Comprehensive Fiscal Analysis

- Statutory requirements and guidelines
- Fiscal factors influencing feasibility
- Initial Fiscal Analysis
- CFA specification and administration
- Understanding the proposal: boundaries, services provided, district consolidation, etc.
- Municipal service plan and budget
- Municipal revenue sources
- Negotiations with affected agencies (e.g. revenue neutrality)
- CFA iterations and revisions
- LAFCO reliance on CFA: terms and findings
- Uses of CFA following election

Statutory Requirement

- Required by Gov't Code Section 56800:
  "For any purpose that includes an incorporation, the executive shall prepare, or cause to be prepared by contract, a comprehensive fiscal analysis".
- The CFA shall contain the following (for at least the first 3 yrs):
  a. Financial data from the County's most recent fiscal year (prior to the issuance of the Certificate of Filing)
  b. Proposed city costs
  c. Proposed city revenues
  d. Must reflect the costs and revenues of any affected local agency
OPR Guidelines

- "A Guide to the LAFCO Process for Incorporations" published by the State Office of Planning and Research in October 2003
- Guidelines expand and clarify statutory requirements for CFA.
- Guidelines provide a detailed description of the Comprehensive Fiscal Analysis components and examples of key calculations.

Fiscal Factors Influencing Feasibility

- Size of the community
- Strength of retail sales tax base
- Cost of police protection
- Merger of existing special districts
- Property tax exchange and revenue neutrality negotiations with County
- Existing fiscal mitigation measures (assessments and fees)
- Quality and quantity of future growth
- Remedies for deferred maintenance (e.g. roads, drainage)
Initial Incorporation Feasibility Study

- Educates the community regarding governance and incorporation issues
- Identifies the factors that influence feasibility of incorporation
- Indicates whether incorporation can be feasible and what actions can be taken to improve feasibility
- Identifies alternatives to incorporation that address community issues

CFA Specification and Administration

- LAFCO Executive Office specifies scope of the CFA and normally administers preparation.
- Credibility and independence of the CFA is critical to its utility as a basis for negotiations and LAFCO findings.
- CFA typically prepared by consultant retained by LAFCO.
- Scope of CFA often includes evaluation of boundary and service alternatives.
- Production typically cycles through at least three drafts each reflecting decisions and direction resolved during the process.
- Public hearing draft is basis of key LAFCO terms and conditions and the statutory findings regarding feasibility and impacts upon affected agencies.
Understanding the Proposal

- The CFA, subject to EO specification, is based upon an interpretation of the proposal – boundaries, services provided, special district merger (if any), and effective date.
- Alternatives to the proposal are often needed.
- Proponents should have opportunity for input regarding changes to the proposal.

Municipal Service Plan -- Mandatory Services

- CFA must include plan for providing mandatory municipal services:
  - Police protection
  - Planning and land use law administration
  - Public works (road maintenance, etc.)
  - Animal control
Municipal Service Plan – Optional services (cont’d)

- Recreation
- Utilities (e.g. water and sewer)
- Fire protection

Municipal Service Plan – Cost Analysis

- Services must be provided at existing levels (or greater).
- Cost estimates should be based upon reliable methods and assumptions.
- Comparison with similar (existing) cities is often a helpful guide.
- Three year minimum time frame, ten year is better.
Municipal Revenues – Key Sources

- Property tax ("exchange" with county)
- Property tax from merged agencies
- Sales tax (1% of retail sales)
- State "subventions" (e.g., VLF)
- Existing special taxes
- Fees for service

Municipal Revenues – Property Tax Exchange

- Property Tax Base = net expenditures subject to transfer times the Auditor’s ratio
- Auditors Ratio = Property tax revenue as a percentage of all revenues for general purposes
- Tax Allocation Factor (% of tax growth) = Property tax base as a percentage of the estimated one percent of the total assessed value
Property Tax Transfer Example

A. Net County Cost Estimates
   - Sheriff Department: 134,007
   - Animal Control: 6,457
   - Planning: 6,214
   - Development Services: 16,658
   - Planning/Resource Management: 22,702
   - Public Works – Roads (GF): 11,495
   - Management and Administration: 17,943
   - Total Expenditures-General Fund: 215,476

B. Transfer of Tax Base
   - Total Expenditures Subject to Transfer: 215,476
   - County Auditor's Ratio: 35.852%
   - Property tax Base Transferred from County: 77,253
   - Property tax Base Transferred from Other Districts: 168,807
   - Total Transfer of Tax Base: 246,050

C. Calculations of Tax Allocation Factor (TAF)
   - Assessed Value: 264,604,576
   - Total Property Tax Collected @ 1% AV: 2,646,046
   - Property Tax Base Transferred: 246,050
   - Tax Allocation Factor: 9.3%

Municipal Revenues – Sales Tax

- Very important source of general revenue: 29% of GF average for all cities in California
- Based on 1% of retail sales in city.
- Low sales per capita an indicator of fiscal weakness ($140+ per capita city average)
- Ideally sales should be at or exceed State average.
Municipal Revenues – Subventions

- Important source of general revenue: 10% of GF, average for all cities in California
- Vehicle License Fees (Michael Coleman’s presentation)
- Motor Fuel Taxes (fund restricted)

Municipal Revenues – Existing Special Taxes

- Existing special taxes can be continued to be charged by new city (terms and conditions)
Negotiations with Affected Agencies

- Proponents must seek agreements with affected agencies
- Proponents should have support of the merging agencies
- Statute requires mitigation of fiscal impacts upon County
- CFA is technical basis of negotiations
- Negotiations should address consolidation and fiscal impact issues
- If agreement cannot be reached, LAFCO can impose mitigation

Negotiations with County

- Protocols for data gathering and cost of service information
- Property tax exchange data and assumptions
- “Revenue Neutrality” agreement
- Repayment of first year costs
- Funding deferred maintenance
- Disposition of existing CSA’s and maintenance districts
- Transfer of County assets (local parks, etc.)
Revenue Neutrality

- Revenue Neutrality = Revenues currently received by and expenditures currently made by the local agency transferring the territory must be equal
- No "reverse revenue neutrality", i.e., the County is not obligated to pay the new city if incorporation is a benefit to the County
- County may agree to "credit" Road Fund benefits against General Fund impacts

Revenue Neutrality Example

<table>
<thead>
<tr>
<th>CALCULATION OF REVENUE NEUTRALITY PAYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues Transferred</td>
</tr>
<tr>
<td>Property Tax</td>
</tr>
<tr>
<td>Sales Tax</td>
</tr>
<tr>
<td>Real Property Transfer Tax</td>
</tr>
<tr>
<td>Franchise Fees</td>
</tr>
<tr>
<td>Total Revenues Transferred</td>
</tr>
<tr>
<td>Expenses Transferred</td>
</tr>
<tr>
<td>Sheriff Department</td>
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<td>Animal Control</td>
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<td>Public Works – Roads (GF)</td>
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<td>Management and Administration</td>
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<tr>
<td>Total Expenses Transferred</td>
</tr>
<tr>
<td>County GF Surplus or (Impact)</td>
</tr>
<tr>
<td>County Road Fund Surplus or (Impact)</td>
</tr>
</tbody>
</table>
Refunding First Year Costs

- Transition Year Services: A new city will not assume service responsibility during the transition period between the effective date and the beginning of the full first fiscal year.
- The County may request reimbursement for the net cost of services provided during the transition period.
- The new city would have up to five years to reimburse the county for transition year services.

“County Repayment” Example

**CALCULATION OF COUNTY REPAYMENT**

<table>
<thead>
<tr>
<th>A. Expenditures</th>
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<td>Sheriff Department</td>
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<td>Public Works</td>
<td>11,495</td>
</tr>
<tr>
<td><strong>Gross Cost of Transition Year Services</strong></td>
<td><strong>174,831</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. Revenues</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Transition Year Revenues Received by County</td>
<td>na</td>
</tr>
</tbody>
</table>

| C. County Repayment                  | 174,831          |

| D. Five-year annual payment @ 5.3%   | 40,717           |
CFA Iterations & Revisions

- Admin. Draft CFA (staff/proponent review)
- Public Review Draft CFA (basis for county negotiations)
- Public Hearing Draft CFA (supports LAFCO findings and Terms & Conditions)
- CFA Final Report (reflecting LAFCO decisions)
- State Controller Review (if requested and funded)

LAFCO Reliance on CFA

- Evaluation of incorporation alternatives
- Basis of negotiations with affected agencies
- Basis of Executive Officer's report
- Basis of fiscal feasibility findings
- Technical contribution to Terms and Conditions
- Sets "effective date" of incorporation
Post-Incorporation

- CFA establishes a proto-budget for new city
- Serves as basis for initial contracts and agreements with County and other agencies
- Establishes agenda for initial actions by the new city council.