now receive and the choices and options that a new city would have for continuing those services, including two alternative forms for a city government structure, general law or charter status.
- Section III: Municipal Boundaries - discussion of potential boundaries for a new municipality for the Nipomo area.
- Section II: Municipal Revenue Sources - discussion of typical revenue sources and how a new city's revenue is determined.
- Section IV: Service Plan Assumptions - discussion of what services will be assumed from the County and how those services might be provided.
- Section V: Procedures and Processes for Municipal Incorporation - The requirements and processes for forming a new city are set out in Government Code Sections 56000 et seq. pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. The San Luis Obispo County Local Formation Commission (SLO LAFCO) is charged with the responsibility for administering and guiding the organization of local government boundaries and services within the County under this statute. Section V includes an overview of the general guidelines and processes that an incorporation proposal must comply with pursuant to 56000. The local LAFCO will set forth the specific procedures should Nipomo residents chose to pursue an incorporation process and proposal.
- Section VI: Estimate of Revenues and Expenditures - A preliminary feasibility study often includes only a one-year look at potential revenues and expenditures. In order to provide greater depth to this analysis a three-year forecast of revenues and expenditures for a new municipality was prepared.

Section I: Municipal Services

Under California's local government statutes, and the California Constitution, communities may form a city and by doing so assume direct responsibility for controlling many local services such as:

- Public safety including police and fire protection, emergency medical services and building safety/inspection services;
- Land use regulation and code enforcement;
- Infrastructure such as roads, street lighting, parks, libraries, community centers and other civic facilities;
- Water, wastewater, drainage and flood control facilities and services; and
- Other services such as trash collection, public transit, and animal control.

Service Providers Before and After Incorporation

Should a city be formed in the Nipomo area, responsibility for certain services will transfer to the new city. How the new city provides those services will be determined by its policy board. LAFCO procedures and State law requires that the impact(s) of incorporation and service decisions on existing local service entities and agreements be taken into consideration. Service delivery options and assumptions for Nipomo are reviewed below and in Table 1.

A new city will have numerous options for providing many services. For example:

- This preliminary feasibility analysis assumes that the Nipomo Community Services District is dissolved and the district's service responsibilities and assets are transferred to the new city.
- The city could provide directly or contract with already established agencies, such as the County or other cities, for certain services such as animal control, policing, building inspection, solid waste and others.
- After incorporation, San Luis Obispo County would continue to provide those services that are the responsibilities of counties such as:
 - Welfare and child protective services;
 - Health services;

- Criminal justice (courts, prosecution, jails, probation, etc.);
- Elections and voter services (though the city may elect to provide these services directly);
- Assessor, recorder and tax collector; and
- Selected regional services such as fire, transit, libraries, flood control, etc.

Table 1. Service Providers – Current and After Incorporation

Public Service	Current Provider	Post-Incorporation Provider
Administration	San Luis Obispo County	New City
Animal Control	San Luis Obispo County	New City (contract with County)
Building Inspection	San Luis Obispo County	New City (contract with County)
Drainage/Flood Control	San Luis Obispo County	City (local) SLO Co. (regional)
Emergency Medical	San Luis Obispo County Private Ambulance Company	San Luis Obispo County Private Ambulance Company
Fire Protection	San Luis Obispo County	San Luis Obispo County
Land use Regulation	San Luis Obispo County	City
Libraries	San Luis Obispo County	San Luis Obispo County or City
Parks & Recreation	San Luis Obispo County	City
Police Protection	San Luis Obispo County	New City (contract with County)
Public Transit	SLO Transportation Authority	SLO Transportation Authority
Road Maintenance	San Luis Obispo County	New City
Street Lighting	SLO County Service Area	City (L& L District)
Trash Collection & Disposal	Nipomo CSD	New City (franchise)
Water and Waster Water	Nipomo CSD	Nipomo CSD and or City

Government Code section 56653 requires that the *Incorporation Proposal*, which is initially formulated by the proponents of the incorporation, set forth a service plan that describes how services will be provided after incorporation. LAFCO may alter and, or condition the incorporation proposal. The service plan must, at a minimum, include:

- A description of the local public agencies presently serve areas that are proposed to be incorporated including maps of service areas;
- The range and level of services to be provided;
- Proposed changes in the governmental structure; and
- Increased or decreased range of services, if any, including how enhanced services will be financed.

Additional requirements of the *Incorporation Proposal*, including sequential steps for formulating and considering an incorporation proposal, are discussed more fully in Section V.

General Law vs. Charter City

Two forms of municipal organization are sanctioned under the California Constitution and the general laws of the State. These are “charter” and “general law” city structures. An overview comparison of the characteristics of each is included in the Appendix. Cities can initially be formed as either a “charter” or as a “general law” city. If initially formed as a “general law city”, a charter can be adopted at a later time. Municipal charters prescribe set forth a city’s structure, the scope and range of authorities and responsibilities for city officials, including limitations, and provide for how a charter can be amended. For general law cities, these features are controlled by State statute.

There are at least three main differences between charter and general law cities. Charter cities have greater latitude as to how elective offices and duties are allocated, in the administration of the city’s finances, and in how contracts for city services, including infrastructure, are structured and awarded. If the Nipomo Community Services District is intended to become a part of the new city organization, charter city status may be a more appropriate form considering the district’s requirements for owning, operating and constructing utility systems. This is a question that should be studied further by the District’s legal counsel before proceeding with a municipal formation proposal that includes NCSD.

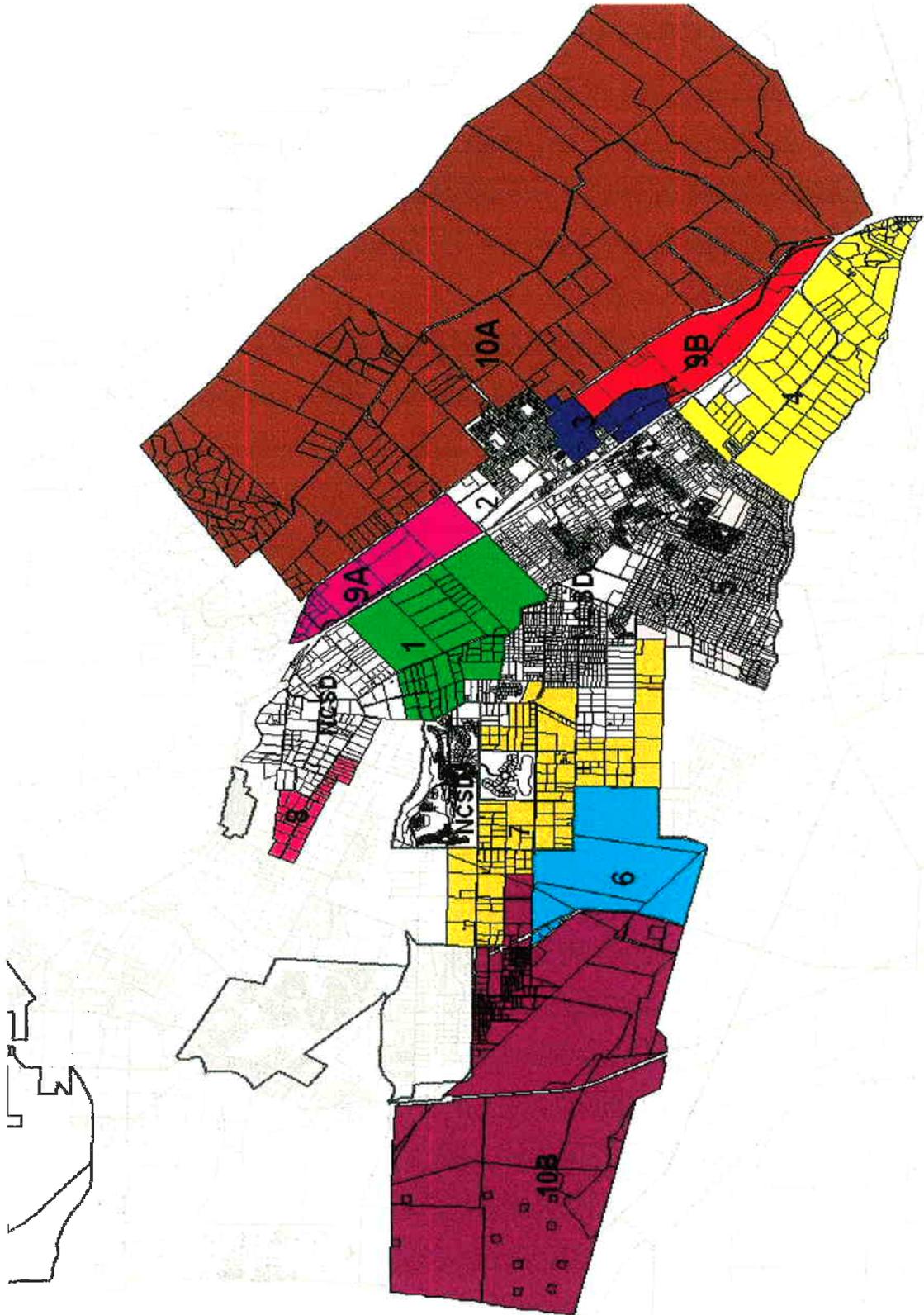
Section II: Municipal Boundaries

An important step in preparing this preliminary feasibility assessment was to identify a series of boundary options for a possible future incorporation proposal. This was accomplished through a multi-step process that included:

- LAFCO and County planning staff were consulted as to communities of interest within the Nipomo area.
- The *Land Use and Circulation Elements of the South County Area Plan* for San Luis Obispo County (amended April 2002) were obtained and examined in detail.
- LAFCO provided a map of the existing NCSO Sphere of Influence (SOI), which is substantially though not exclusively coterminous with the NCSO boundary.
- LAFCO also provided a map of certain Sphere of Influence Study Areas that were evaluated for extension of the NCSO SOI and the ultimately adopted NCSO Sphere of Influence.
- LAFCO provided demographic data for the boundary areas described above.
- A series of optional incorporation boundary areas were presented to and discussed with the NCSO Board of Directors who subsequently gave approval to a specific incorporation boundary study area(s).

See Study Area Map – Next Page

**Nipomo Incorporation Study Areas
Areas 1 through 10B**



Growth Projections

Build out of the Nipomo Study Area is projected by LAFCO and County planners to occur over a twenty-year period at the rate of approximately 2% annually. During discussions, NCSD officials reacted with skepticism to this growth rate, indicating that current development trends and concrete proposals suggest a faster pace. This may be correct, since during robust times, actual trends often do exceed projections. However, when considering incorporation proposals, LAFCO's tend to rely heavily on official planning agency projections; thus the 2% trend was considered for this analysis. Detailed projections for the eight study areas that are included in the proposed new city boundary are as follows:

Table 2: Growth – Population Projections By Study Area

<u>Area</u>	<u>Population Growth Maximum</u>
1	966
2	1,140
3	1,014
4	345
5	-0-
6	2,808
7	574
8	146
9- 10B	1,500
Total	7,593

The current base population for the Nipomo area under study is estimated by San Luis Obispo County to be 12,500. Accordingly the total estimated population is projected to be 20,093 based on the existing plans and policies of the County. This estimate DOES NOT take into account any population growth that would result from land-use change proposals that may be under consideration for the future.

Section III: Municipal Revenue Sources

The minimum revenue sources for a new city are:

(The revenue descriptions cited immediately below are substantially excerpted from *A Guide to the LAFCO Process for Incorporation*, published by the State of California, Governor's Office of Planning and Research, July 2002.)

- **Base Property Tax Allocation:** Article XIII-A of the California Constitution (i.e., a voter initiative known as Proposition 13 and approved in 1978) establishes a maximum base property assessment rate of 1.0 % of assessed value. On a Statewide basis cities receive an average of about 11% of the base property tax allocation; most newly incorporated cities receive less. The County Auditor determines the amount of property tax revenue (as a share of the 1% rate) that a new city receives using a formula that is set out in State law. In general, the formula seeks to allocate property taxes to a new city in the same ratio, as total property tax revenue is to "total proceeds from taxes" that being received by the County at the time of incorporation. It is typical for a new city to receive a property tax allocation in the range of \$0.06 to \$0.08 of each dollar of property tax revenue that is collected by the County. After incorporation, the remaining share of the 1% rate continues to be distributed to the County and other taxing entities (see Special District Property Taxes below).
- **Special District Property Taxes:** Property tax revenues of certain special districts that are dissolved upon incorporation or have territory detached as a result of incorporation would be transferred to the new city upon incorporation. The new city may also receive the current fund balance (reserves) of the affected dependent special district upon dissolution or a proportionate share of the fund balance and service liabilities upon detachment of territory from the district. However, in this instance, if the Community Services District were to remain as a separate governmental entity that is subordinate to and governed by the City, the District's current share of property taxes would most likely remain intact.
- **Redevelopment Tax Increment:** Redevelopment agencies and Mello-Roos districts are often not affected by incorporation. In this instance, there are no such projects that must be dealt with.
- **Property Transfer Taxes:** The Property Transfer Tax is levied on the sale of real property. The amount of revenue depends on the level of resale activity and new development within the incorporation area.
- **Sales Taxes:** Upon incorporation, the new city will receive a percentage of the sales tax charged on qualifying retail sales from businesses within the proposed incorporation area.

The estimated sales tax revenue is based on data from the State Board of Equalization that was obtained with the assistance of San Luis Obispo County.

- **Transient Occupancy Taxes (TOT):** If the proposed incorporation area contains hotels, motels or other facilities that provide short-term and/or overnight accommodations, all TOT revenues previously collected by the County will be allocated to the new city. The amount of revenue is based on the approved TOT rate, average daily room rates, and estimated daily occupancy rates. In this instance, there are no lodging facilities in the Nipomo area that pay a TOT tax, thus no revenue is projected from this source.
- **State Revenues:** Certain taxes are collected by the State and returned to localities on a per capita basis. Historically, the two most significant revenue sources of this type are gasoline taxes and motor vehicle license fees. As already mentioned, a new Nipomo city will receive substantially less motor vehicle license fee revenue due to the late 2004 voter initiative (i.e., Proposition 1A) and State Budget actions. Until these recent actions these revenue sources for a new city were calculated based on an estimated, or proxy population for new cities that is three (3) times the number of registered voters at the time of the incorporation election. This method of determining State revenues continued for the first seven years after incorporation. At the beginning of the eighth year, the State recalculated these revenues based upon the actual population of the city. (See more discussion re: Impact of New Revenue Policies on Nipomo Incorporation below).
- **Franchise Fees:** After incorporation, a new city receives the franchise fees currently paid to the County by the affected utilities including gas, electric and cable TV providers. Additional franchise fees may also be received from the new city's solid waste disposal/recycling service if applicable.
- **Road Related Revenues:** A significant portion of road fund revenues are calculated and allocated to cities on a per capita basis. Similar to other State revenues, road fund revenues are initially based on three times the registered voter population and are adjusted in the eighth year following incorporation to account for the actual population. The revenues are primarily derived from gasoline taxes and are restricted to use on road maintenance and improvement.
- **Transportation Related Local Sales Taxes:** San Luis Obispo County imposes an additional sales tax levy to fund transportation improvements. Apportionment of these sales tax revenues is based on a formula using population, miles of public roads and taxable sales.
- **Other Revenues:** Other revenues include, for example:
 - land use related planning, engineering, permit and inspection fees;

- motor vehicle code fines and forfeitures, DMV abandoned vehicle reimbursement, and parking fines;
- non-planning related charges for current services, encroachment fees related to temporary uses of the public right-of-way, and regulatory fees; and
- parcel taxes and assessments, including assessments for zoning and code enforcement actions.

General Fund Revenue

The revenue sources cited above are referred to as “general fund” revenues. These revenues are, for the most part, unrestricted as to their use except for *road-related revenue* that is received from the State and any other restrictions that are determined by local choice. The revenues that have been estimated for the Nipomo area and included in this *Preliminary Feasibility Analysis* are general fund revenues. Other and additional revenues would, unquestionably, accrue to a new city. Yet, such additional revenues would most likely offset specific discretionary expenditures and, therefore, do not have a direct bearing on the question of fiscal feasibility.

Other, non-general fund local government revenues fall into three broad categories that include special tax allocations to support debt and capital obligations and proprietary revenue such as utility fees. These revenues have also not been estimated or included in this feasibility study since they are often one-time revenue sources and/or their use is restricted. The exception is that Nipomo Community Service District general operating revenues are shown as part of the potential revenue base for a new city even though this revenue is proprietary. District revenues in special funds, reserves, or for debt repayment are not included in revenue estimate. NCS D revenues and expenditures will be considered only if the ultimate service plan includes consolidation of a new city and the District, or if some, but not all, of NCS D service responsibilities are assumed by the city.

No New Taxes

New taxes are not considered nor assumed in this analysis for the following reasons:

- Creation of a city does not grant increased or additional taxing authority to the local agency.
- Article XIII of California’s Constitution requires voter approval of a proposed tax increase.

General Fund Revenues of Other SLO County Cities

Six of the seven cities in San Luis Obispo County were surveyed as to their revenues and expenditures for local government services. The survey focused on general fund revenues. The results of this survey are shown in the Appendix and are summarized in Table 3 below. Certain general fund revenue sources, and expenditures also, were excluded in the comparison if the revenue or expenditures applied to services that are not likely to be part of a Nipomo service plan. For example, fire prevention and library fee and special tax revenues were not estimated for Nipomo.

Table 3. FY 2003-04 General Fund Revenue of SLO County Cities
(Excludes revenue for services that would not be assumed by Nipomo)

City	Population	Revenue (millions)	Revenue Per Capita
Arroyo Grande	16,500	\$ 3.5	\$ 576.35
Grover Beach	13,100	\$ 4.0	\$ 312.49
Morro Bay	10,500	\$11.2	\$ 1,066.87
Paso Robles	26,850	\$14.7	\$ 548.64
Pismo Beach	8,700	\$10.3	\$ 1,245.74
San Luis Obispo	44,350	\$33.7	\$ 760.02

Sources: population – California Department of Finance; revenue – Annual Financial Reports of cities.

Impact of New Revenue Policies on Nipomo Incorporation

The initial Draft of this Preliminary Incorporation Feasibility Analysis was first released for discussion in November 2003. Within a matter of weeks, Governor Swartzenegger, in one of his first official acts, reduced the Motor Vehicle License Fee (VLF). As a result of this action, local governments initially realized a 20% to 30% drop in VLF revenue and received a “promise from the State to provide replacement revenue over time. However, over the next twelve months, further measures affecting MVL revenue for new cities had an even more draconian impact, at least for prospective cities. The MLV revenue estimate made in 2003 in the amount of \$720,000 is now reduced to \$61,000, or about 91% less than the original estimate.

The adoption of AB 2115 (2004), in combination with the approval of Proposition 1A by California’s voters, has resulted in the following changes to revenue and taxation policies that affect newly incorporated cities:

1. AB 2115, changed the population formula upon which certain new City revenues are calculated, including Vehicle License Fee (VLF) revenue (see Revenue and Taxation Code 11005[c]). This change affects any city that incorporates after August 5, 2004.
2. Proposition 1A reduced the annual vehicle registration fee from 2% of a vehicle’s value to a “cap” of .65%, resulting in less revenue to the Vehicle License Revenue Fund from which local government revenues are distributed. The State Controller’s Office has estimated that this change means that cities will experience an approximate 90%

reduction in their VLF revenue. The revenue reduction for existing cities will be replaced by a redistribution of existing local property tax revenues that is referred to as "VLF adjustment revenue".

3. AB 2115 provides that only cities that received an allocation of VLF revenue in FY 2004-04 are eligible to receive VLF "adjustment" revenue, meaning that cities that do not exist in FY 2004-05 will not receive the "adjustment revenue".

A brief historical version of these changes in revenue and taxation policy is as follows:

1. Prior to 2004, cities and counties each received one-half of the 82.5% share of VLF revenues that have historically been available for distribution on a capita basis. For FY 2003-04 and 2004-05, about \$1.3 billion of VLF revenue per year (i.e., \$2.6 billion), that would otherwise have been allocated to cities and counties, was redirected to support the State budget, to be "backfilled" or replaced over time.
2. Under prior law (Revenue and Taxation Code Section 11005.3), a new city's VLF revenue was based on three times the number of registered voters in the city at the time of the incorporation, and for the first seven years following the date of incorporation. This formula had been in place since the mid-1960's and was intended as an additional revenue source for new cities during their "start up" years. AB 2115 changed this formula for calculating VLF, and some other revenues, for new cities to the most recent population estimate as determined by the State Department of Finance, thus lowering annual revenue.
3. In November 2004, Proposition 1A reduced the maximum VLF fee to .65% of vehicle value and replaced the "backfill" measure with a permanent funding source from property taxes, now referred to as "VLF Adjustment" revenue.
4. Section 11005(c) was added to the Revenue and Tax Code to prohibit a city that incorporated after August 5, 2004 from receiving "VLF Adjustment" revenue.

The November 2003 preliminary estimate of VLF revenue (i.e., \$720,000) for Nipomo was based on the "three times registered voters" formula and a VLF Revenue Fund based on the prior "2% of value" formula for calculating motor vehicle license fees. Reversing these calculations to account for the impacts of Proposition 1A and AB 2115 results in the following calculations:

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Table 4. Revised Motor Vehicle License Fee Revenue Estimate

<u>Calculation Methodology</u>	<u>Estimate</u>
November 2003 VLF Estimate (based on Rev & Tax Code 11005.3)	<u>\$720,000</u>
VLF estimate (12,500 population x \$58.328 per capita) – per Rev. & Tax Code 11005(c)	\$729,000 (rounded)
Reductions per Proposition 1A @ 91.6%	<u>(\$668,000)</u> (rounded)
Revised January 2005 Estimate of Base Year VLF Revenue for Nipomo	\$61,000

In addition to Nipomo (San Luis Obispo County), the League of California Cities indicates that incorporation studies and or proceedings are underway in several other California counties and that most of those incorporation movements have also concluded that the aforementioned changes to tax policy will mean that their incorporation proposals are no longer feasible.

Nipomo Revenues

A complete discussion and estimate of revenues for the Nipomo incorporation area is included in *Section VI: Revenue and Expenditure Analysis*.

Section IV: Service Plan Assumptions

Since the service plan that would be submitted to LAFCO has yet to be prepared, preliminary service plan assumptions were developed for this feasibility analysis and are described below.

Table 4. Preliminary Service Plan Assumptions

Service	Current Provider	Post-Incorporation Provider
Animal Control	San Luis Obispo County	City pursuant to (contract with County)
Policy /Administration	San Luis Obispo County	5-Member Elected City Council; Appointed City Manager
Water and Waster Water	Nipomo CSD	Nipomo CSD is dissolved and its service responsibilities, assets and liabilities are transferred to the new City.
Emergency Medical	County Fire/Private Ambulance Company	County Fire/Private Ambulance Company
Fire Protection	County Fire/Private Ambulance	County Fire/Private Ambulance
Drainage/Flood Control	SLO Flood Control District	City (local) SLO Flood Control District (regional)
Land use Regulation	San Luis Obispo County	City
Libraries	SLO County Library	SLO County Library
Building Inspection	San Luis Obispo County	New City
Police Protection	San Luis Obispo County	New City (contract with County)
Trash Collection & Disposal	Nipomo CSD / Franchise	New City (franchise)
Road Maintenance	San Luis Obispo County/County Service Area	New City
Public Transit	SLO Transportation Authority	SLO Transportation Authority
Parks & Recreation Services	San Luis Obispo County	City
Street Lighting	SLO County Service Area	City / Nipomo Lighting & Landscaping District

Services Assumed By New City

The services that would be assumed by the new city include:

- Administration/PolicyOversight: Oversight of local government services is now provided by the County Board of Supervisors from its offices in San Luis Obispo. This will continue for services that remain a County responsibility. Local Nipomo officials will assume day-to-day operational and financial control for services that are assumed by the city. The city

will also serve in an ombudsman role for certain local services that may continue to be provided via the County such as library, fire protection, elections, etc.

- **Animal Control:** Patrol services are provided by the County predominantly in response to observed conditions by the public and receipt of a specific service request. The animal shelter, located at 885 Oklahoma Street in San Luis Obispo is open to the public six days a week. Services are assumed to continue at their same level under a contract between the city and the County.
- **Fire Protection and Emergency Medical Service:** The California Department of Forestry and Fire Protection provides fire protection for the San Luis Obispo County, the City of Pismo Beach and the Avila Beach Community Services District by cooperative agreements. The County - CDF service arrangement has been in place since 1929. This preliminary analysis assumes that “if” a new city assumes direct service responsibility for fire protection, County revenues that are dedicated to fire service in Nipomo would be transferred to the new city. In addition, unless CDF changes existing contracting policies, a contractual arrangement under terms similar to those that now exist between CDF and the County could be transferred to the new city. This would result in a “no additional expenditures” by the new city for current service levels. Thus, the revenue and expenditure line items for fire protection are shown as “zero” budget allocations.
- **Future Fire Protection Cost:** Though the exchange described above for existing fire protection should occur, this does not guarantee that sufficient revenue will be available to offset future fire protection costs as the community grows and additional resources are required. The County and the State (CDF) will look to the new city to provide funding for the expansion of local fire protection resources as needs evolve. At today’s rates, the operating cost alone can be in the neighborhood of \$700,000 to \$1,000,000 and higher per station depending on the scope of operations.
- **Land Use Regulation and Building Safety:** Long range planning, regulation and oversight over current planning projects and the inspection of new construction is a function of County government that would be fully transferred to a new city. A new city can retain or modify existing County policies and create new policies it deems are appropriate. This service is now funded by general taxes and fees and would be funded in a similar manner by a new city.
- **Library:** Library service is provided in Nipomo as part of a countywide system from a single branch library that is located at 918 W. Tefft Street. The Nipomo branch is open five days weekly for a total of approximately 33 hours weekly. A portion of the 1% property tax rate is specifically allocated for library services. Nipomo could, but most likely would not, in the short-term at least, withdraw from the County system. Thus, this analysis assumes

that Library services would continue at current levels unless changed as part of a reorganization of services generally within the County.

- **Regional Food Control, Road Maintenance, Transportation Planning and Street Lighting:** The County now provides and administers these services under the auspices of the County Department of Public Works using a combination of general fund, special district and county service area funding sources that includes, taxes, fees and special assessments. Regional flood control services would continue to be provided by the County under the SLO County Flood Control and Water Conservation District. A new city would assume CSA services and revenues (cities are not authorized to create CSA's, but can create special districts to replace a CSA) and would assume the lighting and landscape district services and fee revenues. A new city would assume full responsibility for road maintenance, new infrastructure, and transportation planning.
- **Water and Waste Water:** This service is provided to the areas that are proposed for inclusion in a new city predominantly, but not entirely by the Nipomo Community Services District. Some private providers also serve about 20% of the utility customers. Current services and service levels would continue unless and until the city were to assume added service responsibility. Services are assumed to continue at their same level.
- **Policing:** Local policing is part of a statewide enforcement, justice and corrections system. The State operates the detention / corrections systems. Counties are responsible for the justice and local detention systems and policing/enforcement in non-incorporated areas. The California Highway Patrol enforces traffic safety laws on State highways and in non-incorporated areas. If Nipomo incorporates, local policing and traffic safety enforcement would be transferred to the new city. The California Highway Patrol would continue to be responsible for monitoring and enforcing traffic safety on Highway 101. This preliminary analysis assumes that the new city would, at least initially, contract with the County for basic services at levels that are consistent with or above the service level that is now provided by the County. This service is now funded from the County's share of the 1% property tax and other general taxes (e.g. sales tax) that the County now receives.
- **Trash Collection/Disposal:** In SLO, and many other California counties, this service is provided by private vendors under franchise to the public agency. The Nipomo CSD is currently the franchising authority and now manages this service. The franchise authority and service oversight responsibility would be transferred to the city and service levels should not be impacted. The SLO Integrated Waste Management Authority will continue to oversee countywide implementation of state-mandated waste-stream management regulations.
- **Park & Recreation** - Nipomo Park is part of countywide regional system of recreation facilities that are owned and operated by the County. Located adjacent to the branch library

on Tefft Street, it includes baseball and softball fields, basketball courts, children's play areas, day use picnic sites, and other open-space. Upon incorporation a city becomes responsible for recreation, open space and cultural services within the community. Both the County and incorporation proponents may petition LAFCO regarding the ultimate disposition of Nipomo Park. Although the County is not necessarily obligated to transfer the park facility to the new city, this would be a topic of negotiation during formulation of the ultimate service plan. For the purposes of this analysis it is assumed that the facility would be transferred to a new city and service levels would not change.

The estimate of expenditures that is included in Section VI is based on the preceding list of services and service level assumptions.

Section V: Procedures and Processes for Municipal Incorporation

Key Issues to Be Resolved

Incorporation is a lengthy and often complicated process. Since it involves a reorganization of local government services, revenues and expenditures stakeholder issues become heightened in the process. LAFCO is the body designated by State law to judge the suitability of an incorporation proposal and mediate among different interests. There are fundamentally five major subject areas that must be reconciled before an incorporation proposal can be submitted to voters for consideration. These are:

- **Community Interest Issues:** These relate to interests for and against formation of a new city and are largely a matter of community preferences about whether greater local control over future land use decisions and local services is needed or beneficial. To an extent, expert analysis can aid in these discussions, however, reconciliation of differing views is largely a matter of communication and dialog within the community. LAFCO takes community preferences into consideration during its hearings on local government reorganization proposals and applications.
- **Logical Boundaries:** State law grants primary responsibility for boundary setting to LAFCO. Creation of logical boundaries, logical extension of local public services and preservation of prime agricultural lands are mandates that LAFCO must consider. These issues get resolved in the boundary setting process and to an extent through environmental analysis.
- **Fiscal Feasibility:** LAFCO is also charged with insuring that communities that incorporate have a sustainable revenue base for paying the cost of basic public services. This preliminary feasibility study, and the yet to be prepared Comprehensive Fiscal Analysis that is a requirement of State law are how fiscal issues gets resolved.
- **Impacts on Other Agencies:** Two types of inter-related impacts receive the most consideration. These relate to the services that are to be transferred from other agencies to the new city and resulting fiscal impacts on those agencies. These matters get resolved during consideration of the “service plan” and in “revenue neutrality” discussions/agreements that are based on the Comprehensive Fiscal Analysis.

State law and SLO LAFCO procedures set forth the processes for preparing and considering an incorporation proposal. Table 5 on the following page describes processes and procedures that all LAFCO’s must follow. The multi-faceted process that is outlined below can easily take two years to complete and in many instances has taken much longer.

Proponents of incorporation are responsible for initiating the process to consider an incorporation proposal and for creating / obtaining the fiscal resources to complete all required components of the application, service plan, fiscal analysis and environmental evaluation.

The following steps are noted as “required” or highly “advisable” in Table 5 below.

Table 5. Incorporation Consideration Processes

Step	Required or Advisable
Reviews with LAFCO	Advisable
Preliminary boundary and fiscal analysis	Advisable
Establish a logical boundary	Required
Submit application to LAFCO – application may be submitting a petition signed by a 25% of registered voters, or by resolution of a public agency.	Required
Payment of Application Processing/EIR Fees	Required. LAFCO’s can stage fees to coincide with the work to be accomplished. Loan from State Controller’s office may be available.
Fiscal Research: Gather Financial Data and Establish a Service Plan	Required. Typically performed by consultants working in collaboration with LAFCO staff.
Prepare Comprehensive Fiscal Analysis (CFA). Establish base year cost and make budget projections. Prepare revenue projections to include: <ul style="list-style-type: none"> • Base year property tax allocation • Special district taxes • Property transfer taxes • Sales taxes • Transient occupancy taxes • State revenues • Road related revenues • Transportation related sales taxes • Other revenues 	Required. Typically incorporated with the fiscal research.
Create a Revenue Neutrality process and negotiate an agreement	Required. Oversight for this process is provided by LAFCO. Principals (i.e. the County and the proponents) are the responsible principals.
Complete the CEQA process	Required. Typically performed by consultants working in collaboration with LAFCO staff.
LAFCO Executive Officer’s Report; State Controller review of the Comprehensive Fiscal Analysis; Conduct LAFCO hearings and protest hearings.	Required
Submit LAFCO approved proposal for voter consideration	Required. County elections officer is responsible

Logical Boundary for An Incorporation Proposal

The maximum boundary that was approved by the NCSB Board of Directors in July 2003 for this feasibility analysis included undeveloped property and prime agricultural land that is currently outside of the urban limit line as established in the South County General Plan: Land Use Element. Much of the area is also outside of the NCSB current sphere of influence. Since July 2003, the Study Area Boundary for incorporation has been reduced, although the final boundary is still greater than the current NCSB sphere of influence.

This preliminary analysis indicates that inclusion of these areas in the logical boundary for a new city is largely not a fiscal question. Rather it is more a matter of whether LAFCO can make the required findings under Government Code section 56720 while including these areas within the boundary. Specifically sections 56001, 56301, 56300 and 56377 require that LAFCO protect prime agricultural land and only approve boundaries that promote planned, orderly and efficient development. A more complete discussion of these constraints appears on page 55 of the incorporation guidelines as published by the Governor's Office of Planning and Research, which is included the Appendix of this report.

In this regard, it is noted that:

- SLO LAFCO has broad authority to condition proposals that it considers; and
- LAFCO and the NCSB have already reached agreements that pertain to growth practices in relation to NCSB's present sphere of influence application.

Thus, it may be practical for NCSB and the proponents of an incorporation proposal to reach agreements on land use, environmental and resource management strategies that would enable LAFCO to make the required findings for the boundaries that have so far seem preferred. Otherwise modification of the preferred boundary will likely be necessary.

Readiness for Incorporation

General Readiness: Nipomo is approaching an opportune time to consider incorporating as a city for the following reasons:

- Nipomo is a community of historic presence in the County with established and recognizable communities of interest within the area. This is recognized directly in the *South County Land Element of the County General Plan*.
- A significant part of the growth for San Luis Obispo County (*see South County Land Use Element*) over the next twenty years will occur in South County areas in and immediately to Nipomo.
- The growth that is already assumed by the County *General Plan* will directly affect current residents of the Nipomo area from several vantage points such as services, transportation, schools, recreation, and community identity.

- Nipomo has experience with local government gained through the Community Services District. It is reasonable to expect that local residents may want to take a stronger hand in directing the future of the South County of which Nipomo is the central part.
- Nipomo is the nearest established community adjacent the County's southern boundary with Santa Barbara County and the City of Santa Maria. A new city could be an effective mechanism for interacting with these agencies on regional issues and governmental choices.
- There is no other communities of interest in the South County that either now exist or are likely to evolve to compete with Nipomo for incorporation consideration.

Fiscal Feasibility: The recent changes to fiscal policies that affect new cities means that it will likely be at least seven to ten years before Nipomo area will be fiscally ready to consider incorporation. (*See Section VI Revenue and Expenditure Estimates*) However, this condition would change if a new source of revenue is provided through special legislation to replace the revenue that has been lost, or if Nipomo itself chooses to adopt a special tax to replace this revenue.

Revenue Neutrality: This analysis did not address detailed questions of revenue neutrality that must ultimately be considered. This must wait until a Comprehensive Fiscal Analysis is undertaken and completed. However, since revenues are unlikely to exceed expenditures to any significant extent for the next several years, it is reasonable to expect that incorporation is likely to have less of a negative impact on San Luis Obispo County in the near future than might occur in a more distant future (e.g., 5 to 10 years).

Section VI: Estimate of Revenues & Expenditures

In order to assess the fiscal aspects of city incorporation feasibility for Nipomo, ongoing (excluding one-time) revenues and expenditures were estimated for a base year (year prior to incorporation) and three additional years. The result of this analysis is that total revenues are project to be about 15.7% below expenditures in the base year (2004-05). For the General Fund only, the negative difference is about 34,6%. After three years, general fund revenues will still be about 18% below projected expenditures.

The growth rates assumed for the Nipomo area are the rates provided by the LAFCO staff and were applied in the recent NCS D sphere of influence study. The revenue – expenditure relationships indicate that it is likely that the Nipomo will be fiscally prepared to consider incorporation within the next three to four years. Ironically, that amount of time may be needed to move an application for incorporation through the LAFCO process and to the ballot.

The detailed three to four-year revenue and expenditure estimates are shown on the immediately following page. The base year chosen is Fiscal Year 2004-05. Detailed assumptions for the base year General Fund expenditure estimates are included on a worksheet that is contained in the appendix. The forecast also includes revenue and expenditure estimates for Nipomo Community Service District administration and operations activities (not debt or capital investments) in order to illustrate the size of the annual budget for a city that also includes current NCS D functions.

In summary, these amounts are as shown below:

**Table 6. Summary of Revenue & Expenditure Projections
For Nipomo Incorporation Area**

	Base Year	2005-06	2006-07	2007-08
Revenue:				
City Revenues – General Fund	2,635,000	2,777,006	2,994,216	3,189,298
NCS D – Utility Charges *	3,157,000	3,251,710	3,349,261	3,449,739
Total Revenue	5,792,000	6,028,716	6,343,477	6,630,037
Expenditures:				
City Operations	3,549,000	3,620,405	3,693,249	3,767,560
NCS D Admin. + Operations *	3,157,000	3,251,710	3,349,261	3,449,739
Total Expenditures	6,706,000	6,872,115	7,042,510	7,217,299

* NCS D revenues and expenditures are intentionally offsetting in this calculation.

Conclusion

The estimates of revenues and expenditures on the preceding page Do Not examine the relationship between “net county cost” nor are they based on a property tax allocation formula that takes *proceeds of taxes* into account. The estimates do, necessarily, take into account the most recent changes to statewide fiscal policies affecting general city revenues. These recent policy changes, if unchanged, are likely to put off Nipomo incorporation for a period of seven to ten more years.

APPENDIX

Three-Year Revenue & Expenditure Projection – Nipomo Incorporation

Revenue	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-2008
Taxes				
Franchise Tax	85,000	87,550	90,177	92,882
Property Tax	395,000	418,700	443,822	470,451
Property Transfer Tax	60,000	63,600	67,416	71,461
Sales Tax	758,000	792,110	827,755	865,004
Sales Tax #172	5,000	5,225	5,460	5,706
Licenses & Permits	200,000	206,000	212,180	218,545
Fines & Forfeitures	15,000	15,450	15,914	16,391
Use of Money & Property	25,000	25,750	26,523	27,318
Intergovernmental Revenue				
Motor Vehicle In-lieu	61,000	63,081	67,938	73,033
Gas Taxes (Road Revenues)	458,000	471,740	516,805	564,148
SB 90 Rebates	40,000	41,200	42,436	43,709
Post Training Reimbursements	28,000	28,840	29,705	30,596
Home Owner Property Tax Relief	27,000	28,620	30,337	32,157
Charges for Current Services	400,000	448,800	514,998	583,664
Utility Charges = Utility Expenditures	3,157,000	3,251,710	3,349,261	3,449,739
Miscellaneous	78,000	80,340	82,750	85,233
Total Revenues (adjusted to Prop. 1A and AB 2115)	5,792,000	6,028,716	6,343,477	6,630,037
Expenditures				
General Government				
City Council	15,000	15,300	15,606	15,918
Administration	375,000	382,500	390,150	397,953
Legal	175,000	178,500	182,070	185,711
Elections/Other	5,000	5,100	5,202	5,306
Subtotal	570,000	581,400	593,028	604,888
Planning/Building/Engineering				
Planning	235,000	239,700	244,494	249,384
Building Safety - Code Enforcement	80,000	81,600	83,232	84,897
Engineering	235,000	239,700	244,494	249,384
Subtotal	550,000	561,000	572,220	583,664
Maintenance				
Parks & Buildings	100,000	102,000	104,040	106,121
Streets	469,000	478,380	487,948	497,707
Subtotal (see note 2)	569,000	580,380	591,987	603,827
Recreation Programming	25,000	25,500	26,010	26,530
Utility (Operations+ Admin. Only)	3,157,000	3,251,710	3,349,261	3,449,739
Public Safety				
Policing	1,750,000	1,785,000	1,820,700	1,857,114
Fire (see forecast assumptions on page 15)	0	0	0	0
Subtotal	1,750,000	1,785,000	1,820,700	1,857,114
Miscellaneous @ 2.5% General Fund Expenses	85,000	87,125	89,303	91,535
Total Expenditures	6,706,000	6,872,115	7,042,510	7,217,299
Balance	(\$914,000)	(\$843,399)	(\$ 699,033)	(\$587,262)

**BASE YEAR REVENUE CRITERIA AND ASSUMPTIONS
NIPOMO INCORPORATION FEASIBILITY**

General Fund Revenue Sources (See Note 1)	Amount \$	Comments Re: Revenue Estimate (See footnote re: Proposition 1A Adjustments)
Taxes:	(see note 1)	(see note 2)
Franchise Tax	85,000	Franchise fees charged for use of the public rights of way by public utilities
Property Tax	395,000	PROPOSITION 1A ADJUSTMENTS NOT INCLUDED. 2002-03 assessed values are increased @ 4.0% for FY 03-04 and FY 04-05, then 6.0% annually thereafter to account for new growth; assumes City share @ .7% of total revenue
Property Transfer Tax	60,000	2002-03 amounts are increased @ 4.0% for FY 03-04 and FY 04-05, then 6.0% annually thereafter = same as for property tax
Sales Tax	758,000	PROPOSITION 1A ADJUSTMENTS NOT INCLUDED. FY 02-03 sales are increased 4.0% annually reflecting combination of inflation adjusted revenue and retailer outlet growth
Sales Tax – 172	5,000	Sales tax distributed on a per capita basis for public safety; adjusted on same basis as sales tax.
Transient Occupancy Tax	0	No reported revenue for Nipomo
Licenses & Permits:		
Business License	75,000	Fees paid by local businesses; adjusted 3.0% annually
Construction Permits	125,000	Licenses and permits for new construction. Adjusted same as Property Taxes as activities track with growth projections.
Fines & Forfeitures:	15,000	Adjusted 3.0% annually
Use of Money & Property:	25,000	Adjusted 3.0% annually
Intergovernmental Revenue:		
Motor Vehicle License Fee	61,000	Amounts allocated by State on per capita basis. Distribution for new city is based on 3 x registered voters. Registered voters assumed = 37.5% of actual population. Estimate includes Proposition 1A adjustments.
SB 90 Mandates	40,000	Reimbursement for state mandated services
Gas Tax (Road Revenues)	458,000	Amounts allocated by State on per capita basis. Distribution for new city is based on 3 x registered voters. Registered voters assumed = 37.5% of actual population. Estimate includes Proposition 1A adjustments.
Post Training Reimbursement	28,000	Reimbursement for maintenance of training standards for police officers
Homeowner Property Tax Relief	27,000	Reimbursement from State for Relief amounts based on current amounts of HPTR. Increases are based on same per centages as Property Taxes as activities track with growth projections.
Charges for Current Services:		
Engineering Related	150,000	Amounts charged to property owners for engineering, planning, building inspection and code enforcement services related to consideration of permits for property improvements
Planning Related	150,000	
Building Inspection Related	75,000	
Police Services	15,000	Miscellaneous charges for police services and reports
Recreation Related	10,000	Charges for use of City facilities and programs
Miscellaneous:	78,000	Unplanned revenue @ 2.5% of scheduled revenue
Total Base Year General Fund Revenue	2,635,000	

Since sales and property tax adjustments under Proposition 1A are to be offsetting, these adjustments are not included in the above estimates, including the MLV adjustments for which cities formed after 8-5-04 are currently ineligible.

**BASE YEAR EXPENDITURE ASSUMPTIONS – NIPOMO
INCORPORATION FEASIBILITY**

Expenditure Category	Amount	Comments Re: Expense Estimate (see footnotes)
General Government	\$	
City Council	15,000	Assumes Five City Council Members - Expense Reimbursements Only @ \$2,000 + \$5,000 General Expenses
Administration	375,000	Assumes full-time City Mgr. plus (1) clerical and (2) technical support (i.e., fiscal/general accounting) positions. Manager serves in multiple roles including City Clerk and Treasurer.
Legal	175,000	Assumes legal counsel by contracted services
Elections/Other	5,000	Assumes election expenses every 2 years
Subtotal	570,000	
Planning/Building/ Engineering		
Planning	235,000	Assumes (1) full-time planner plus (1) clerical and (1) technical support positions.
Building Safety - Code Enforcement	80,000	Engineering design and construction inspection services provided on contract basis; service cost are reimbursed from fees except for special studies, and advisory support
Engineering	235,000	Assumes (1) full-time engineer plus (1) clerical and (1) technical support positions.
Subtotal	550,000	
Maintenance		
Parks & Buildings	100,000	Estimates based on 2002-04 County and NCSD expenditures.
Streets	469,000	Expenditures = gas tax receipts;
Subtotal	569,000	
Recreation Programming	25,000	Recreation programming supported by part-time staffing
Public Safety		
Policing	1,750,000	Average cost based on County Sheriff's Department gross expenses per patrol vehicle and experience of other San Luis Obispo County cities.
Fire	0.00	Fire service provided by County Fire Protection District
Subtotal	1,750,000	
Miscellaneous @ 025% of Other General Fund Expenditures	85,000	
Grand Total Expenditures	3,549,000	

Notes: 50% of cost for administration, legal, elections, planning and engineering expenses are allocated to non-general fund (i.e., utility enterprise) accounts. FY 2002-03 expenditures of governmental agencies, where applied, are escalated by 5.0% when calculating the base year amounts.

COMPARATIVE CHARACTERISTICS OF CHARTER AND GENERAL LAW CITY GOVERNMENTS

CHARACTERISTIC	GENERAL LAW CITY	CHARTER CITY
Form of Government	State law describes the procedures for a city council to establish its form of government. See Cal. Gov't Code § <u>36501</u> . Absent formal action by a city council, the council retains authority over the management of a city. However, "alternate" forms of government are specifically authorized by state law and one of those is the "city manager" form of government. Cal. Gov't Code § <u>34851</u> . General law cities may also, by vote of the people, exercise the option to be governed by a council of from four to nine council members "by" or "from" districts. Cal. Gov't Code § <u>34871</u> .	Can provide for any form of government, including mayor/city manager form of government.
City Council Qualifications	Registered voter 18 years old Resident of city for 29 days See Cal. Gov't Code § <u>36502</u> .	Can establish unique criteria for city office. Established criteria must not be discriminatory and residency requirements must not violate the privileges and immunities clause of the Constitution.
Vacancies and Termination of Office	Death, resignation, removal for failure to perform official duties, electorate irregularities, absence from meetings without permission, vacancy upon non-retirement. See Cal. Gov't Code § § <u>1770</u> , <u>36502</u> and <u>36514</u> .	May establish criteria for vacating and terminating city offices.

COMPARATIVE CHARACTERISTICS OF CHARTER AND GENERAL LAW CITY GOVERNMENTS

CHARACTERISTIC	GENERAL LAW CITY	CHARTER CITY
Council Member Compensation	<p>Salary ceiling set by city population.</p> <p>Voters may approve a higher salary.</p> <p>Reimbursement for actual and necessary expenses incurred in performance of duties.</p> <p>Council Members to be provided the same benefits that are available and paid by city to its employees.</p> <p>See Cal. Gov't Code § <u>36516(a)</u>.</p>	<p>May establish</p> <p>Salaries</p> <p>Expense reimbursement</p> <p>Benefits</p>
Election of Mayor and City Council	<p>Mayor may be elected by the city council or by vote of the people. See Cal. Gov't Code § <u>36801</u></p> <p>City council members elected by voters.</p> <p>See Cal. Gov't Code § <u>34903</u>.</p>	<p>Charter may establish process for selecting officers.</p>
Term Limits	<p>May be imposed.</p> <p>See Cal. Gov't Code § <u>36502(b)</u>.</p>	<p>May provide for term limits.</p>
Legislative Authority	<p>Ordinances may not be passed within five days of introduction, unless they are urgency ordinances.</p> <p>See Cal. Gov't Code § <u>36934</u>. Ordinances may only be passed at a regular meeting, and must be read in full at time of introduction and passage. See Cal. Gov't Code § <u>36934</u>.</p>	<p>May establish method for enactment of local ordinances.</p>
Legislative Authority (cont'd)	<p>All ordinances that are not urgent require three affirmative votes.</p> <p>See Cal. Gov't Code § <u>36936</u>.</p>	
Resolutions	<p>May establish rules regarding the procedure to following in adopting, amending or repealing resolutions.</p>	<p>May provide for adoption of resolution.</p>
Quorum and Voting Requirements	<p>A majority of the city council constitutes a quorum for transaction of business. See Cal. Gov't Code § <u>36810</u>.</p>	<p>May provide requirements for a quorum.</p>

COMPARATIVE CHARACTERISTICS OF CHARTER AND GENERAL LAW CITY GOVERNMENTS

CHARACTERISTIC	GENERAL LAW CITY	CHARTER CITY
Rules Governing Procedure & Decorum	<p>Brown Act is applicable. See Cal. Gov't Code § <u>54950</u>.</p> <p>Conflict of interest laws are applicable. See Cal. Gov't Code § <u>87300</u>, <i>et seq.</i></p>	<p>Brown Act is applicable.</p> <p>Conflict of interest laws are applicable. May provide provisions related to ethics, conflicts, campaign financing and incompatibility of office.</p>
Personnel Matters	<p>Civil service system. See Cal. Gov't Code § <u>45000</u> <i>et seq.</i></p> <p>Meyers-Milias-Brown Act, See Cal. Gov't Code § <u>3500</u> applicable residence requirements for public employees.</p>	<p>May establish standards, requirements, and procedures, including compensation, terms and conditions of employment for hiring personnel.</p> <p>Meyers-Milias-Brown Act applicable.</p>
Contracting Services	<p>Authority to enter into contracts to carry out necessary functions, including those expressly granted and those implied by necessity. See Cal. Gov't Code § <u>37103</u>.</p>	<p>Full authority to contract consistent with charter.</p> <p>May transfer some of its functions to the county. See Cal. Gov't Code § <u>51330</u>.</p> <p>May designated mode and method of contracting for services or public works.</p>
<p>Public Contracts</p> <p>Public Contracts (cont'd)</p>	<p>Competitive bidding required for public works contracts over \$5,000. See Cal. Pub. Cont. Code § <u>20162</u>.</p> <p>Such contracts must be awarded to the lowest responsible bidder. See Cal. Gov't Code § <u>53068</u>.</p> <p>If city elects to be subject to uniform construction accounting procedures, less formal procedures may be available for contracts less than \$100,000. See Cal. Pub. Cont. Code § § <u>22000</u> <i>et seq.</i> & Cal. Pub. Cont. Code § <u>22032</u>.</p> <p>Contracts for professional services are not subject to competitive bidding. See Cal. Gov't Code § <u>4526</u>.</p>	<p>Not required to comply with competitive bidding statutes. May use own forces to negotiate contracts, or other means not authorized in Public Contracts Code.</p>

COMPARATIVE CHARACTERISTICS OF CHARTER AND GENERAL LAW CITY GOVERNMENTS

CHARACTERISTIC	GENERAL LAW CITY	CHARTER CITY
Payment of Prevailing Wages	<p>Generally prevailing wages must be paid on public works projects over \$1,000.</p> <p>Exemptions to the above that do not require the payment of prevailing wages include:</p> <p style="padding-left: 40px;">Public works projects of \$25,000 or less involving construction work; or</p> <p style="padding-left: 40px;">Public works projects of \$15,000 or less when work is demolition, repair, alteration or maintenance.</p> <p>See Cal. Labor Code § <u>1771</u>, <i>et seq.</i></p>	<p>Not required to pay prevailing wage as long as project is in realm of municipal affairs, and not projects of state concerns, or funded by state or federal grants.</p>
Elections	<p>Municipal elections conducted in accordance with the California Elections Code. See Cal. Elec. Code § <u>10101</u> <i>et seq.</i></p>	<p>May establish election dates, rules and procedures. Not bound by state election laws or recall elections, but may adopt the general election law by reference. See Cal. Const. art. <u>XI</u>, § <u>5(b)</u>.</p>
Methods of Elections	<p>Generally hold at-large elections whereby voters may vote for any candidate on the ballot. Cities may have district elections. See Cal. Gov't Code § <u>34871</u>.</p>	<p>May hold at-large or district elections.</p>
Public Funds for Candidates in Municipal Elections	<p>Prohibited from expending public funds to fund campaigns for public office. See Cal. Gov't Code § <u>5300</u>.</p>	<p>Public financing of election campaigns are legal. No prohibition against expending or accepting public monies to seek elective office.</p>

COMPARATIVE CHARACTERISTICS OF CHARTER AND GENERAL LAW CITY GOVERNMENTS

CHARACTERISTIC	GENERAL LAW CITY	CHARTER CITY
Penalties & Cost Recovery	May impose fines, penalties and forfeitures with a fine not exceeding \$1,000.	May enact ordinance providing for different penalties. May determine maximum limit for penalties.
Public Utilities/Franchises Public Utilities/Franchises (cont'd)	<p>May establish, purchase, and operate public works to furnish its inhabitants with electric power. See Cal. Gov't Code § 39732 Cal. Const. art. XI, § 9 (a) Franchise Act of 1937; Cal. Pub. Util. Code § § 620-6302.</p> <p>May grant franchises to use city streets to persons or corporations seeking to furnish light, water, power, heat, transportation or communication services in the city through a bidding process. See Cal. Pub. Util. Code § § 6001-6092 (Broughton Act). Alternatively may grant franchises without a bidding process. See Cal. Pub. Util. Code § § 6201-6302 (Franchise Act of 1937).</p>	<p>Sale and distribution of electricity is a municipal affair.</p> <p>May own and operate utilities, water, sewer and energy.</p> <p>Franchise Act of 1937 is not applicable if charter provides.</p> <p>See Stats. 1951, ch. 764, § 6205.</p> <p>May establish conditions and regulations on the granting of franchises to use city streets to persons or corporations seeking to furnish light, water, power, heat, transportation or communication services in the city.</p>
Zoning	Zoning ordinances must be consistent with general plan. See Cal. Gov't Code § 65860.	Zoning ordinances are not required to be consistent with general plan.

* Adapted from memorandum written by Elise K. Traynum; Meyers Nave 7/24/2000

General Fund Revenue of San Luis Obispo County Cities FY 2002-03

Prepared for the Nipomo Community Services District

	Paso Robles	Morro Bay	Pismo Beach	Grover Beach	Arroyo Grande	San Luis Obispo	
Population (January, 03) *	28,850	10,500	8,700	13,100	16,500	44,350	
Revenue Sources		Revenue FY 02-03 **					
Taxes:							
Franchise Tax	\$ 1,316,100	1,956,704	361,230	404,950	464,150	1,368,600	
Property Tax	2,771,100	1,714,875	1,905,000	1,460,578	2,401,250	5,584,300	
Property Transfer Tax	60,000	50,000	108,800		138,600	200,000	
Sales Tax	5,778,000	1,387,401	1,907,500	898,798	3,135,500	10,402,200	
Sales Tax - 172	226,800	80,000			83,400	223,800	
Transient Occupancy Tax	1,100,000	2,023,000	4,464,000	153,500	389,400	3,979,800	
Utility User's Tax	0	0	0	121,101	0	3,673,600	
Subtotal	\$ 11,252,000	7,211,980	8,746,530	3,038,925	6,612,300	25,432,300	
Licenses & Permits:							
Business	265,000	1,400,000	115,000	63,126	90,110	1,387,600	
Construction	476,500	55,050	30,000		359,150		
Subtotal	\$ 741,500	1,455,050	145,000	63,126	449,260	1,387,600	
Fines & Forfeitures:							
	91,500		101,000		166,500	304,000	
Use of Money & Property:							
	\$ 411,400	397,000	292,445		185,300	542,000	
Intergovernmental Revenue:							
Motor Vehicle In-lieu	1,200,000	600,000	519,680	718,408	977,650	2,576,100	
SB 90 Mandates	40,000	38,000			0		
Post Training Reimbursement	28,000	15,000			35,000	32,500	
Homeowner Property Tax Relief					36,400	82,000	
Subtotal	\$ 1,288,000	653,000	519,680	718,408	1,049,250	2,680,600	
Charges for Current Services:							
Engineering Related	30,500	276,000	177,400		8,050	133,500	
Planning Related	34,000	109,304	373,000		142,900	450,000	
Building Inspection Related	255,000	266,000	83,500	163,109		1,350,000	
Police Services	65,000	28,000	33,000			200,400	
Recreation Related	482,000	297,500	113,100	110,000	530,000	1,026,900	
Subtotal	866,500	976,804	780,000	273,109	680,950	3,160,800	
Miscellaneous:							
	\$ 100,000	508,295	253,295		366,170	189,700	
Total Revenue	\$ 14,730,900	11,202,129	10,837,950	4,093,568	9,509,730	33,707,000	Average Revenue
General Fund Revenue Per Capita	\$548.64	\$1,066.87	\$1,245.74	\$312.49	\$576.35	\$760.02	\$751.68
Taxes Per Capita	\$419.07	\$686.86	\$1,005.35	\$231.98	\$400.75	\$573.45	\$552.91
All Other Revenue Per Capita	\$129.57	\$380.01	\$240.39	\$80.51	\$175.60	\$166.58	\$198.78

* Source of population data is California Department of Finance, Demographic Data, January 2003.

** Revenue data derived from Comprehensive Annual Financial Reports (CAFR) of cities. Excludes revenue such as library fees and taxes, redevelopment tax increment, internal loans, fire revenue, State and Federal Grants, and ERAF reimbursements, and debt / proprietary fund data.

prepared by The Davis Company, August 2003

**General Fund Expenditures – San Luis Obispo County Cities
FY 2002-03**

Prepared for Nipomo Community Services District

Agency	Paso Robles	Morro Bay	Pismo Beach	Grover Beach	Arroyo Grande	San Luis Obispo
Population (01/03)	26,850	10,500	8,700	13,100	16,500	44,350
Activity	\$ Estimated Expenditure for FY 02-03 (see note 1)					
General Government						
City Council	442,925	119,528	177,981	incl. in admin.	73,130	102,359
Administration	2,936,035	1,396,672	1,468,597	812,662	1,213,231	2,752,113
Legal	415,799	249,681	184,200		162,700	343,476
Conference/Visitors	0	0	506,800	0	0	0
Elections/Other	incl. in admin.	233,095	incl. in admin.	incl. in admin.	154,750	432,637
Subtotal	3,794,759	1,998,976	2,337,578	812,662	1,603,811	3,630,585
Planning/Building/Engineering						
Planning	1,490,217	575,806	548,140	1,012,563	568,306	1,182,565
Building Safety - Code Enforcement	incl. in planning	499,312	346,787		245,450	538,904
Engineering	incl. in maintenance	435,666	443,401		647,800	580,898
Subtotal	1,490,217	1,510,784	1,338,328	1,012,563	1,461,556	2,302,367
Maintenance						
Parks & Buildings	incl. in streets	786,336	708,011	270,079	753,645	
Streets	4,585,391	1,279,417	580,210		521,700	5,767,487
Subtotal (see note 2)	4,585,391	1,719,851	1,288,221	270,079	1,275,345	5,767,487
Recreation Programming	758,000	687,134	289,215	incl. in parks	964,854	964,854
Public Safety						
Policing	4,737,649	4,250,445	3,346,436	2,288,876	4,017,600	8,822,766
Fire (see note 3)	NIC	NIC	NIC	NIC	NIC	NIC
Subtotal	4,737,649	4,250,445	3,346,436	2,288,876	4,017,600	8,822,766
Other General Purpose Activities		159,522	884,753			5,334,522
Grand Total Expenditures (see note 4)	\$ 15,366,016	10,326,712	9,484,531	4,384,180	9,323,166	26,822,581
	Average Per Capita Cost By Service Function					
General Government	\$ 141.33	190.38	268.69	62.04	97.20	81.86
Planning/Building Engineering	55.50	143.88	153.83	77.29	88.58	51.91
Maintenance	170.78	163.80	148.07	20.62	77.29	130.04
Recreation	28.23	65.44	33.24	incl in Parks	58.48	21.76
Public Safety (Excluding Fire)	176.45	404.80	384.65	174.72	243.49	198.93
Other	0.00	15.19	101.70	0.00	0.00	120.28

Note 1: Source of Data - Budgets and Comprehensive Annual Financial Reports of Cities.
 Note 2: Morro Bay Maintenance Subtotal Does Not Add : \$345,902 of non-general fund revenues subtracted.
 Note 3: NIC - indicates service is provided by City; not included in itemized expenditures as Nipomo will not provide the service.
 Note 4: Does Not include expenditures for capital improvements, debt, or proprietary activities.

**San Luis Obispo County
LAFCO Processes
Re: Incorporation**

The Incorporation Process: Pieces of the Puzzle

SLO LAFCO

San Luis Obispo Local Agency
Formation Commission

January 22, 2003

The Incorporation Process: Pieces of the Puzzle

SLO LAFCO

San Luis Obispo Local Agency
Formation Commission

January 22, 2003

1

What is LAFCO?

- ◆ The Local Agency Formation Commission (LAFCO) is a seven member Commission, established in every County in the State, charged with the "discouragement of urban sprawl and the encouragement of orderly formation and development of local governmental agencies based on local conditions and circumstances."
- ◆ Members of LAFCO include two County Supervisors, two City Council members, two Special District members, and a Public member selected by the other six members.
- ◆ For an unincorporated area to become a City it must first receive LAFCO approval.

2

Food for Thought...

“Incorporation should not be entered into lightly. It is a lengthy process and carries a permanent responsibility”

or

Be careful what you ask for!

3

Why do unincorporated areas want to become cities?

- ◆ To improve public services
- ◆ To capture revenues from local, state and federal sources
- ◆ To create a politically accountable governing body, the city council
- ◆ To defend against boundary incursions from other agencies, particularly cities
- ◆ To centralize and consolidate the provision of services in one comprehensive unit
- ◆ To give the community control over planning, land use, and other regulatory activities previously carried out by the county

4

Before Incorporation Starts Consult with LAFCO

- ◆ Early and frequent consultation with LAFCO staff – not an adversarial role
- ◆ Developing a logical incorporation boundary and alternative boundaries
- ◆ Use of consultants to establish logical boundary, developing a preliminary CFA, preparing the LAFCO application, reports, petitions and providing other technical assistance.

5

Pre-Initiation Issues

- ◆ Defining a logical incorporation boundary
- ◆ Determining if the proposed boundaries generate sufficient revenues to make the new city financially feasible.

6

What is a Logical Incorporation Boundary?

- ◆ Recognizes existing jurisdictional boundaries of other agencies
- ◆ Is realistic in terms of political opportunities and constraints
- ◆ Includes a variety of land uses for a balanced community
- ◆ Considers topography, geography and historic boundaries
- ◆ Is simple – should not split parcels
- ◆ Does not create unincorporated islands
- ◆ Recognizes existing spheres of influence
- ◆ Recognizes communities of interest
- ◆ Is consistent with the stated goals of incorporation, not simple a "revenue grab."

7

Incorporation Process -Application

◆ **Initiation**

- By petition signed by at least 25% of registered voters or landowners within the boundaries of the area proposed to be incorporated or by a resolution of an affected public agency – forms are available at the LAFCO office
- Before initiation a "Notice of Intent" to circulate a petition or adopt a resolution must be filed
- All signatures must be gathered within a six-month period
- LAFCO application fee is \$15,000, plus \$1,000 for Environmental Documents as a Deposit Toward Actual Costs. EIR would be more. Total costs range from \$50,000 to \$150,00
- Loan from State Controller's Office upon proof of insufficient funds

8

Incorporation: Pieces of the puzzle

- ◆ Address CEQA review based on project description
- ◆ Identify process and funding for analyzing alternative incorporation boundaries
- ◆ Submittal of a service plan detailing which services will be provided by the new city
- ◆ Establish a realistic timeframe – two to three years
- ◆ Terms and conditions of incorporation – e.g. transfer of employees, assets and liabilities, equipment, funds on hand, reserves, tax sharing agreements.

9

Incorporation: Pieces of the puzzle

- ◆ Preliminary Fiscal Assessment for Quick Appraisal
- ◆ Comprehensive Fiscal Analysis (CFA)
 - Legal responsibility of LAFCO – funded by proponents
 - Proponents must discuss the method of preparation of the CFA with LAFCO prior to beginning any incorporation efforts
 - Establish process for gathering data efficiently and fairly
 - Length of time for budget projections – At least 3 fiscal years following incorporation
 - Determination of the Appropriations (Gann) Limit
 - Determining the effective date of incorporation

10

Incorporation: Pieces of the puzzle

◆ **Revenue Neutrality – Required since 1992**

- OPR Guidelines will include model for revenue neutrality process including calculation methods, inclusion of restricted and non-restricted funds
- Expenditure savings by the County must equal revenue loss
- LAFCO staff facilitates discussions

11

Incorporation: Pieces of the puzzle

◆ **Executive Officer's Report and Recommendation**

- Must address boundaries, plan for services, CFA, terms and conditions, Recommended findings and determinations.
- Must be distributed at least 5 days before hearing

12

Incorporation: Pieces of the puzzle

◆ **Commission Hearing and Determination**

- Hearing Notice – at least 21 days prior to hearing– website, posting, mailing, publishing
- May be continued not more than 70-days
- Commission adopts resolution making determinations within 35 days of hearing

13

Incorporation: Pieces of the puzzle

◆ **Request for Reconsideration and Protest Hearing**

- Reconsideration must be requested within 30 days of LAFCO resolution
- Protest hearing must be held within 35-days of LAFCO resolution

14

Incorporation: Pieces of the puzzle

◆ Election

- Discuss impacts of timing of election
- Impartial Analysis prepared by Executive Officer
- Arguments for and Against
- Requires a majority; 50% plus one
- What must and can be included on the ballot? – Election of City Council
- Clarify impact of Prop 218 – Special tax or assessments
- Cost of Election – Special election is paid for by Proponents. General Election is paid for by the city if it is successful and by the County if it is unsuccessful

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Incorporation: Pieces of the Puzzle

◆ Post Incorporation

- Provide transition information for new cities and aid in the transition process
- Establishment of a Sphere of Influence/Municipal Service Review for the new city
- “Probable physical boundaries and service area” of the new city-Same as NCSD?
- Areas not within the initial boundaries but expected to be included in the future
- Can be deferred for one year after incorporation

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Questions or Comments

◆ LAFCO Office Telephone Number: (805)
781-5795

◆ Website: www.slolafco.com

◆ Email: phood@slolafco.com

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Assessed Values
San Luis Obispo County Cities

**ASSESSED VALUES OF CITIES WITHIN SAN LUIS OBISPO COUNTY
TOTAL GROSS SECURED AND UNSECURED**

Fiscal Year	Arroyo Grande	Atascadero	Grover Beach	Morro Bay	Paso Robles	Pismo Beach	San Luis Obispo
1993-94	834,963,816	1,161,645,447	515,532,874	666,750,998	970,433,337	843,361,043	2,340,641,222
1994-95	857,665,929	1,187,611,201	535,520,017	692,038,123	979,362,067	863,736,703	2,397,590,322
1995-96	876,300,225	1,223,814,198	546,807,344	715,538,739	1,009,950,592	898,902,008	2,484,409,488
1996-97	888,518,840	1,248,808,886	554,015,102	737,613,958	1,040,727,599	919,984,964	2,523,390,815
1997-98	919,306,584	1,281,050,779	569,946,048	758,356,973	1,071,071,140	949,041,227	2,606,133,195
1998-99	978,784,791	1,327,163,880	597,730,618	798,961,634	1,146,269,846	995,111,406	2,721,220,547
1999-00	1,064,727,116	1,400,485,340	645,932,283	1,035,594,699	1,238,975,405	1,062,657,433	2,913,379,554
2000-01	1,194,236,995	1,501,399,631	698,315,247	1,112,733,117	1,382,189,314	1,164,019,105	3,139,723,140
2001-02	1,302,580,924	1,642,027,040	804,545,823	1,145,162,937	1,578,855,382	1,251,869,569	3,408,584,134
2002-03	1,430,216,153	1,792,969,084	854,994,020	1,244,992,080	1,784,403,983	1,364,042,784	3,681,608,655

PERCENTAGE INCREASE OF ASSESSED VALUES OF SAN LUIS OBISPO COUNTY CITIES

Fiscal Year	Arroyo Grande	Atascadero	Grover Beach	Morro Bay	Paso Robles	Pismo Beach	San Luis Obispo
1993-94	2.9	3.0	4.5	4.3	2.8	3.3	2.7
1994-95	2.7	2.2	3.9	3.8	.9	2.4	2.4
1995-96	2.2	3.1	2.1	3.4	3.1	4.1	3.8
1996-97	1.4	2.1	1.3	3.1	3.1	2.4	1.6
1997-98	3.5	2.6	2.9	2.8	2.9	3.2	3.3
1998-99	6.5	3.6	4.9	5.4	7.0	4.9	4.4
* 1999-00	8.8	5.5	8.1	30.0*	8.1	6.8	7.1
2000-01	12.2	7.2	8.1	7.4	11.6	9.5	7.8
2001-02	9.1	9.4	15.2	2.9	14.2	7.5	8.6
2002-03	9.8	9.2	6.3	8.7	13.0	9.0	8.0

* Duke Energy purchased Morro Bay Power Plant, adding value to Secured Roll

**Nipomo Community Service District
2003-04 Draft Budget Data**

- **Personnel List**
- **Monthly Employee Compensation**
- **Administrative and Operational Budgets**

NIPOMO COMMUNITY SERVICES DISTRICT
DISTRICT PERSONNEL

2003-2004

OFFICE	<u>CURRENT</u>	<u>PROPOSED</u>
General Manager	1	1
Assistant Administrator	1	1
Secretary	1	1
Billing Clerk	1	1
	<u>4</u>	<u>4</u>
	=	=
MAINTENANCE	<u>CURRENT</u>	<u>PROPOSED</u>
Utility Supervisor	1	1
Utility Field Foreman	1	1
Utility Operator	1	1
Utility Worker I	2	2
	<u>5</u>	<u>5</u>
	=	=
TOTAL	<u>9</u>	<u>9</u>
	=	=

NIPOMO COMMUNITY SERVICES DISTRICT
 EMPLOYEE STEP AND RANGE PLAN
 MONTHLY COMPENSATION
 2003-2004

<u>POSITION</u>	<u>STEP 1</u>	<u>STEP 2</u>	<u>STEP 3</u>	<u>STEP 4</u>	<u>STEP 5</u>	<u>2.5% LONGEVITY PAY 15 YRS</u>	<u>2.5% LONGEVITY PAY 20 YRS</u>
Assistant Administrator	3,867	4,060	4,263	4,476	4,700	4,818	4,938
Secretary	2,591	2,721	2,857	3,000	3,150	3,229	3,310
Billing Clerk	2,394	2,514	2,640	2,772	2,911	2,984	3,059
Utility Supervisor	3,845	4,037	4,239	4,451	4,674	4,791	4,911
Utility Field Foreman	3,265	3,428	3,599	3,779	3,968	4,067	4,169
Utility Operator	2,824	2,965	3,113	3,269	3,432	3,518	3,606
Utility Worker	2,151	2,259	2,372	2,491	2,616	2,681	2,748

Includes a three percent increase from the previous year

**NIPOMO COMMUNITY SERVICES DISTRICT
PROPOSED BUDGET
2003-2004**

CONSOLIDATED - ALL FUNDS	2001-02	2002-03	2002-03	2003-04	% CHANGE
	ACTUAL	BUDGET	EST ACTUAL	PROPOSED	INCR (DECR)
REVENUES					
Water - Fixed Revenues	350,492	352,150	359,180	394,700	9.9%
Water - Consumption Revenues	1,073,157	1,090,911	1,119,000	1,249,000	11.6%
Sewer Revenues	677,698	697,900	707,800	779,900	10.2%
Fees and Penalties	31,966	23,900	29,750	32,220	8.3%
Meter and Connection Fees	94,263	27,500	24,000	13,750	-42.7%
Plan Check and Inspection Fees	11,551	7,000	12,330	7,000	-43.2%
Lift Station Fees	0	0	9,500	5,000	-47.4%
Miscellaneous Income	60,251	37,600	145,795	50,800	-65.2%
Street Lighting/Landscape Maint Charges	18,258	18,258	18,258	27,918	52.9%
Franchise Fee - Solid Waste	72,401	64,000	67,500	75,000	11.1%
Transfers In	0	400,000	400,000	425,000	6.3%
Oper Transfers In-Funded Admin	123,702	144,470	56,127	151,794	170.4%
Oper Transfers In-Funded Replacement	654,000	667,800	667,800	681,917	2.1%
TOTAL REVENUES	3,167,739	3,531,489	3,817,040	3,893,999	7.7%

EXPENDITURES	2001-02	2002-03	2002-03	2003-04	% CHANGE
OPERATIONS & MAINTENANCE	ACTUAL	BUDGET	EST ACTUAL	PROPOSED	INCR (DECR)
Wages	152,796	159,000	159,000	204,860	28.8%
Wages - Overtime	29,175	30,000	40,188	34,785	-13.4%
Payroll Taxes	3,147	3,700	3,585	3,765	5.0%
Retirement	10,463	25,000	24,200	31,650	30.8%
Medical and Dental	24,131	29,000	29,000	42,600	46.9%
Workers Comp Insurance	12,082	13,600	20,000	26,395	32.0%
Electricity-pumping	523,597	596,000	583,000	585,800	0.5%
Natural Gas-pumping	12,041	50,000	35,000	60,000	71.4%
Chemicals	17,016	17,100	18,650	17,900	7.5%
Lab Tests and Sampling	18,604	24,200	31,000	27,500	-11.3%
Operating Supplies	27,440	30,500	40,050	33,000	-17.6%
Outside Services	26,261	33,700	31,100	42,500	36.7%
Permits and Operating Fees	10,000	10,725	8,050	8,300	3.1%
Repairs & Maintenance	36,776	89,000	88,500	63,500	-28.2%
Repairs & Maintenance - Vehicles	6,402	7,800	9,150	8,500	-7.1%
Painting	0	0	0	13,000	100.0%
Engineering	11,116	11,000	4,000	11,000	175.0%
Fuel	9,736	11,000	11,300	15,040	33.1%
Paging Service	1,196	1,500	1,050	1,110	5.7%
Meters - New Installations	6,731	15,000	5,000	10,000	100.0%
Automatic Meter Reading-New Installation	0	20,000	20,000	20,000	0.0%
Meters - Replacement Program	8,044	14,000	0	14,000	100.0%
Uniforms	2,735	4,500	3,370	4,105	21.8%
Clean Up	6,000	6,000	6,000	6,000	0.0%
Oper Transfer Out - Funded Replacement	654,000	667,800	667,800	681,917	2.1%
TOTAL OPERATIONS & MAINTENANCE	1,609,489	1,870,125	1,836,993	1,967,227	7.1%

CONSOLIDATED - ALL FUNDS CONTINUED GENERAL & ADMINISTRATIVE	2001-02 ACTUAL	2002-03 BUDGET	2002-03 EST ACTUAL	2003-04 PROPOSED	% CHANGE INCR (DECR)
Wages	198,994	210,005	210,005	216,330	3.0%
Wages - Overtime	0	0	0	0	0.0%
Payroll Taxes	2,832	4,000	3,055	3,135	2.6%
Retirement	13,952	33,800	31,590	33,225	5.2%
Medical and Dental	28,662	34,400	33,200	38,530	16.1%
Workers Comp Insurance	1,994	2,500	2,870	3,275	14.1%
Audit	4,175	3,550	3,553	3,755	5.7%
Bank Charges and Fees	365	660	830	860	3.6%
Computer Expense	10,324	13,000	16,195	18,500	14.2%
Consulting	32,179	16,000	12,925	0	-100.0%
Director Fees	15,500	17,000	17,210	18,500	7.5%
Dues and Subscriptions	4,525	5,500	5,750	6,295	9.5%
Education and Training	1,549	6,800	4,780	6,000	25.5%
Elections	0	3,500	3,553	0	-100.0%
Insurance - Liability	14,456	24,000	23,600	28,000	18.6%
LAFCO Funding	10,367	17,000	15,371	17,000	10.6%
Landscape and Janitorial	7,022	8,390	9,434	16,590	75.9%
Legal - General Counsel	83,785	73,000	37,900	56,500	49.1%
Legal - Water Counsel	345,929	300,000	362,000	500,000	38.1%
Professional Services (1)	0	0	107,000	12,000	-88.8%
Miscellaneous	1,529	35,000	300	2,500	733.3%
Newsletter and Mailers	787	3,700	0	1,775	100.0%
Office Supplies	5,912	5,000	6,100	6,500	6.6%
Operating Supplies	4,677	7,500	100	0	-100.0%
Outside Services	3,697	2,000	1,400	2,000	42.9%
Postage	11,839	15,600	12,610	17,000	34.8%
Public Notices	1,866	3,050	3,815	3,350	-12.2%
Repairs and Maintenance - Office	1,786	2,200	2,050	2,500	22.0%
Repairs and Maintenance - Buildings	4,398	3,000	4,170	3,000	-28.1%
Property Taxes	601	625	579	680	17.4%
Telephone	4,117	5,200	6,255	6,600	5.5%
Travel and Mileage	3,868	8,000	7,150	7,500	4.9%
Utilities - Gas, Electric and Trash	4,446	5,155	4,280	6,120	43.0%
Settlement	4,500	0	0	0	0.0%
Oper Transfer Out - Funded Administration	140,866	144,470	56,127	151,794	170.4%
TOTAL GENERAL & ADMINISTRATIVE	971,499	1,013,605	1,005,757	1,189,814	18.3%

OTHER EXPENDITURES

Interest Expense - Debt Service	8,800	8,450	8,450	8,100	-4.1%
Debt Service - Principal Portion	7,000	7,000	7,000	7,000	0.0%
Fixed Assets	57,500	35,000	13,805	50,500	265.8%
Funded Replacement Projects	0	122,800	30,000	160,000	433.3%
TOTAL OTHER EXPENDITURES	73,300	173,250	59,255	225,600	280.7%

TOTAL EXPENDITURES	2,654,288	3,056,980	2,902,005	3,382,641	16.6%
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SURPLUS (DEFICIT)	513,451	474,509	715,035	511,358	-28.5%
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Interest Earnings	127,026	136,500	96,076	103,280	7.5%
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NET SURPLUS OR (DEFICIT)	640,477	611,009	811,111	614,638	-24.2%
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(1) Professional Services, including District Legal Counsel, District Engineer, Water Counsel and Consultants for unanticipated litigation and Woodlands Project.

**Governor's Office of Planning and Research
Incorporation Guidelines 2002
(Excerpts)**

C. COMMISSION ACTIONS

At the conclusion of the public hearing, but no later than 35 days after the hearing, LAFCO is required to adopt a resolution that states LAFCO's determination on the incorporation proposal. The LAFCO may approve, approve with conditions or disapprove the plan for incorporation (§56880).

When considering an incorporation proposal, LAFCO is required to consider the following factors (§56668):

- The population, population density, and potential for growth.
- The need for organized community services, and effect on adequacy of services.
- The effect of the proposal on adjacent areas and local government structure.
- The conformity of the proposal with adopted LAFCO policies and priorities.
- The effect of the proposal on integrity of agricultural lands.
- The definiteness and certainty of the proposed physical boundaries.
- Consistency with county General Plan and specific plans.
- The sphere of influence of any affected local agency.
- The comments of any affected agency.
- The ability of the new city to provide services, including sufficiency of revenues.
- Timely availability of adequate water supplies.
- The extent to which the proposal helps achieve its allocation of regional housing needs.
- Comments from land owners.
- Any information relating to existing land use designations.

Incorporation proposals which would result in certain conditions are prohibited by law including incorporations which would result in unincorporated islands (§56744) and annexation of land within a Farmland Security Zone (see exceptions, (§56749)).

If the LAFCO approves or conditionally approves the proposal, the resolution must contain certain information including (§57100):

- A statement of the type of change of organization or reorganization being acted on.
- A description of the exterior boundaries of the territory for each change of organization or reorganization approved by the commission.
- The name or names of any new or consolidated city or district.
- All of the terms and conditions upon the change of organization or reorganization approved by the Commission.

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- The reasons for the change of organization or reorganization.
- A statement as to whether the regular county assessment roll or another assessment roll will be utilized.
- A statement that the affected territory will or will not be taxed for existing general bond indebtedness of any agency.
- Any other matters that the Commission deems material.

If the LAFCO approves or conditionally approves the proposal, the resolution must also contain certain findings (§56720) including:

- The proposed incorporation is consistent with the intent of the Cortese-Knox-Hertzberg Act (see Exhibit 10).
- The Commission has reviewed the spheres of influence of the affected local agencies and the incorporation is consistent with those spheres of influence.
- The Commission has reviewed the CFA and State Controller's Report, if any.
- The Commission has reviewed the Executive Officer's report and recommendation and the testimony presented at its public hearing.
- The proposed city is expected to receive revenues sufficient to provide public services and facilities and a reasonable reserve during the three fiscal years following incorporation.

Finally, if the LAFCO approves or conditionally approves the proposal, the resolution must also do the following (§56881):

- Make the findings and determinations pursuant to §56375 including the determination of property tax revenue to be exchanged by the affected local agencies.
- Determine that public service costs are likely to be less than or substantially similar to the costs of alternative means of providing the service (only applies if the incorporation proposal was initiated by the Commission).
- Determine that the proposal promotes public access and accountability for community services needs and financial resources (only applies if the incorporation proposal was initiated by the Commission).
- Assign a temporary name, if no name has otherwise been assigned to the affected territory.
- Initiate protest proceedings (see Section VII below).

After the Commission takes action, the Executive Officer must mail a copy of the resolution to the proponents and to each affected local agency whose boundaries would be changed by the proposal. Clerical errors or mistakes in the resolution may be corrected by the Executive Officer without Commission action (§56883).

If the proposal is denied, no similar proposal for incorporation involving the same or substantially the same area shall be initiated for at least one year after the date of adoption of the resolution terminating proceedings (§56884). However, the Commission has the authority to waive this restriction if found to be detrimental to the public interest.

EXHIBIT 10

IMPACT OF THE 2000 AMENDMENTS ON FINDINGS OF CONSISTENCY

When a LAFCO considers an application for incorporation, LAFCO must make a number of findings (§56720) including that the proposed incorporation is consistent the intent of the Cortese-Knox-Hertzberg Act.

Amendments to the Act in 2000 (AB 2838, Chapter 761, Statutes of 2000) have modified and strengthened the link between approval of proposed incorporations and orderly development. AB 2838 added more specificity to the purpose of the Act by amending several intent and procedural sections including Government Code Sections 56001, 56301 and 56300.

MORE DEFINITION TO ORDERLY GROWTH AND THE ROLE OF LAFCO

While promoting orderly development has always been a fundamental purpose of LAFCO, the 2000 amendments added emphasis by stating that the provision of affordable housing, discouraging sprawl, preserving open space and prime agricultural lands and efficiently extending government services are all important elements of promoting orderly development.

Further the 2000 amendments included provisions that state that a preference should be granted to accommodating additional growth within or through the expansion of the boundaries of those agencies which can best accommodate and provide necessary governmental services and housing to persons and families of all incomes.

Historically, the impact of a proposed incorporation on the future development of housing affordable to lower income households did not necessarily come into question when a LAFCO was considering an application for incorporation.

The support for protecting prime agricultural lands was also enhanced in the 2000 amendments through the inclusion of language which states that one of the purposes of the LAFCO is to preserve prime agricultural lands (56301).

The Act still directs LAFCO to guide development away from existing prime agricultural lands unless the development would promote the planned, orderly efficient development of the area (§56377). In practice, this could mean that once one farm was converted to residential or commercial purposes other adjacent or nearby areas could also be included in incorporation proposals with the clear intent that ultimately these lands would very likely be converted to non-agricultural uses.

Although the 2000 amendments did not change §56377, the new purpose and intent language emphasizes the responsibility of LAFCO to consider the preservation of prime agricultural land.

WRITTEN POLICIES

The 2000 amendments also require LAFCO to establish written policies and procedures that encourage and provide planned and well-ordered, efficient urban development patterns. Prior to these amendments, LAFCO was only directed to establish policies with no requirement that they be written or be implemented through specific procedures. This new requirement for written policies and accompanying procedures may challenge some LAFCOs as it will take some consensus building to draft and adopt language which a Commission can support.

OPR recommends that LAFCOs do not postpone the review and adoption of its policies and procedures on incorporations until a proposal is before the Commission. Fair and equitable procedures are best developed in the absence of a specific application. A LAFCO may want to review the incorporation policies and procedures of other LAFCOs as part of its consideration and approval process.

IMPACT OF 2000 AMENDMENTS

The requirement for written policies and procedures coupled with the changes to the purposes of LAFCO and definition of orderly growth will impact the deliberative process of the Commission. In some cases, the Executive Officer's report will be more extensive than the Commission may have previously seen.

Findings of consistency of the proposed incorporation with the adopted policies and procedures will also increase the areas in which the LAFCO's decision is open to legal challenge. The Commission, in the exercise of its legislative authority is generally protected from challenges related to the specific content of the decision. Commissions are however, open to procedural challenges. To the extent that a LAFCO previously operated under unwritten policies and procedures, the LAFCO will now be evaluated on how well it follows its own process.