STRIKING A BALANCE

A Comparative Analysis of Services and Costs, Revenues Retained and Taxes Exchanged, Annexation and Other Alternatives

Commissioned by the
Redding City Council
and the
Shasta County Board of Supervisors

CITY OF REDDING • CALIFORNIA •

COUNTY OF SHASTA CALIFORNIA

FOREWORD

The genesis of this study was a letter to the Shasta County Board of Supervisors and the Redding City Council from the Economic Development Corporation Board of Directors. In sum, EDC challenged the County and the City to ". . . . move forward as rapidly as possible to adopt a mutually acceptable plan for annexation of unincorporated areas in Shasta County". It was EDC's contention that their ability to ". . . . site large industrial users [is] largely dependent upon the availability of suitable land that provides the immediate delivery of utility services and infrastructure. . . . . Lack of an acceptable plan for annexation [is] an impediment that . . . . [prevents] the delivery of suitable infrastructure . . . ."

In order for a meaningful discussion to take place with respect to the delivery of the services and infrastructure which would foster economic growth, the County and the City must first agree on the numbers and understand each other's issues. The numbers will be whatever they will be, but without understanding how governmental services are financed in the current legislative, regulatory, and economic climate, and absent a grasp of the impacts -- positive and negative -- that new development has on the ability of local governmental agencies to sustain levels of services, there can only be preconceived opinions and superficial analysis.

Therefore, this report first focuses on the numbers -- the numbers in terms of services, costs, and revenues -- followed by a discussion of tax exchange, in terms of how the numbers influence the agencies making tax exchange decisions, and in terms of negotiation alternatives available to the agencies. This is followed by an exploration of the business of annexation -- its purpose and the process, coupled with a discussion of when and where annexation is the appropriate means by which to accomplish the desired end. Thereafter, the focus will be on alternatives and options for providing services, as well as agency perspectives on the issues associated with these alternatives. There are always alternatives, as well as differing perspectives, both of which heavily influence the decision-making process.

ACKNOWLEDGMENTS

This report is the product of a joint effort by the County of Shasta and the City of Redding. County and City 'teams", along with consulting firm of Crawford Multari & Staff, developed and analyzed the data, and crafted a final report which is intended to provide to the Board of Supervisors, the City Council, and the community-at-large a broader understanding as to what the relevant issues in building a community really are.

PROJECT TEAMS

For the County *- Doug Latimer, County Administrative Officer; Julie Howard, LAFCo/Redevelopment Administrator; Elaine Kavanaugh, Principal Administrative Analyst; Jim Underwood, Deputy County Counsel; Kim Pickering, Property Tax Manager*

For the City *- Mike Warren, City Manager; Phil Perry, Assistant City Manager; Kurt Starman, Administrative Services Director; Steve Strong, Finance Officer; John Keaney, Principal Planner; Larry Morgon Associate Planner.*

Consultant *- Mike Multari, Principal - Crawford Multari & Starr*

CONTRIBUTORS

For their assistance in providing valuable input and oversight review and technical assistance throughout the process, the project teams wish to acknowledge and thank:

For the City *- Bob Blankenship, Police Chief; Ken Wagner, Fire Chief; Bob Galusha, Public Works Director, Gary Dirks, Police Captain; Jim Coats, GIS Coordinator.*

For the County *- Edward B. Davis, Auditor-Controller; Rick Graham, Assistant Auditor-Controller; Barbara McKend, Senior Administrative Analyst.*

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ELEMENT I INTRODUCTION

Element I focuses on the *numbers.* Services are *enumerated,* costs are *quantified,* and revenues are *counted.* The numbers are then applied to various development scenarios to determine the fiscal impacts on both the County and the City of Redding when the development area is annexed or when it remains in the unincorporated area adjacent to the City. In effect, then, Element I is a *comparative fiscal impact analysis.*

For Element I, the County and the City elected to utilize the services of a recognized professional in the field of fiscal impact analysis. The consulting firm of Crawford, Multari & Starr (CMS) of San Luis Obispo, California has had recent successful experiences with other cities and counties, and has an established reputation for even-handed analysis and objective numbers reporting.

The City and the County agreed that the analysis performed by CMS would be limited to Redding's "sphere of influence" area; that is, the unincorporated residential, commercial, and industrial areas immediately surrounding the City of Redding. While there is no question that it would be beneficial to have the same sort of analysis and information for the Cities of Anderson and Shasta Lake, it was also recognized that in order to respond in a timely fashion to the interests which prompted this report, the scope could not be expanded to include additional sectors.

It was also agreed that the analysis would be limited to an estimate of today's effects and would not try to project how the impacts may change over time. As the consultant notes, to do so would requires a much more complex level of analysis based upon a number of much more speculative assumptions.

CMS was asked to include in its introductory section not only a discussion of the applied methodology and assumptions, but also a discussion of the *limitations on fiscal analysis.* It is important that the reader understand -- at the onset -- and before turning to the results -- what *cannot* be quantified or determined in an objective comparative analysis of the type CMS was asked to prepare. Rather, it falls to the County of Shasta and the City of Redding to share, in the **Perspectives** sections immediately following the CMS report, their subjective interpretation of what the numbers mean.

FISCAL IMPACTS OF DEVELOPMENT IN THE SPHERE OF INFLUENCE

(Prepared by Crawford Multari & Starr)

INTRODUCTION

This paper discusses the fiscal impacts on the County of Shasta and on the City of Redding from new development near the existing city limits. It specifically looks at the following: 1) Revenues and costs to the County from new development built in the County; 2) Revenues and costs to the City from new development built in the County; 3) Revenues and costs to the County from new development built in the City; 4) Revenues and costs to the City from new development built in the City. The estimates of the impacts on the City are largely derived from concurrent work related to the City's General Plan update.

This paper was prepared by Crawford Multari & Starr (CMS) with ongoing assistance from the staffs of both the City and County. It was jointly funded by the City and County, and is part of a larger work program leading toward cooperative tax sharing agreements for future annexations and other service delivery alternatives.

USE AND LIMITATIONS OF FISCAL ANALYSIS

This study is based on "models" which estimate service costs and revenue generation for different types of new development. The actual relationship between new development and local government revenues and expenditures is actually quite complex. Any fiscal model necessarily simplifies this complexity. Thus, fiscal impact analyses are better for showing trends or the general direction and magnitude of effects than for predicting precise numbers.

The analysts must also make assumptions about the characteristics of new development and about how local government monies will flow to and from people and businesses. We have listed all key assumptions in the text and appendices. The models to project costs and revenues are capable of accepting different assumptions and can be used to evaluate different "scenarios" if deemed useful. Some important assumptions are highlighted here:

Current Levels of Service

We used the 1995-96 budgets of both the City and County as the baseline for estimating current service costs. This approach provides a clear, documented basis for the analysis. Both jurisdictions would undoubtedly prefer to provide higher levels of service to their constituents. However, trying to determine what those higher levels should or could be is a highly speculative enterprise. By general consensus among staff and the consultants, using the adopted budgets as the baseline for analysis was a reasonable way of avoiding this potential dilemma.

Emphasis on Today's Effects

The analysis estimates the impact from new development on the City and County today. It does not try to project how those impacts may change over time. To do so requires more complex modeling based on a number of more speculative assumptions. For example, we would need to assume how real estate will appreciate over time relative to overall inflation rates to see how property tax might change into the future.

Because the focus of the study was to compare the fiscal impacts from development in the unincorporated area versus in annexed areas, the emphasis was on quantifying the respective impacts on the City and County under those different scenarios as they are today. In Appendix C, however, we do provide an example of how property tax revenues in particular might change in the future.

On a related note, the models use the current rules and regulations governing taxes, fees and other revenues. We know, of course, that changes to these rules and regulations will occur in the future; many in the past have been quite significant. Consider how property tax was projected before and after Proposition 13, and how the Educational Revenue Augmentation Fund (ERAF) shifted property tax revenues from counties to schools thereby reducing the amount of property tax available to the county general fund.

While we can confidently predict that the rules of municipal finance in California will change, we are uncertain as to what those changes will actually be. Therefore, assuming today's arrangements, at least for the short term, is the most reasonable basis for analysis. However, continual monitoring of the situation and regular updates of the fiscal analysis would be prudent.

Focus on the General Fund

The analysis looks primarily at the effects of new development on the City and County general funds.The general fund is the largest one for both jurisdictions and the one where fiscal impacts are most likely to be significant. There are two other classes of funds that should be noted: special funds (those which have dedicated revenue sources which can be used for specified purposes only) and enterprise funds (self-supporting functions such as City utilities). However, modeling of these was not included in this study.

If one assumes that fees will be adjusted to offset service costs, enterprise funds should remain self-sufficient. Thus, the model will show costs offset by revenues for these functions. For most functions linked to special funds, the services provided simply increase or decrease with the availability of special fund monies -- thus, any model will again show that costs and revenues are always equal.

In some cases, in particular certain transportation related funds, the special fund revenues are used to offset expenditures that would otherwise be paid for out of the general fund. In those cases, the special funds have been included in the overall analysis. (It should be noted that in the City's model for looking at the General Plan update, special funds and enterprise funds are included for informational purposes.)

Capital Costs

Similarly, the analysis focuses on ongoing operational expenditures and does not try to estimate capital costs associated with new development. For the most part, both jurisdictions are increasingly aiming for new development to "pay its way" in terms of needed infrastructure through dedications and impact fees.

To the extent that these exactions do reflect the true costs of needed facilities, the impact on the general fund should be minor. Keep in mind that the analysis looks only at new development on presently vacant property. It does not include the annexation of existing developed areas. In the latter case, the costs of improving existing infrastructure to current City standards could be substantial.

Existing City/County Property Tax "Split"

We assumed that the current property tax "split" between the City and County for annexations would remain in effect. Under the present arrangement, the County retains all of the property tax share going into its general fund (about 15% with the ERAF adjustment) after annexation, and the City receives the share now going to the various fire districts (about 7% in most cases). The results shown in the tables that follow assume these property tax shares. (See also the "Perspectives" discussions following this report, as well as the Appendix for further discussions of the impacts of the property tax "shift.")

Housing Assumptions

In looking at the effects of residential development for this study, we focused on detached single family housing with an average density of three units per acre. This is the kind of housing most likely to be associated with annexation requests, although we also recognize that a wider variety of housing types could be possible, especially in the long term. The fiscal analysis of the City's General Plan update looks at the impacts from other types of housing, including lower density "estate" type of development as well as higher density multifamily projects. That model recognizes differences in the valuation among the housing types, and differences in average household sizes and incomes, among other variables. Appendix D illustrates how fiscal impacts may vary among different housing types and densities.

EXECUTIVE SUMMARY

The results of the analysis can be summarized in the following table:

Table A
Summary of Fiscal Impacts on City and County

Type of Development	Unit	Annexed		Not Annexed	
		Impact on County	Impact on City	Impact on County	Impact on City
Residential	Per Unit	$159	-$4	-$302	$80
Commercial	Per Foot	-$0.08	$1.32	$1.33	-$0.16
Industrial	Per Foot	-$0.18	-$0.14	-$0.17	-$0.02

Impacts on the County

The study looks first at the impacts on Shasta County's general fund from new development in and near Redding. The County's 1995-96 Budget was used to estimate current costs for the different kinds of services provided by the County. With the help of County staff, we first determined which services are primarily provided to residents and businesses in the unincorporated area, and which benefit residents and businesses regardless of whether or not they are in located in the unincorporated or incorporated areas. For example, sheriff costs are largely (though not entirely) attributed to in the unincorporated areas, while public assistance costs are generated by people whether they live in the unincorporated area or in the cities.

We also determined what kinds of services are primarily oriented toward new residential growth and which can also be tied to new commercial or industrial development. For example, library costs were linked to new residential development, whereas the agricultural commissioner's services were tied primarily to non-residential uses. In most cases, the costs of a service or function were attributed in part to new residents and in part to new businesses.

The projections for revenues were somewhat easier because many sources are simply set by legal formulas. By assuming how the variables in those formulas will change with new development, we were able to estimate increases in such revenue sources as sales and property taxes, for example. Most other revenues were projected using a methodology similar to the one described above for expenditures -- we determined whether the revenue was likely to be generated by residents or businesses or both, and whether those revenues came from residents or businesses strictly in the unincorporated territory or from residents or businesses located anywhere in the County, including within the cities. The costs and revenues were then compared for different classes of development. The results are summarized in Table B:

Table B
Estimated Fiscal Impacts on the County

Type of Development	Unit	Net Revenue If Annexed	Net Revenue If Not Annexed
Residential	Per Unit	$159	- $302
Commercial	Per Square Foot	-$0.08	$1.33
Industrial	Per Square Foot	-$0.18	-$0.17

This shows that new housing built in an annexation area actually benefits the County's general fund. However, the same unit constructed in the unincorporated territory will result in significant net costs to the County. The reasons for this finding are clear. While many of the County's costs are linked to functions that benefit everyone regardless of where they live (for example, most public health and public assistance programs are available to residents of cities as well as the unincorporated territory), the County must also provide a wide range of additional services -- fire and sheriff protection, roads and transit, planning and engineering -- primarily to people living in the unincorporated area. These services are expensive. They are provided to people living in the cities by their municipalities, not by the County.

At the same time, the County's largest source of revenue is intergovernmental monies passed through by the State and federal governments. These revenues are largely tied to overall county population, not just to the number of people living in the unincorporated area. These revenues accrue to the County even if the new population growth occurs in the cities. Furthermore, we assumed in this analysis that the County would continue to receive the same percentage of property tax after annexation as before. Thus, in the annexation scenario, the County's service costs are reduced, while many of the revenues stay the same.

The result is that the County is better off from a fiscal standpoint encouraging new population growth to occur in the cities and letting the cities provide municipal services -- especially ones like police, fire and streets -- to new residential development.

The results for non-residential development is not so clear cut. Sales tax is a very significant source of income linked to new commercial development; therefore, new stores in the unincorporated area will undoubtedly produce net fiscal benefits to the County. If those stores are built in the City, the County receives no sales tax. The analysis indicates that in this situation there may be a negative impact on the County, but it is not very significant. The situation for industrial development is similar. New industry requires more services than the revenue they produce can pay for, but the effect is so small it is probably best to view them as fiscally neutral.

Impacts on the City

Next, we looked at potential fiscal impacts from new development on the City's general fund. Our analysis is based on a model that has been developed to assess different alternatives which will be considered during the City's general plan update. (Some adjustments were required to look at individual types of development apart from the overall city pattern, but these were relatively minor. The methodology is discussed in more detail later in this report.) The results are summarized in the following table:

Table C
Estimated Fiscal Impacts on the City

Type of Development	Unit	Net Revenue If Annexed	Net Revenue If Not Annexed
Residential	Per Unit	-$4	$80
Commercial	Per Square Foot	$1.32	-$0.16
Industrial	Per Square Foot	-$0.14	-$0.02

This shows that a new annexed residential unit is likely to generate small net costs to the City. The effect is quite small, so it may be best to view such annexations as approximately "neutral" from a fiscal standpoint. Other reasons besides fiscal impacts, therefore, may be more critical in the decision as to whether or not annexation makes sense. Obviously, to correct a health and safety problem is a good example of where concern about fiscal impacts may have to be secondary.

As noted above for the County, the sales tax revenues from new stores makes them fiscally beneficial to whatever jurisdiction they locate in. As in the County, industrial uses demand services that are slightly more costly than the revenues such uses produce, but the effect is slight and may be considered to approximate fiscal neutrality.

If new houses are built near the city in the unincorporated territory, the fiscal picture improves slightly for the City. The reasons are that those residents will still likely shop in Redding, providing some increased sales tax, while the range of services provided to them by the City are much reduced.

In the case of commercial and industrial development, there are some minor costs to the City from such uses locating nearby but outside the city limits -- primarily in streets upkeep -- but Redding receives virtually no direct revenue from those uses. While the effects for both commercial and industrial are projected to be negative, they are again quite small.

Comparison Using Hypothetical Development Case

To help visualize the net effects of new development, a hypothetical example of a new neighborhood, composed of 2500 new single-family houses and a 100,000 square foot supermarket-anchored shopping center, was assessed for its potential impacts on the City and on the County in both the annexed and un-annexed condition. The results are shown in the following table:

Table D
Comparison of Net Impacts from
2500 Units and New Shopping Center

Annexed		Not Annexed	
Impacts on County	**Impacts on City**	**Impacts on County**	**Impacts on City**
+$389,500	+$22,200	-$622,000	+$81,500

Development after annexation generates net revenue for both the City and the County. In the situation where development occurs with no annexation, the City continues to receive net benefits, slightly higher than if the project had occurred in the City itself. However, the costs to the County of servicing these new houses swamps the benefits of having the new concomitant commercial, resulting in substantial net losses to the County. This suggests that a development pattern that most benefits both jurisdictions is growth, with an appropriate balance of housing and commerce, built within the City. This development pattern is fiscally neutral to slightly positive for the City and significantly better for the County. Clearly, allowing "urban" intensity development in the unincorporated area -- even if it includes some commercial -- may have significant adverse fiscal consequences for the County. The sections to follow discuss the methodology, assumptions and results of the study in greater detail.

FISCAL IMPACTS ON THE COUNTY OF SHASTA

This report section discusses fiscal impacts on the County of Shasta from new development occurring both in areas annexed to the City of Redding as well as the unincorporated territory immediately adjacent to the City of Redding.

The discussion begins with a review of the methodology and assumptions used to estimate costs and revenues.

Distribution of Costs

The first step in the fiscal analysis was to estimate how Shasta County costs should be attributed to residential versus non-residential development, and how those costs are different for such development within the City versus the unincorporated areas.

Each line item of the "Summary of Financial Requirements" schedule of the County's 1995-96 budget was reviewed, and the percent of the costs attributed to residential versus non-residential and incorporated versus unincorporated were estimated based on analyses of the individual functions and discussions with both City and County staff.

The results are summarized by major cost category in Table 1, which can be interpreted in the following manner:

Consider the category of General Government, for example, and read across the table. Approximately 91% of the County's General Government costs are attributed to persons and businesses located anywhere in the County. About 9% are specifically used for services or functions only in the unincorporated areas. About 87% of these costs are most appropriately attributed to residential uses. About 13% are more fairly linked to non-residential uses like commercial and industrial.

By using these percentages, the budget can be broken down into four categories:

(1) costs tied to residential uses county wide;
(2) costs tied to residential uses in the unincorporated area only;
(3) costs tied to non-residential uses county wide; and
(4) costs associated with non-residential uses in the unincorporated area only.

Table 1
Cost Distribution Estimates

Cost Category	% Entire County	% Unincorporated Only	%Residential	%Non-Residential
General Gov't	91%	9%	87%	13%
General Capital	100%	0%	87%	13%
Promotions	100%	0%	0%	100%
Public Protection	78%	22%	89%	11%
Public Ways	12%	88%	81%	19%
Health	100%	0%	90%	10%
Public Assistance	99%	1%	100%	0%
Education	100%	0%	78%	22%
Recreation	43%	57%	100%	0%
Contingency	70%	30%	86%	14%
Other Uses	91%	9%	87%	13%
Reserves	22%	78%	82%	18%

Based on this distribution, "multipliers" were derived for new residents, in an annexed area and in the unincorporated area, and for new employees of non-residential development, in an annexed area and in the unincorporated area. The appendix includes spreadsheets that show how these breakdowns were estimated and that compute the various multipliers.

Revenue Attribution

Property Tax

Property tax from new development was calculated by estimating the valuation of new development, then assuming 1% is the gross property tax, and then applying the rate allocated to the County general fund. Based on information provided by the County Auditor-Controller's office, the share of the property tax available to the County general fund was estimated to be about 15% in the unincorporated area, taking into account the ERAF school shift.

(County wide the County's share of the property tax is estimated to be about 13%. Shasta County ranks about 45 out of the 58 counties in California; that is, all but 12 other counties enjoy, on average, a greater percentage of the property tax than Shasta.)

Sales Tax and LTF

Sales tax to the County is attributed only to commercial development. It is based on 1% of the estimated sales per square foot of new commercial. For purposes of this analysis, sales tax revenue goes to the County general fund only in cases of new commercial development in the unincorporated area. Of course, new population growth stimulates additional retail sales. New residential development would increase sales tax in the City and, to a lesser extent, in the County, regardless of whether or not new commercial occurs.

In this study, we assume that most retailing will occur within the City, regardless of whether or not the new development occurs in an annexation area or in nearby unincorporated territory. This undoubtedly underestimates total sales tax revenues going to the county. Thus, the revenues projected as going to the County should be considered conservative in this regard.

Local Transportation Funds (LTF) is tied to both commercial and residential development. The LTF is calculated by taking a percentage of the sales generated throughout the county regardless of location, and then distributing it based on the percentage of the total County population living in each jurisdiction.

In this analysis, therefore, the County's LTF allocation is assumed to grow proportionately with increasing population in the County territory. Also, if commercial in the incorporated area increases, the County should receive additional LTF; the formula for estimating that effect is as follows: sales per square foot x .0025 (the percentage of sales going to the overall LTF fund) x 40% (the current share to the County).

Transient Occupancy Tax

We assumed that none of the development scenarios would increase TOT for the County. This is clearly conservative, because new growth will increase the numbers of visitors enjoying resort establishments in the unincorporated areas.

Other Revenues

The remaining revenues were estimated for new residents and new non-residential growth, both in annexed areas and in the unincorporated area, based on a line item review of the 1995-96 County budget, similar to the methodology used to distribute costs. The results are summarized in Table 2 - Revenue Attribution:

Table 2
Revenue Attribution

Revenue Category	% Entire County Residential	% Unincorporated Areas only – Residential	% Entire County Non-residential	% Unincorporated Areas only – Non-residential
Proposition 172	100%	0%	0%	0%
Document Transfers	80%	0%	20%	0%
Licenses	7%	57%	21%	15%
Fines	33%	48%	7%	12%
Money & Property	76%	6%	17%	1%
Intergovernmental	93.5%	4.6%	.2%	1.7%
Service Charges	95.5%	2.5%	1%	1%
Miscellaneous/ Other	88%	6%	1%	5%

Source: CMS, 1995-96 County Budget

Based on these percentages, multipliers for new residents and new employees were calculated. The spreadsheets and calculations are included in the appendix.

Other Assumptions

Table 3 lists the other assumptions that were used in the analysis, among these assumptions the 15% property tax rate discussed above, as well as a mean sales price for a new single-family dwelling in the unincorporated area.

Table 3
Assumptions

Total County Population	161,600
Unincorporated Population	67,000
Total County Employment	64,200
Unincorporated Employment	27,400
Household Size	3.0
Employees/1000 s.f. Commercial	2.5
Employees/1000 s.f. Industrial	1.7
% Property Tax to County	.15
Sales Price of New House	$140,000
Valuation of New Commercial	$75/square foot
Valuation of New Industrial	$40/square foot
Retail Sales per Square Foot of Commercial	$155

All of these assumptions can be changed to test different "scenarios."

Results

Based on the methodology and assumptions described above, the following summarizes the net fiscal impact of new development on the County:

Table 4
Estimated Fiscal Impacts on County

Type of Development	Unit	Net Revenue in Annexation Area	Net Revenue in Unincorporated Area
Residential	Per Unit	$159	- $302
Commercial	Per Square Foot	-$0.08	$1.33
Industrial	Per Square Foot	-$0.18	-$0.17

This assumes that the percentage of property tax going to the County general fund (estimated at 15%) will stay the same after annexation.

In summary, with the low property tax rate assumed above, new residential in the unincorporated area generates a significant net cost to the County each year. On the other hand, new residential within an annexation area -- assuming that the share of the property tax the County receives before annexation is the same after -- is a net "winner" for the County. Commerce in the unincorporated area is, of course, a significant net winner because of the sales tax. Industrial development in the unincorporated areas, assuming no related sales tax, is a small net drain on the general fund. In annexation areas, both kinds of non-residential development generate small negative impacts on the County general fund.

Property Tax Share and Fiscal Neutrality

Based on this analysis, what is the property tax rate at which the County "breaks even" for new development in the annexed areas? Clearly, the continued full allocation of the property tax for non-residential development is insufficient to reach that point. For residential, the share of the property tax can be reduced from 15% to about 4% and the County will break even.

Table 5
"Break Even" Property Tax Share for New Residential (County)

Assumed % of Property Tax to County General Fund	Estimated Net Impact from a New House in an Annexed Area
15%	+$159
about 4%	$0

Net Results from a Possible Annexation Scenario

The results listed above suggest that the County should encourage new residential annexations, while discouraging new commercial and industrial growth in annexed areas. We can look at different "scenarios" to see how combinations of different land uses might impact the County, overall. For example, consider an entirely hypothetical case of the annexation for the development of a new neighborhood of 2500 residences and a 100,000 square foot supermarket-anchored shopping center. The net effect at build out would be as follows:

Table 6
Net Impacts from
2500 Units and New Shopping Center in Annexation Area

	Annual Net Revenue to the County
100,000 square foot shopping center	-$8,000
2500 new units	+$397,500
Total	+$389,500

Let's consider how this same development would look if it were built entirely in the unincorporated area:

Table 7
Net Impacts from 2500 Units and New Shopping Center
in Unincorporated Area

	Annual Net Revenue to the County
100,000 square foot shopping center	+$133,000
2500 new units	-$755,000
Total	-$622,000

This analysis suggests that balanced growth in an annexation area, or within a combination of annexation areas, should not have significant detrimental fiscal impacts on the County, if the County continues to receive the current share of the property tax.

On the other hand, except for a strategy that would encourage only new commercial development in the unincorporated territory, most development scenarios in the County will result in an additional fiscal burden on the general fund.

This result strongly suggests that new growth in Shasta County should generally be directed to the cities, including annexation areas.

FISCAL IMPACTS ON THE CITY OF REDDING FROM NEW DEVELOPMENT IN ANNEXATION AREAS

The following discusses fiscal impacts on the City of Redding from development in annexation areas. The estimates are derived from a fiscal impact model constructed to evaluate various alternatives for the City's General Plan update.

In some instances, adjustments were made to the formulas to account for the individual development types analyzed in this study. The following is a summary of the methodology and assumptions.

Expenditures

Municipal services costs associated with the general fund were derived from the 1995-96 Annual Budget for the City of Redding. An important step in the cost attribution is to estimate what percentage of these costs are associated with commercial and industrial land uses versus the costs linked to residential areas.

Public Safety

The City functions that account for the largest general fund expenditures are police and fire; in combination, these basic public safety services account for almost two-thirds of General Fund outlays.

To estimate the attribution of these costs among different types of uses, we reviewed service call logs for the two departments. This showed that about 42% of fire department calls and 47% of police calls can be attributed to non-residential land uses; 58% and 53%, of the respective department calls, therefore, were related to residential land uses.

By "splitting" the annual budgets for these functions accordingly, multipliers can then be derived for each resident and for the square footage (floor area) of commercial and industrial uses.

Further refinements related to residential police costs were made by looking at the distribution of calls to developments of differing densities. The per capita police costs correlated with detached single family housing within the City's low density land use designation were used for this study.

Public Works

The costs for engineering, land development review and transportation were distributed between residential and non-residential uses based on the average "split" for public safety -- 45% to non-residential uses and 55% to residences. This breakdown was used to generate multipliers tied to population and to the floor area of commercial and industrial uses.

The streets maintenance costs were assumed to increase two ways. First we assumed costs would increase with the amount of new roads needed for different kinds of development. Costs per increment of road were derived by dividing the annual streets budget by an estimate of the total area devoted to City roads. This multiplier was then applied to projections of the new road needs for different types of development.Second, we assumed that new development would contribute to the wear and tear on existing streets. By dividing the current maintenance budget by the average daily number of trips on the street system(available from the City's traffic model), we came up with per trip cost multipliers. Using City standards for estimating trips for the different land uses, we projected the share of maintenance costs for those different uses.

Development that generates more traffic, such as commercial, is thereby attributed with more of the ongoing streets maintenance costs, than other uses that generate lower traffic levels, such as industrial.

Recreation and Cultural Activities

Recreation and cultural expenditures were assumed to rise proportionately with population growth. Parks maintenance was projected by estimating the average per acre maintenance cost multiplied by the increased demand for parklands associated with new population increases based on City parks standards.

General Government, Planning and General Capital Outlay

These functions were modeled in the same way as the public works functions: the costs were attributed to residential and non-residential land uses based on an average of the police and fire "splits", or about 45% to commercial and industrial uses and 55% to residents, from which per capita and per square foot multipliers were derived.

Summary of Expenditure Multipliers

Table 8 presents a summary of the General Fund expenditure multipliers for different City functions:

Table 8
Expenditure Multipliers for New Development in the City of Redding

	Per Residence	Per 1000 s.f. of Commercial	Per 1000 s.f. of Industrial
Fire	$144	$83	$59
Police	$209	$173	$123
Public Works	$22	$14	$10
Streets	$100	$147	$24
Recreation/ Cultural	$56	$0	$0
Parks Maintenance	$56	$0	$0
Planning/Building	$58	$37	$27
Gen. Government and Other	$131	$85	$60
Sum	$776	$539	$303

Revenues

Property Tax.

This analysis assumes that the City will realize only 7% of the 1% of the property tax generated by new development after annexation. Seven percent is the approximate proportion now going to support the fire districts in the likely annexation areas. This amount would be turned over to the City when Redding assumes responsibility in an annexed area.

Sales Tax

Sales tax to Redding can be attributed to both residential and to commercial development in the City. As the population grows, demand for taxable goods and services will obviously increase. A large percentage of those goods and services in the region are provided within the City limits. Even without new commercial development, it is reasonable to assume that sales tax revenues will increase with population growth.

Therefore, a simple way of modeling sales tax increases over time is to calculate per capita multipliers and apply them to estimates of population growth. In a recent analysis performed on the Stillwater Annexation by the City, a per capita sales tax estimate of $81 per year was derived based on projections of total County per capita spending and leakage. An alternative method applied by CMS suggested a similar number.

In the fiscal model for the General Plan, we refined the estimate to differentiate between people in the City limits versus those in the County. This method accounts for the expectation that the effects of people in the City should be somewhat stronger than a County wide average. Thus, we use an estimate of $89 for people living in or very near to the City.

(In the City's model, further refinements to this estimate have been made based on the type of residential unit and correlations between unit type, household size and household income. However, the $89 per capita estimate remains reasonable for purposes of this study.)

Sales tax is actually generated by taxable sales that occur within the City. One percent of each dollar spent on such sales is returned to the City's general fund for discretionary use. Therefore, another common way of modeling future sales tax revenues is to estimate the growth in commercial square footage and apply sales per square foot multipliers based on various empirical surveys (the Urban Land Institute performs annual surveys and is a common source).

An obvious problem with double counting occurs if sales tax is attributed to both residential and commercial growth. This can be avoided in large scale, long term modeling (such as for General Plan alternatives) by simply attributing the tax to one or the other of these land uses.

At the level of a particular annexation proposal, however, simply assigning sales tax to one or the other land use can be misleading. In the case of the County (see the earlier discussion) this is not so significant of a problem, because relatively little of the existing retailing occurs in the unincorporated territory near the City. Therefore, attributing sales tax revenue only to commercial development is reasonable (and conservative from the County's standpoint). However, for the City, precisely because so much of the retailing occurs in Redding proper, sales tax revenues can be expected to increase with new population regardless of whether or not new stores are included in a project.

Thus, to help highlight the impact of sales tax attribution, this analysis shows the estimated fiscal impacts if we assume sales tax is attributed to residential and if we assume it is attributed to commercial.

We can also look at the effects of an annexation that involves both residential and commercial development if we know the approximate size and type of commercial uses. An example for a hypothetical case is provided later in this paper.

Gas Tax and Local Transportation Fund

Technically, all of these are special revenue funds earmarked by law for specific purposes; however, they do address basic municipal functions that would otherwise need to be paid for by general fund monies.

The Gas Tax and LTF is assumed to increase on a per capita basis. The LTF formula is more complicated, linked to both commercial sales and to population (see the earlier discussion for the County, above). However, a simple and reasonable estimate for the City can be derived by assuming this revenue sources increases with population growth.

Business License Tax

Business license taxes in Redding are based on a formula tied to the numbers of employees in an establishment. Thus, by estimating new employees expected with non-residential growth, the increased income from this source can be projected.

Transient Occupancy Tax

This tax can be estimated by estimating new motel units, applying average occupancy rates and average room charges, and then multiplying the results by the City tax rate. For this study, however, no scenario specifically includes new motels, and thus, no new income from this source is assumed.

This is, of course, conservative because even if no new motels are built, an increase in population should stimulate some increase in demand.

Franchise Tax

The City collects franchise taxes from PG&E and TCI cable TV. The PG&E contribution is distributed using multipliers based on existing land uses in the City. The model links TCI's contribution entirely to residential development and, thus, it increases on a per capita basis.

In Lieu Payments from Enterprise Funds

Significant General Fund income sources are "in lieu" payments from the City's enterprise activities. If functions such as the City's electrical, water or sewage utilities were provided by private entities, the City could charge utility taxes. Therefore, requiring these funds to make similar contributions is reasonable (and is a practice used by many jurisdictions). Redding bases these charges on one percent of the value of the capital facilities employed by the respective enterprise function.

Because much of the capital infrastructure for these functions is already in place, the marginal increase in revenue associated with new development is lower than what would be expected based on current per capita averages.

To estimate future increases, development impact fees were used to project capital costs associated with new houses and businesses. The in lieu payments were then calculated as one percent of the total projected capital costs linked to the various enterprise functions.

Intergovernmental Revenues

Although less significant than in the case of the County, the City also receives some funds from other levels of government. These are generally distributed to jurisdictions based on population; therefore, these are assumed to increase with new residential development.

Other Revenues

There are a large number of other revenue sources for the City including licenses and permits, fines and forfeitures, charges for services, uses of money, and several others. They were analyzed first for attribution between residential and non-residential land uses by looking at their respective functions.

Based on that analysis, multipliers for new residents and for new commercial and industrial square footage (as appropriate) were estimated. In cases where no clear differentiation can be made, the revenue is modeled to increase with population growth.

Summary of Revenue Multipliers

Table 9 summarizes the revenue multipliers for new development in annexation areas from the various revenue sources:

Table 9
Revenue Multipliers for New Development
in an Annexation Area

Revenue Source	Per Residence	Per 1000 s.f. Commercial	Per 1000 s.f. Industrial
Property Tax	$98	$53	$28
Sales Tax	$267	$1550	$0
Gas Tax/LTF	$89	$0	$0
Franchises	$19	$1	$0
Property Transfer	$5	$0	$0
Business License	$0	$187	$91
Licenses/Permits	$27	$6	$4
Fines/Forfeits	$7	$0	$0
Intergovernmental	$138	$0	$0
Service Charges	$36	$2	$1
In Lieu	$65	$36	$36
Use of Money	$8	$22	$2
Other	$13	$0	$0
Sum	$772	$1857	$162

Assumptions

The same assumptions regarding household size, employees per 1000 sq. ft., valuations, and retail sales potential are made for the City analysis as for the County's. As before, these assumptions can be modified to test other "scenarios." Table 10 summarizes the assumptions.

Table 10
Assumptions

City Population	78,000
Household Size	3.0
Employees/1000 s.f. Commercial	2.5
Employees/1000 s.f. Industrial	1.7
% Property Tax to City	7%
Sales Price of New House	$140,000
Valuation of New Commercial	$75/square foot
Valuation of New Industrial	$40/square foot
Retail Sales per Square Foot of Commercial	$155

Results

The following table compares expected expenditures and revenues:

Table 11
Fiscal Impacts on City from New Development in Annexation Areas

Land Use	Revenues (Sales Tax Attributed to Commercial)	Revenues (Sales Tax Attributed to Residential)	Expenditures	Net With Sales Tax Attributed to Commercial	Net With Sales Tax Attributed to Residential
Per New Residence	$502	$772	-$776	- $274	-$4
Per Sq. Ft. of Comm'cl	$1.86	$0.29	- $0.54	$1.32	- $0.25
Per Sq. Ft. of Industrial	$0.16	$0.16	- $0.30	-$0.14	- $0.14

This suggests that, if additional sales tax is attributed to new residents, the cost of providing municipal services to a new house is approximately offset by the likely revenues generated by that new residence. As expected, a new commercial center is a significant revenue generator if sales tax is attributed to new commercial development, and a small drain if all sales tax is attributed to residential. New industrial development is also a small net "loser".

Property Tax and Fiscal Neutrality

Based on this analysis, it appears that new development in an annexation area is approximately fiscally neutral (that is, revenues offset costs) with 7% of the property tax going to the City after annexation. If we assign sales tax to new population growth, all the land use categories are near to the break even point

While allowing the full effect of sales tax to be attributed to both population and commercial growth would cause double counting in an analysis of the City's long term growth (as discussed earlier), the approach of assigning it only to residential or to commercial underestimates revenues for individual project scenarios.

The example following illustrates how sales taxes might really be distributed between residential and commercial development in an hypothetical annexation proposal.

Net Results from a Possible Annexation Scenario

As in the case of the County, it may be interesting to examine the effects of a hypothetical annexation involving 2500 new homes and 100,000 square foot neighborhood shopping center.

The analysis for the City is somewhat more complicated than that for the County. In the County's case, we could assume that apart from the new sales tax derived from the shopping center, other sales tax benefits attributable to the new residents would for the most part actually go to the City because it is within the City that most additional retailing would take place.

In the case of the effects on the City from an annexation, new residents will increase sales tax beyond the benefits of a neighborhood shopping center; however, we need to be careful not to "double count" the sales tax generated by retail sales by the new residents expected to occur in the new neighborhood center. One way of avoiding the double count is to estimate the amount of retail sales that the new residents would likely to make within the new neighborhood shopping center.

By examining Bureau of Labor Statistics Consumer Surveys of spending patterns, we estimate that roughly 15% of taxable sales by the new residents would probably occur in the new shopping center. Based on that estimate, we can reduce the sales tax attributed to the new residents by 15% and avoid the double counting.

Table 12 summarizes the net results of development of a single-family subdivision and neighborhood shopping center:

Table 12
Net Impacts from 2500 Units
and Shopping Center in Annexation Area

	Annual Net Revenue to the City
100,000 square foot shopping center	+$132,000
2500 single-family residential units	- $110,000
Total	+$22,200

FISCAL IMPACTS ON THE CITY OF REDDING
FROM NEW DEVELOPMENT OUTSIDE THE CITY LIMITS

It is also interesting to assess the impacts on the City from development adjacent to the city limits. The following estimates likely effects on the City general fund from such a situation.

Expenditures

Each general fund expenditure category was examined to project what services might be used by residents or businesses near but outside the city limits. Table 13 compares estimated City costs of a new house in an annexed area to that of an unannexed single-family residence:

Table 13
Costs to the City from a New Residence;
Annexed versus Not Annexed

Expenditure Category	Annexed	Not Annexed
Police	$209	0
Fire	$144	0
Planning/Building	$58	0
Public Works (except streets)	$22	0
Streets	$100	$54
Recreation/Culture	$56	$56
Parks maintenance	$56	$56
General Government	$89	$22
Debt Service	$19	$5
Capital Outlay	$23	$6
Total	$776	$198

For newly annexed homes, police and fire costs account for almost half of expected City general fund expenses. However, the City incurs no significant public protection costs from new residences outside the City (this conclusion being based on discussions with key personnel in both departments).

The City has a mutual aid agreement with the County for fire response. Per this agreement, the City responds to certain emergency situations in the unincorporated area. At the same time, however, County fire and CDF units will provide assistance on fires within the city limits.

It is the opinion of the Fire Chief, that the costs of participating in the mutual aid agreement are approximately offset by the benefits accrued. Thus, the net cost to the City from providing mutual aid to a new residence outside the city limits is considered negligible.

In the case of police, the City force does not routinely respond to calls outside the municipal boundaries. In rare cases, Redding police will participate in activities in the unincorporated area; however, there are other situations in which County sheriff personnel will cooperate with the City police inside Redding proper.

Again, the judgement of the department administration is that the net cost to the City from a new residence in the unincorporated area is insignificant. One could argue that County residents frequently enter the City for a variety of reasons and, thus, increase the demand for City public protection services; however, most of the time that non-city residents are in Redding to work or shop.

The fiscal model already attributes costs to non-residential uses such as stores and offices; therefore, the costs assigned to those uses should account for City expenses associated with non-residents working or shopping in Redding.

Turning to the other City services, planning functions are limited to properties within the city limits and, thus, are not attributed to new development in the unincorporated areas. Similarly, public works functions such as engineering and land development services are linked largely to land within the City.

On the other hand, it is reasonable to assume that new county residents near Redding will use City streets, contributing to their wear. It would be fair to assign some cost for streets operations and maintenance to such development.

Recall that City streets costs were estimated from two components: the additional streets added to the City system with new development and a share of the ongoing operations and maintenance of the existing road network. Only the latter is attributed to development in non-annexed areas; thus total street costs are significantly lower for such development relative to projects in annexation areas.

This analysis assumes that people living near the City will utilize Redding's cultural facilities and will rely on City parks. Thus, these costs are considered to be approximately equal for new residents in non-annexed areas near Redding as for new city residents.

The other major expenditure categories -- general government, debt service and capital -- are assumed to serve largely as support for the primary functions of public works, public protection and cultural services. Thus, the estimated costs of these support functions from non-annexed development are considered to be roughly proportional to the costs incurred in those basic service areas. Accordingly, they are about one fourth of what they would be for a new house in the City.

A similar rationale was applied to non-residential land uses. Table 14 compares the estimated costs to the City from such development in Redding versus in nearby unincorporated territory.

Table 14
Costs to the City from Non-Residential Development;
Annexed versus Not Annexed

Expenditure Category	1000 Square Feet Commercial		1000 Square Feet Industrial	
	Annexed	Not Annexed	Annexed	Not Annexed
Police	$173	0	$123	0
Fire	$83	0	$59	0
Planning	$37	0	$27	0
Public Works (except streets)	$14	0	$10	0
Streets	$147	$134	$124	$15
Recreation &Culture	0	0	0	0
Parks Maintenance	0	0	0	0
General Government	$57	$16	$41	$2
Debt Service	$13	$4	$8	$1
Capital Outlay	$15	$5	$11	$1
Total	$539	$158	$303	$19

Revenues

The City receives little general fund revenue from development outside the city limits. The exception is sales tax generated from new residents in the unincorporated area close to Redding who do their primary shopping in Redding. The City can also expect a small amount of income from fines such as parking or traffic violations; from some service charges; and from interest on the small increase in revenues from these sources. Table 15 shows these results.

There are virtually no City revenues that can be reasonably attributed to new non-residential development in the unincorporated area. Table 16 summarizes these findings.

Table 15
City Revenues from a New Residence;
Annexed and Not Annexed

Source	Annexed	Not Annexed
Property Tax	$98	0
Sales Tax	$267	$267
Gas Tax/LTF	$89	0
Franchises	$19	0
Property Transfer	$5	$0
Business License	$0	0
Licenses/Permits	$27	0
Fines/Forfeits	$7	$4
Intergovernmental	$138	0
Service Charges	$36	$2
In Lieu	$65	$722
Use of Money	$8	$4
Other	$13	0
Sum	$772	$277

Table 16
Revenues to the City from
Non-residential Development

1000 Square Feet Commercial/ Annexed	1000 Square Feet Commercial Not Annexed	1000 Square Feet Industrial Annexed	1000 Square Feet Industrial Not Annexed
$1856	0	$163	0

Results

The following table summarizes the net effect of expected costs versus revenues on the City general fund for new development in the unincorporated area:

Table 17
Fiscal Impacts on the City
from New County Development (No Annexation)

Land Use	Revenues (Sales Tax Attributed to Commercial)	Revenues (Sales Tax Attributed to Residential)	Expenditures	Net with Sales Tax Attributed to Commercial	Net with Sales Tax Attributed to Residential
New Residence	$9	$278	($198)	($189)	$80
Square Ft./ Commercial	0	0	($0.16)	($0.16)	($0.16)
Square Ft./ Industrial	0	0	($0.02)	($0.02)	($002)

Table 18 simply compares the effects of the development if it occurs in an annexation area versus in the unincorporated territory.

Table 18
Estimated Fiscal Impacts on City

Type of Development	Per	Net Revenue/ Annexed	Net Revenue/ Not Annexed
Residential (sales tax attributed to population)	Unit	-$4	$80
Commercial (sales tax attributed to new commercial)	Sq.Ft.	$1.32	-$0.16
Industrial	Sq.Ft.	-$0.14	-$0.02

The results suggest that new residential outside the City generally provides some net revenue to the City while new development in an annexed area is very slightly negative (effectively neutral), assuming in both instances that sales tax is attributed to those new residents. New non-residential development outside the city limits has some negative effect on the City general fund, but for both commercial and industrial land uses, the effect is small.

Net Results from a Hypothetical Development Scenario

As before, it may be interesting to look at the impacts on the City from the hypothetical development of a new neighborhood composed of 2500 residences and a new shopping center. In this scenario, the new development occurs in the unincorporated territory. As in the earlier analysis, we assume that about 15% of the taxable sales generated by the new residents will be captured in the neighborhood shopping center. Thus, sales tax to the City of Redding will be lower by about 15% or about $41 and, accordingly, the net revenue to the City from each new unit is reduced from $80 to $39.

Table 19
Net Impacts from 2500 Units and New Shopping Center in Unincorporated Area

	Annual Net Revenue to the City
100,000 sq. ft. center	-$16,000
2500 new residential units	$97,500
Total	+$81,500

Under these assumptions, the analysis suggests that a new neighborhood built in the unincorporated territory would have little net impact on the City's general fund. The effect is projected to be a small benefit to the City.

SUMMARY
OF STUDY RESULTS

The results of this study are summarized in Tables 20, 21, and 22 with accompanying text:

Table 20
Estimated Fiscal Impacts on the
County of Shasta

Type of Development	Unit	Net Revenue If Annexed	Net Revenue If Not Annexed
Residential	Per Unit	$159	- $302
Commercial	Per Square Foot	-$0.08	$1.33
Industrial	Per Square Foot	-$0.18	-$0.17

Table 21
Estimated Fiscal Impacts on the
City of Redding

Type of Development	Unit	Net Revenue If Annexed	Net Revenue If Not Annexed
Residential	Per Unit	-$4	$80
Commercial	Per Square Foot	$1.32	-$0.16
Industrial	Per Square Foot	-$0.14	-$0.02

New residential development in the unincorporated area will generate significant costs for the County general fund. On the other hand, similar development built in annexed areas will actually result in a net benefit for the County.

Commercial development will likely be a significant benefit to whichever jurisdiction it locates in. Commercial development built in the City has a very small negative impact on the County; similar development occurring in the unincorporated territory will likely have similar small impacts on the City.

Industrial development (assuming no ancillary sales tax) is a small fiscal drain on both jurisdictions. However, the impacts are quite small and this type of land use is probably best viewed as fiscally neutral to both the City and the County in any situation.

This suggests that new balanced development (residential mixed with commercial and industrial) in the City will have the greatest net benefit to both jurisdictions. This is perhaps illustrated best by the hypothetical development scenario utilized in this study of a new neighborhood of about 2500 new residences and a supermarket-anchored shopping center.

The following table shows the results for this case.

Table 22
Net Impacts from 2500 Units and a New Shopping Center

Annexed		Not Annexed	
Impacts on County	**Impacts on City**	**Impacts on County**	**Impacts on City**
+$389,500	+$22,000	-$622,000	+$81,500

These results indicate that both jurisdictions may realize positive fiscal effects (albeit small for the City) if balanced development -- appropriate mixes of residential and commercial -- occurs in the City. On the other hand, urban type development in the unincorporated area will likely result in significant adverse fiscal impacts to the County.

COUNTY OF SHASTA
ELEMENT I PERSPECTIVES

The consultant's work is complete, and Crawford Multari & Starr is to be commended for presenting to the County and the City an even-handed and objective analysis of the fiscal impacts of development in the sphere of influence area.

The services, costs, and revenue numbers have been developed and the results tabulated in an impartial manner. The numbers are what they are -- and they tell us the following:

- Based upon the current property tax rate, *new* residential development in the unincorporated areas adjacent to the City of Redding results in *significant net costs* to the County; on the other hand, the County general fund realizes a *slight net gain* when new residential development is annexed -- *provided the County retains the pre-annexation share of property taxes.*

- New sales tax generating commercial development in the unincorporated areas adjacent to the City of Redding is *fiscally beneficial* to the County; however, when new sales tax generating commercial development is annexed to the City of Redding, the result is a *small negative impact* on the County, even when the County retains property taxes.

- Industrial development in *both* annexed and unincorporated areas, assuming no related sales tax, is a *small net drain* on the County general fund.

In other words, with the exception of unincorporated area commercial development -- which also produces sales tax -- all other categories of new development *do not* necessarily result in an enhancement of the tax revenue stream which the County relies on to provide services.

What typically *does* increase with development is the demand placed on County services, and the corresponding cost component associated with meeting services demands.

Shasta County, like most if not all California counties, continues to bear the brunt of State budget decisions, the consequences of which have been a significant erosion of its property tax base. Consider these numbers and events which have occurred over the past five fiscal years:

- The State transferred $525 million in property taxes from county governments to schools in FY 1992/93. In FY 1993/94 the State transferred an additional $2 billion in property taxes to schools.

- In December, 1995, a State Supreme Court decision with respect to the voter-approved Proposition 62 came down on the side of placing all new general taxes on the ballot for *majority approval of the electorate.*

- The voters approved a "Three Strikes and You're Out" initiative, which has created a significant additional strain on county criminal justice systems.

These events have cumulatively resulted in a dramatic reduction in county fiscal resources, have driven up program costs, and have made it more difficult to generate the revenues needs to cover program costs. With these conditions in mind, it is no wonder that counties must be increasingly vigilant about protecting existing revenues, as well as extremely attentive to the potential financial consequences of new growth, development, and annexations.

(The fiscal picture has been further clouded by the passage of Proposition 218 -- the "Right to Vote on Taxes" initiative -- which places additional constraints on the ability of local government to balance the cost/revenue scale.)

All of this is not to say that the County of Shasta intends to take an "anti-growth, anti-development" stance. To the contrary, the County recognizes that development, in one form or another, will continue to occur. Our challenge is to act responsibly and be prepared to accommodate it. (To that end, the County's General Plan has been constructed so as to be very growth-accommodating, particularly in the city "sphere of influence" area.)

The County also understands that growth and development *must* occur in order for the community as a whole to thrive and prosper. However, it is the County's contention that county government can best contribute to the economic growth and development effort by *maintaining its fiscal stability* so that the County remains in a position to provide the services requested *and expected* by new population growth and development.

From the County's perspective, maintaining fiscal stability begins with prudent decision-making based upon the fiscal facts of life.

CITY OF REDDING
ELEMENT I PERSPECTIVES

The fiscal impact analysis prepared by the consultant is based upon assumptions and methodology that is acceptable to City and County staff. The analysis presents a clear picture of the impacts to both the City and County from development occurring in or near the City of Redding. The following are key points from the analysis:

- New residential development in an annexation area is likely to generate small net costs to the City. Since the effect is relatively small, the consultants view such annexations as fiscally neutral.

- If new houses are built near the City but in the unincorporated area, the fiscal picture improves slightly for the City. The reason is that those residents are likely to shop in Redding, providing some increased sales tax revenue, while the range of services provided to them by the City is reduced as compared to a like residence in the City.

- Commercial development will likely be a significant benefit to whichever jurisdiction it locates in. Industrial development (assuming no sales tax) is a small fiscal drain on both jurisdictions.

- In the case of a hypothetical development of a new neighborhood composed of 2,500 new homes and a 100,000 square-foot supermarket, the results show that the development after annexation generates a net revenue for both the City and County. If development occurs in the County, the City continues to realize some benefit, however, the costs to the County of servicing the new homes swamps the benefits of having the new commercial, and results in a substantial net loss to the County. It is also possible, however, that any benefit to the City could be lost if any sales taxes which were generated in the County are retained by the County after annexation.

- The hypothetical scenario suggests that both jurisdictions will be best off fiscally if balanced development -- appropriate mixes of residential and commercial -- occurs in the City. On the other hand, urban development in the unincorporated area will likely result in significant adverse fiscal impacts to the County.

- For annexed residential development, the County's property tax share can be reduced from 15% to about 4% and the County will "break even". For non-residential development, the continued full allotment of property tax is insufficient to break even.

From the City's perspective, a key finding of the fiscal analysis is that new housing built in the City actually benefits the County's general fund and that the same unit built in the unincorporated area will result in significant costs to the County. The reasons for this are clear. While many of the revenues the County receives are tied to population growth regardless of whether that growth occurs in the cities or unincorporated areas, the service costs to the annexation area are reduced.

The study finds that the County is better off from a fiscal standpoint encouraging new population growth to occur in Redding and letting the City provide municipal services -- especially police, fire, and streets -- to new residential development. The City has long argued that the County's financial condition may be enhanced by encouraging new development at urban densities to occur in new annexation areas -- that the revenues generated would exceed the costs of providing services -- and the study supports this position.

New residential development in a newly-annexed area will likely generate small net costs to the City. On the other hand, if new houses are built near the City but in the County, the fiscal picture improves slightly. However, the effects are so small that the consultants consider residential annexations fiscally neutral, and each annexation area will need to be looked at to see if there are obvious costs and liabilities from existing roads, lack of facilities -- such as parks -- or flooding conditions that offset existing development.

The worst case is one where the development occurs in the County and is then annexed to the City. The City loses fees that help offset costs, yet the City is often faced with upgrading development. The effect is to add cost to costs and for services which might otherwise have been near the "break even" point.

The consultant focused on the effects of "low density" residential development, which is defined as three units per acre. Appendix D presents results for different kinds of units built in newly annexed areas. The table below indicates that low density "estate housing" at one unit per acre or less generates significant revenues to the City. This may suggest a land use pattern of development for the remainder of the City's sphere that is largely based on very low density development to keep revenues ahead of services costs and perhaps limit suburban sprawl.

Fiscal Impacts on Redding by Housing Type

Estate	Single Family	Multi-Family
+169/unit	- $4/unit	- $100/unit

According to the consultant, industrial development is relatively revenue neutral for both the City and the County. While this has been true for several years, the City now takes the position that higher paying jobs help make what may be a marginal investment worthwhile. Of course, the financial data must be kept in perspective, small adjustments in the basic assumptions can significantly alter the outcomes.

The financial problems actually go back to the passage of Proposition 13. The more recent property tax shifts further exacerbated the problems. The results of this series of events have included: (1) the County withholding property taxes from cities, (2) reduced funding for cities, counties, and districts, (3) increased reliance on development fees to fund capital improvements, and (4) elimination of services that agencies could off-load or drop. The County also now charges the City property tax collection and booking fees. Altogether, it is estimated that the City lost these amounts from its FY 1996-97 General Fund as a product of the following:

Property Tax (Prop. 13)	$3,000,000
Booking Fees	303,000
Property Tax Collection	250,000
State Tax Shifts	1,300,000
Total	$4,853,000

At the time Proposition 13 passed in 1978, a property tax dollar in the City was distributed as follows:

City	$ 0.19
County	0.26
Schools	0.55
	$ 1.00

In 1978, 55 cents of every dollar went to schools; today about 70 cents of every property tax dollar goes to schools -- at the expense of other agencies. This was accomplished by the State in order to balance its budget. The City now has some areas where it gets only about 7 cents of every property tax dollar, when the City used to get about 19 cents of the property tax dollars in these areas. To compensate, the City began to require annexing properties to join a Mello-Roos District to pay for some services in order to make up for the lost property tax, however, the passage of Proposition 218 has now made the use of this vehicle problematic.

Statewide, the distribution of property taxes has changed over the years. In the rural areas, schools generally get a higher percentage of the property tax dollar than in the more urban areas due to fewer demands, greater fiscal conservation, and lower growth rates when Proposition 13 passed. In addition, land values in urban areas are generally higher, which results in more property tax being paid on a per capita basis in the metropolitan areas. The following table illustrates the trends in the percentage of property taxes paid to schools since 1986 State-wide and in Shasta County, and the State shifts that occurred beginning in 1992:

Percent of Property Tax Dollars to Schools

Year	State Average	Shasta County
1986-87	36	57
1987-88	36	57
1988-89	36	57
1989-90	36	55
1990-91	35	55
1991-92	35	54
1992-93	41	58
1993-94	51	68
1994-95	52	68

*Source: State Board of Equalization

The unfortunate part of this is that while it has helped balance the State's budget, it hasn't helped schools and it has hurt other local agencies.

Generally, the State has balanced its budget on local agencies and left them with the question of raising taxes, dropping or reducing services, or increasing fees for services. This, coupled with the effects of Proposition 13, reduced Federal aid, defense industry costs, the recession, and the desire to contain or reduce government, have all combined to restrict revenues to cities and counties in general, and to Shasta County and the City of Redding in particular.

The problem is even greater when you compare what school districts in Shasta County get to what they get in several metropolitan areas from 1986-87 and in 1994-95, as follows:

Shasta County Schools Compared to Metropolitan Area Schools

County	% for Schools		% for Counties	
	1986-87	1994-95	1986-87	1994-95
Los Angeles	22	43	41	23
San Francisco	9	29	85	65
San Bernardino	32	45	27	13
Sacramento	30	50	36	20
Shasta	57	68	26	15
Butte	56	69	23	10
State Average	**36**	**52**	**33**	**29**
Difference		+16%		-14%

*Source: State Board of Equalization

This shift of revenue, coupled with voter opposition to new general taxes, the costs of infrastructure and growth, and unfunded mandates set the stage for where the City and County are today. The questions then become, who provides services, and how do you pass through costs, and do you lower service levels?

The letter from the Economic Development Corporation that led to this study basically challenged the City and the County to resolve property tax exchange issues so that they do not become an impediment to economic development. To a degree, the City thinks this can occur; however, what it missing is the recognition by the EDC that something is basically wrong when land use doesn't pay for itself, incentives are requested, and services levels are declining. Are these the attributes that attract industry, or is it just the "quick fix" for more fundamental problems?

The consultant's analysis also gives rise to the following questions for each agency to consider:

- What is the best way to manage the financial impacts of new and existing development adjacent to or within the City?

- What solution would be the "win-win" solution for both agencies?

- How can the two agencies work together to minimize the negative trends?

- Realistically, how much new commercial development will occur around the City?

- Given the fiscal findings, what inducement is there for the City to annex without getting a greater percentage of the property tax? What happens in the long run if it doesn't?

The bottom line of the study suggests that, since the differences between net costs and revenues are relatively small, other reasons than fiscal impacts should guide the City's decision to annex or not. With this bottom line in mind, it would seem appropriate for both the City and the County to consider which reasons could override adverse fiscal impacts from the perspective of all of the stakeholders, including senior citizens, low-income citizens, existing businesses, future businesses, industry, local government, schools, and agricultural/open space interests.

ELEMENT II
THE TAX EXCHANGE AGREEMENT: COMPARING PROCEDURES AND PERSPECTIVES

INTRODUCTION

CMS noted in their introduction that their work was commissioned as ". . . . part of a larger work program *leading toward* [emphasis added] a cooperative tax sharing agreement for future annexations". While CMS *was* asked to test different property tax splits toward determining "break even" points which could be considered in future negotiations, the consultant's scope of work did not include the crafting of actual tax transfer formulas for the parties to consider, nor did it provide that the consultant be at the negotiation table, in any capacity. With the acceptance of Element I, the consultant's work is done. The next steps *leading toward* cooperative agreements are to be taken by the County and the City.

Element II Organization

Element II will first consider the legislative intent in amending the Revenue and Taxation Code to require tax transfer negotiations. This first discussion will include an assessment of the statutory limitations with respect to those tax revenues which *must* be addressed and those which *may also* be brought to the negotiation table.

Element II will then review the tax exchange agreement process, with two principal objectives in mind: First, to establish an understanding of the mandatory process required by statute; and second, to identify procedural alternatives which might resolve some current misunderstandings and issues.

Like Element I, Element II concludes with "perspectives" statements from the County of Shasta and the City of Redding.

LEGISLATIVE INTENT AND LIMITATIONS

Recognizing that fiscal relationships between affected local agencies are usually modified by an annexation proceeding, Section 99 of the Revenue and Taxation Code (RTC) was amended to impose various requirements for the computation of property tax revenue impacts and for commencement of negotiations between agencies concerning the transfer of property taxes should annexation occur.

Essentially this amendment changed the property tax computation and assessment method from each agency receiving separate taxes to one where the maximum tax was one percent of the fair market value and the portion an agency received became a percentage of the combination of all taxes in effect when Proposition 13 was passed.

On the face of the statute, the duty of the affected agencies to negotiate relates only to the exchange of "property tax revenues". However, RTC Section 99 does not specifically preclude negotiation of revenues to be exchanged in addition to property taxes, although this would appear to require the mutual consent of the of the affected county and city or cities. Thus, while Section 99 prescribes the commencement of certain proceedings, that section does not preclude a county from refusing to agree to a property tax agreement in the absence of similar agreement on the sharing of sales or other taxes, nor does the statute prescribe that a city must agree to discuss the sharing of any taxes other than property tax.

In fact, the issue of *which* taxes -- *just* property taxes, or property *and* sales taxes -- are at the heart of the current tax exchange discussions between the County and the City. The County's position has been to not lose any property tax on residential annexations, and to receive a portion of sales taxes generated by commercial development -- both existing and planned -- which is subsequently annexed. The City's position has been to not share sales taxes in order to pay for services to residential areas.

Additionally, it is clear that Section 99 and Section 56828 of the LAFCo statute prohibit the LAFCo Executive Officer from issuing a Certificate of Filing in the absence of a tax revenue agreement. (The Certificate of Filing being the document which certifies that an application for annexation is complete and eligible for consideration by LAFCo.) Therefore, while RTC Section 99 is expressly intended only to address the sharing of property tax revenue, if impasse is reached due to a disagreement pertaining to the sharing of other tax revenues, the annexation in question may not proceed to consideration and action by LAFCo.

One concluding observation with respect to the intent of the legislation: The bill which amended the Revenue & Taxation to add the tax exchange agreement provisions was passed in the wake of the voter-approved Proposition 13 -- the landmark "property tax revolt" measure. By their amending action, the Legislature was able to address at least some of the post-Prop 13 property tax limitations through the imposition of terms and conditions in annexation proceedings. More recently, however, the voter-approved Proposition 218 added other restrictions on the ability of agencies to raise funds.

STATUTORY PROVISIONS

Procedures

The statutory provisions and procedures with respect to tax exchange agreement negotiations are fairly clear and simple to summarize:

- Upon the filing of an application or a resolution with LAFCo, the Executive Officer shall give notice of the filing to the Assessor and Auditor. This notice shall specify each agency whose service area or responsibility would be altered by the jurisdictional change proposed in the application or resolution.

- The County Assessor provides to the Auditor a report which identifies the tax rate areas and assessed valuations in the subject area; the Auditor, in turn, provides to the agencies a report which estimates the amount of property tax revenue subject to a negotiated exchange.

- Upon receipt of the Auditor's report and estimates, the local agencies shall commence negotiations to determine the amount of property tax revenues to be exchanged between the local agencies.

- The Board of Supervisors shall negotiate on behalf of any special district affected by the proposed jurisdictional change.

- In the event that LAFCo modifies the proposed jurisdictional change, any local agency whose service area or services responsibility would be altered by the change may request a renegotiation of the agreement, and LAFCo is required to grant this request.

Time Frames

Section 99(b) prescribes these time frames for completion of the listed procedures:

- *Upon the filing* ... means that the LAFCo Executive Officer has up to thirty (**30**) days from receipt of the application to review it for conformance and to determine if there are any insufficiencies, other than the lack of tax exchange resolutions, which would have to be resolved before the Certificate of Filing can be issued.

- The Assessor has thirty (**30**) days from receipt of the Executive Officer's notice to develop and transmit his report to the Auditor.

- The Auditor has forty-five (**45**) days from receipt of the Executive Officer's notice to transmit a report to the affected agencies, which means 15 days from receipt of the Assessor's notice.

- The affected agencies have thirty (**30**) days from receipt of the Auditor's report to negotiate and adopt resolutions of agreement.

- The affected agencies have fifteen (**15**) days to complete "renegotiation" proceedings which occur when LAFCo has modified a proposal and a renegotiation period has been granted.

In summary, when proceedings are initiated pursuant to the RTC, they are subject to mandatory time frames which are structured so as to discourage protracted negotiations and encourage timely action. Further, if negotiations do not culminate in the adoption of resolutions of agreement within the mandatory 30-day period, there is no provision for extension of negotiations. However, what the statute does not expressly prohibit is initiation of negotiations and adoption of resolutions of agreement *prior* to submittal of a resolution or application to LAFCo. The next section describes how this can be done.

ALTERNATIVE PROCEDURES

There are actually two ways to initiate the tax exchange agreement negotiation process prior to the start of the statutory clock.

One way would be for the annexing city to ask the county to enter into "good faith" negotiations. The city could either provide an estimate of the taxes subject to negotiated exchange, or request that the county auditor prepare this estimate. Once the estimate is accepted, the parties could proceed to negotiations and formulation of an agreement. The obvious advantage to the annexing city and the affected county is that the process could be carried out without the constraints of time. Another advantage is that the matter of tax exchange would be addressed and resolved *before* LAFCo is brought into the picture.

The second alternative would be to commence tax exchange agreement negotiations via the intermediate "Resolution of Intention" provision in the LAFCo statute. Pursuant to Section 56800(b) of Cortese-Knox:

> "At least 20 days before the adoption of the resolution, the legislative body [city council] may give mailed notice of its intention to adopt a resolution of application to the commission and to each interested agency and each subject agency. The notice shall generally describe the proposal and the affected territory."

Upon receipt of a "Resolution of Intention", the county could then ask its Assessor and Auditor to provide an estimate of the taxes subject to negotiated exchange. Both the county and the city would receive the report. Based upon that report, the county and the city would then determine whether or not they would want to commence negotiations.

Like the first alternative, all of these activities could be carried out without the statutory time constraints, and, again, the matter of tax exchange would be resolved before LAFCo is brought into the picture. (However, even if tax exchange accord is reached via this alternative procedure, it does not mean that the annexation will go forward.)

An additional benefit to having the tax exchange agreement process completed prior to submittal of the resolution and application to LAFCo is that LAFCo could then move directly to issuance of the Certificate of Filing (provided, of course, that all of the other required components of the application are included and found to be sufficient.) This would also advance the schedule for a hearing and decision by the Commission.

The provision in the Revenue & Taxation Code with respect to the opportunity to reopen negotiations in the event that LAFCo modifies the annexation in any form would also apply to either one of the alternatives discussed above.

It is recognized that for either alternative to be successfully implemented, the county and the city would have to develop a certain "comfort level" with each others' numbers, issues, intentions and expectations. It is also recognized that converting the process to either one of the two alternatives discussed above is entirely a policy decision to be made by both the annexing city and the affected county. It was the intent of Element II to establish the framework of information on which the County of Shasta and the City of Redding could build a comfort level and make the policy decision.

COUNTY OF SHASTA
ELEMENT II PERSPECTIVES

It has been suggested that counties have the "advantage" going into tax exchange negotiations, for counties can hold an annexation "hostage" until a settlement is reached which favors the county. This perception is flawed on a number of fronts. The tax exchange agreement process is, very simply, the *only* means by which a county can be assured that *fiscal neutrality* occurs in an annexation proceeding.

Shasta County has no desire to force an inequitable tax exchange agreement. Rather, the County's focus is solely on negotiating an agreement which does not jeopardize services which benefit the entire County in favor of a single annexation. Further, any "inequity" which may be perceived by a city may be because the affected city does not fully grasp the myriad of services which counties are required to provide in both unincorporated and incorporated areas.

The following discussion, taken from a publication entitled **Conflict or Consensus: A Look at the City Annexation Process** (which was prepared by the California State Association of Counties in May, 1996 in response to an April, 1996 League of California Cities report entitled **Conflicts at the City's Edge**) best articulates Shasta County's perspectives on the process and intended outcome:

> "…. The entire basis of the tax exchange is the balancing of revenue generated and service responsibilities. In the case of existing development, a county's service responsibilities remain the same, yet it is at great risk of losing existing revenues to the city. In the case of an annexation involving future development, a county's service responsibilities will increase. The county has relinquished land-use authority, and yet it is not ensured of sufficient revenues to meet these added obligations. The discussion in this **[Conflicts...]** report fails to acknowledge the real life implications of annexations on county governments' fiscal stability. It is fully understood that cities need revenue to begin to provide municipal services to the newly annexed areas. **Cities must recognize that counties are required by law to continue to provide and finance county wide services to the newly annexed area."**

Specific to the past and current state of negotiations between the County of Shasta and the City of Redding, the County has not been and is not opposed to the development of a "master/standard" agreement which could be uniformly applied to certain kinds of annexations. In fact, for a number of years the County regularly entered into a "master" tax exchange agreement with the City of Redding, but this was because the City was annexing areas which were either already developed to residential uses or were planned for residential development. For this kind of annexation, property taxes were the only revenues brought to the table.

In the early years of tax exchange agreements, the "master tax exchange agreement" split the County's share of property tax paid in the area, with 54% going to the County and 46% to the City. The County later amended the agreement to a formula which provided that the County would retain 100% of both the base year and incremental property tax, and all other taxes went to the City upon finalization of the annexation.

It was only when the City proposed to annex a commercially-developed area -- this area also being a significant sales tax producer with the potential to bring in even greater revenues at full development -- that the County declined to adopt the previously-used agreement which pertained only to property taxes. Instead, the County requested that sales taxes also be subject to negotiation. The City agreed to consider sharing sales taxes (provided the City and the developer entered into an agreement whereby the developer would "make up the difference"); however, negotiations stalled and neither a City/County agreement nor a City/developer were adopted. Proceedings for the proposed annexation were subsequently terminated.

The findings in the CMS report in Element I now seem to support the County's position in requesting that sales taxes be part of the negotiations. The CMS report indicates that the County stands to realize significant fiscal benefits from sales tax generating commercial development in the unincorporated area. Ideally, then, the County would like to see this kind of development occur outside the City.

However, once an annexation is proposed, whether it is to annex existing commercial or planned commercial, or both, and once the proposal is at the tax exchange agreement stage, the issue becomes less one of giving up potential sales taxes, and more of negotiating an agreement which will offset the *negative fiscal impact* on the County *after* annexation. A sharing of sales taxes is simply a mechanism to mitigate the negative fiscal impact.

In response to those who would argue that the County's position with respect to tax exchange has the net effect of stifling economic growth and development, this argument seems to stem from the assumptions that (a) annexation is a prerequisite to economic development, and (b) all new development should occur in a city. From the County's perspective, these are inaccurate assumptions, and toward the purposes of this first element of the study, the County would only reiterate that the issue at the negotiation table is *fiscal stability and accountability for both parties to the process.*

To summarize the issue, the County again refers to a statement in the CSAC report cited above:

> ".... there is a fundamental difference between the ability of counties and cities to cope with an increase in demand for services that may occur as a result of annexation. A city has virtually full control over both its revenues and expenditures, as the overwhelming majority of the services which cities provide are not state mandated. In addition, cities also have significantly greater authority to increase revenues. Counties, on the other hand, have extremely limited revenue-raising authority and at the same time have little or no discretion over 80 percent of their budgets. Consequently, when a county enters into a tax-sharing agreement with a city, it must be confident that it will be equitably compensated for any potential loss in revenue or anticipated growth in demand for county wide services."

From the County's perspective, if there is any expectation that the preparation and presentation of this study would culminate in the execution of a "one size fits all" tax exchange agreement, that expectation seems to be somewhat premature. It is realistic to expect that the County and the City will act promptly on what has been learned from this study. If the next step is just to change the dynamics of the negotiation process, then we will have accomplished something. From there the County and the City may progress rapidly to the adoption of an agreement.

Finally, the County of Shasta believes that existing statutes provide a mechanism for preserving the fiscal "status quo" of all agencies affected by a jurisdictional change (i.e., annexation) while encouraging all agencies to work toward a "win-win" agreement with respect to the sharing of all tax revenues.

CITY OF REDDING
ELEMENT II PERSPECTIVES

As part of the annexation process, the City and County must negotiate a property tax sharing agreement. The underlying concept is that, as the City takes in new territory, some of the tax should now go to the City to help pay for services and needed capital expenditures. Essentially, the City assumes previous services provided by the County, including police, fire, storm drain maintenance, and general government. The City also provides additional services typical of being urban entity. The City certainly recognizes the purpose of the tax exchange process and fully appreciates the fact that the County is required by law to continue to provide and finance county-wide services to newly-annexed areas.

Prior to 1992, the City and County had a master tax exchange agreement that assigned 54 percent of the County's share of the property tax to the County and 46 percent to the City. In 1992, the County unilaterally withdrew from the agreement, requiring from then on that 100% of the property tax would be retained by the County (the City receives only the former fire district share, about 7 percent). This 100 percent is not only the base amount at the time of annexation, but also any growth in property tax.

To offset the loss in property tax revenue, the City now requires newly-annexing territory to form a Mello-Roos District to cover the costs of providing municipal services to the new area. The continued viability of the Mello-Roos tax as a long-term revenue source is uncertain because on November 5, 1996, California voters approved Proposition 218, the "Taxpayers Right to Vote Initiative".

The passage of Proposition 218 diminishes the viability of the Mello-Roos tax as a long-term revenue source for offsetting annexation costs. If, during the annexation process, the City and County are unable to agree to mutually beneficial tax sharing agreements, then the City will need to implement alternative financing mechanisms, such as one time annexation fees with building permits or other approved taxes, to increase revenues to offset service costs.

According to the City's bond counsel, Proposition 218 will not affect the City's ability to level a special tax or to increase it on an annual basis so long as the City does not exceed the 4 percent index contained in the implementing ordinance or create a different Mello Roos District. Before Proposition 218, voters in a district could only petition the City Council to reduce or repeal the tax. The Council could elect to conduct an advisory election, but it was not required to act on the results. With Proposition 218, the tax will be vulnerable to the initiative process. In other words, someone could now vote to terminate an existing Mello-Roos district, thereby taking away the needed revenue stream to support the services? Further, the Mello-Roos district now becomes a "value-driven" vote rather than a one person-one vote district. Obviously, the more detrimental impacts to annexation financing will occur if the voters in the district have the power, by initiative, to reduce or repeal the tax. The primary argument would be that they are being double-taxed despite the fact that the City receives less property tax from these areas than it gets from similar areas that were annexed to the City prior to 1992.

A common practice for counties looking for ways to enhance their fiscal position is to use their leverage over city annexations to force imbalanced tax sharing agreements. In many cases, counties have gone beyond the mandatory property tax negotiations, and have insisted on receiving a share of the sales tax. The fact that counties are not compelled by law to enter into a tax sharing agreement gives counties considerable control over annexations.

As a product of such actions, the interest the City has in annexation and extension of services to new areas is diminished as development, other than commercial, represents a loss and a continuing decline in services levels. Such annexations are not revenue neutral to the City, they are negative cash flows. Element I supports this contention.

It is reported in the consultant's financial analysis that the County's "break even" point for residential-only annexations is about 4 percent, down from 15 percent. The report also notes that the full allotment of property tax from commercial or industrial development will not reach the break even point. The County, while desirous of obtaining sales tax revenue through the tax exchange process, must recognize that any request for sales tax might have to be balanced against a reduction in the 100 percent property tax pass-through for the exchange to be equitable.

While the City does not expect the consultant's financial analysis to pave the way to a new "master" property tax exchange agreement, it is hoped that it will provide a basis for open and frank discussions which lead to equitable tax sharing agreements that reduce the negative fiscal impacts of new development on both the City and County. The issue isn't one of here-and-now; rather, it is long-term financial planning which takes into account increasing population and costs, more State and federal mandates, the effects of inflation, and the continuing decline in service levels as the ability to raise revenues declines.

Annexations or new developments which do not pay for themselves end up being subsidized and represents falling further behind. This fact is compounded for both Redding and Shasta County which have low property tax values and receive lower percentages of the property tax than other metropolitan areas. Urban is urban whether it be in Shasta County, Orange County, or the Bay Area. Element IV will address this further.

ELEMENT III
COMPARING ANNEXATION ISSUES: THE LAFCO CONNECTION

INTRODUCTION

While a county and a city may successfully negotiate a tax exchange agreement for a proposed annexation, that action alone does not mean that approval of the annexation will automatically follow. Adoption of a tax exchange agreement means simply that the parties have agreed to a formula for the distribution of taxes *if and after* the Local Agency Formation Commission (LAFCo) approves the annexation. It then falls solely to LAFCo to decide on the merits of a proposed annexation based upon criteria *other than* the fact that the affected agencies have reached agreement with respect to tax exchange and the property owner wants to annex. LAFCo makes its decision based upon the consistency of the proposal with the criteria and factors set forth in the LAFCo statute, as well as the policy considerations permitted by the local LAFCo. Therefore, this report would be incomplete -- and would fall short of meeting its stated objectives -- if it did not include a closer look at LAFCo and the LAFCo perspective on annexations.

When this report was commissioned, the Board of Supervisors and the City Council agreed that LAFCo should prepare Element III, except for the perspectives discussions. What now follows constitutes Shasta LAFCo's role in the annexation process.

Element III Organization

In order to understand LAFCo in the local context -- that is, Shasta LAFCo and its relationship to Shasta County and the City of Redding -- it is important to first understand LAFCos in the broader context. *When and why* were LAFCos established? *How* are LAFCos organized, and how do they carry out their business? *What* are the objectives and responsibilities of LAFCos, and what authority is given to LAFCos to meet these objectives?

Element III is organized to briefly answer the *when and why* questions. The *what* questions -- the objectives, responsibilities, and authority of LAFCo -- will be discussed in more detail. The discussion of LAFCo's authority with respect to annexations is necessarily more comprehensive, given that local perspectives on some of the issues associated with annexation factored largely in the decision to prepare this report. This part of the discussion will include a review of the factors, criteria and policy considerations which govern LAFCo's annexation decisions.

Following the sections prepared by LAFCo, Element III concludes with City and County perspectives on the annexation process, emphasizing their respective perceptions of the role of LAFCo in the local jurisdictional decision-making process.

A BRIEF HISTORY

At the end of World War II, California experienced a tremendous population increase. This resulted in the sporadic formation of cities and special districts, and the boundaries of these new cities and districts were established without apparent provisions for the long-term, efficient delivery of services. The emphasis was on *acquisition,* rather than *order.* In the process, more and more of California's productive agricultural lands and open space areas -- particularly in Southern California -- were given to rampant, unplanned development. Urban sprawl was born.

Responding to this mounting problem, the Governor established a Commission on Metropolitan Area Problems in 1959. The Commission's charge was to study and make recommendations on the "misuse of land resources" and the growing complexity of overlapping, local governmental jurisdictions. The Commission's recommendations were introduced in the Legislature in 1963, and in that same year LAFCos were created in each California county with the exception of the City/County of San Francisco.

COMMISSION COMPOSITION AND ADMINISTRATION

Most of the LAFCos have five members made up of two county supervisors, two city council members, and one public member. The Board of Supervisors selects their representatives, the mayors select their two members, and the county and city members select the public member. There is an alternate in each category. Commission members serve four-year terms. The LAFCo statute also provides that LAFCos may add two special districts members. Several LAFCos have done so, Shasta LAFCo being one of them. Los Angeles, Sacramento, Santa Clara and San Diego LAFCos have, through special legislation, reserved a seat on the Commission for a representative from the county's major city.

The Commission appoints an Executive Officer to conduct the day-to-day business of LAFCo. The Executive Officer, like the Planning Director for a county or city, is also responsible to prepare a report and recommendation on proposals and matters before the Commission. Legal counsel and clerk services are provided by the offices of the County Counsel and Clerk of the Board respectively.

LAFCos may charge fees for the costs associated with processing proposals, and the County is responsible for that part of the LAFCo expense which is not fee supported.

Like other legislative bodies, LAFCos are subject to the Brown Act, and they must establish a regular meeting schedule and site. Most LAFCos meet monthly. Citizens are welcome and encouraged to attend LAFCo meetings and state their views during public hearings on proposals before the Commission.

OBJECTIVES AND RESPONSIBILITIES

The State Legislature had these principal objectives in mind in establishing Local Agency Formation Commissions:

Encourage the Orderly Formation of Local Governmental Agencies

LAFCos review proposals for the formation of new cities and special districts and changes of organization such as annexations, detachments, consolidations and dissolutions. Agency boundaries are often unrelated to one another and sometimes overlap at random, often leading to higher service costs to the taxpayer and general confusion regarding service area boundaries. LAFCo strives to balance the competing needs for affordable housing, economic opportunity, and conservation of natural resources.

Preserve Agricultural Land Resources

LAFCo must consider the effect that any proposal will have on existing agricultural lands. By guiding development toward vacant urban land and away from agricultural preserves, LAFCo assists with the preservation of our valuable agricultural resources.

Discourage Urban Sprawl

Urban sprawl can best be described as irregular and disorganized growth occurring without apparent design or plan. This pattern of development is characterized by the inefficient delivery of urban services (police, fire, water and sanitation) and the unnecessary loss of agricultural land. By discouraging sprawl, LAFCo limits the misuse of land resources and promotes a more efficient system of local governmental agencies.

In summary, LAFCos are responsible for coordinating timely and logical changes in the boundaries of cities and special districts. The objective in assigning this responsibility to

LAFCos is to insure that services are provided efficiently and economically, and to protect agricultural and open space lands. LAFCos are also responsible for conducting special studies -- such as reorganization and consolidation studies -- which are aimed at streamlining and simplifying local governmental structure.

AUTHORITY OF LAFCO

As it has evolved and exists today, the section of the Government Code referred to as the Cortese-Knox Act is designed to assure a certain *procedural logic* to the business conducted by LAFCo. Cortese-Knox provides LAFCos with the autonomy and authority they need to successfully carry out their mission. LAFCos are authorized to regulate proposals or initiate activities in five principal areas, the first four summarized as follows:

Spheres of Influence

LAFCos must develop and adopt "Spheres of Influence" for cities and special districts. A "sphere of influence", as defined in Section 56076 of Cortese-Knox, is ". . . . a plan for the probable physical boundaries and service area of a local agency, as determined by the Commission". The principal purpose of a sphere is two-fold: First, to determine which agency can best provide services in the most efficient way to the people and property in any given area; and second, to discourage urban sprawl by preventing overlapping jurisdictions and duplication of services. Such is the significance of a sphere decision that agencies are prohibited from annexing areas which are not within their adopted sphere, and agencies are prohibited from extending contract services outside their adopted sphere. While LAFCos cannot tell counties or cities what their planning goals should be, through the sphere of influence, LAFCos can coordinate orderly community development through reconciling differences between city and county plans so the most efficient service arrangements are created for the benefit of all.

Out of Agency Agreements

Cities and special districts are now required to obtain LAFCo's approval to extend service outside their boundaries. A prerequisite to extending service is that the area be within the agency's sphere, and the agency must justify why the agreement is needed in lieu of annexation. There are three exceptions to this requirement: (1) Agreements *solely* involving two or more public agencies; (2) contracts for non-potable or non-treated water; and (3) the provision of *surplus water* to ag lands for conservation or ag-industry purposes.

Initiation of Special District Consolidations

LAFCos have the authority to initiate proposals that include the dissolution or consolidation of special districts, or the merging of an existing subsidiary district.

Special Studies

LAFCos are authorized to conduct reorganization and consolidation studies. These studies provide information about the operations of local agencies, and present alternatives for reducing operational costs. The objective in doing these studies is to encourage local governments to evaluate their current operations and options.

BOUNDARY CHANGE AUTHORITY

Perhaps the most significant authority given to LAFCo is the authority to regulate, through approval or denial, boundary changes proposed by public agencies or individuals. Also referred to as "changes of organization", boundary changes include city incorporation, district formation, district consolidation, district dissolution, annexation to a city or district, detachment from a city or district, and reorganization which involves more than one action, such as concurrent annexation to a city and detachment from a special district.

When a city in Shasta County proposes to annex territory, detachment of the annexation area from two county-wide County Service Areas is also required so as to avoid a duplication of fire protection and street lighting services. The city's proposal is, therefore, actually classified a "reorganization". However, because the term "annexation" is more familiar and it lends itself better to the purposes of this report, hereafter when speaking of a city boundary change proposal, it will be referred to as an "annexation".

Restrictions and Regulations

LAFCo's authority to deny an annexation is restricted in three specific instances:

- LAFCos may not deny an annexation if the subject territory constitutes an "island" in that it is surrounded or substantially surrounded by the annexing city.

- LAFCos must approve an annexation if the subject area is within a *LAFCo-adopted* Urban Service Area, and provided the area is not prime ag-land and is designed for urban growth by the city's general plan.

- LAFCos must terminate all further proceedings when written protest is submitted by a majority of registered voters or landowners in the area proposed to be annexed.

Other key provisions in the statute regulate LAFCos in approving or denying an annexation:

- LAFCos may not impose any conditions which would directly regulate land use density or intensity, property development, or subdivision requirements.
- LAFCos may require that the city prezone the territory to be annexed; however, the Commission may not specify how or in what manner the territory shall be prezoned.
- LAFCos may approve annexation of noncontiguous city-owned land provided the land is being used for municipal purposes.
- LAFCos may modify the boundaries of an annexation to include or exclude territory, provided the modification does not create an "island".

Terms and Conditions

LAFCos are authorized to impose terms and conditions on their approval of an annexation. Among the authorized terms and conditions, LAFCos may:

- Require payment for the acquisition or use of public property, and levy a special assessment, tax, or charge for the purpose of providing the payment.
- Assign the liability for bond payments, as well as the levy of a special assessment, tax, or charge to service the bonded indebtedness.
- Require the formation of, annexation to, or detachment from an improvement district.
- Fix or establish the priorities of use, or right of use, of water, or capacity rights in any public improvements or facilities or of any other real or personal property.
- Establish, continue, or terminate any office, department, or board, or transfer, combine, consolidate, or separate any offices, departments, or boards, or any of the functions of those offices, departments, or boards, subject to the principal act.
- Designate the successor agency to any local agency which is dissolved as a result of the change or organization or reorganization.

- In the case of district formation or district consolidation, or a reorganization involving both actions, designate the method for selection of the new district board

In effect, then, LAFCos have significant regulatory authority and the ability to impose wide-ranging terms and conditions on annexation proposals submitted by cities and special districts. As a practical matter, however, LAFCos have been reluctant to exercise the full weight of their "quasi-judicial" status, and prefer to rely on the applying agency and/or affected agencies to request the terms or conditions which they would want to have imposed on the annexation. It then falls to LAFCo to evaluate the requested terms and conditions for consistency with both the agency's principal act and the LAFCo statute.

CORTESE-KNOX FACTORS

Coupled with the statutory provisions discussed above, Section 56841 of the Cortese-Knox Act cites factors which LAFCos are to consider when reviewing a proposal:

> "(a) Population, population density; land area and land use; per capita assessed valuation; topography, natural boundaries, and drainage basins; proximity to other populated areas; the likelihood of significant growth in the area, and in adjacent incorporated and unincorporated areas, during the next ten years.
>
> "(b) Need for organized community services; the present cost and adequacy of governmental services and controls in the area; probable future needs for those services and controls; probable effect on the proposed . . . . annexation . . . . and of alternative courses of action on the cost and adequacy of services and controls in the area and adjacent areas.
>
> "(c) The effect of the proposed action and of alternative actions on adjacent areas, on mutual social and economic interest, and on the local governmental structure of the county.
>
> "(d) The conformity of both the proposal and its anticipated effects with both the adopted commission policies on providing planned, orderly, efficient patterns of urban development, and the policies and priorities set forth in Section 56377.

"(e) The effect of the proposal on maintaining the physical and economic integrity of agricultural lands, as defined by Section 56016.

"(f) The definiteness and certainty of the boundaries of the territory, the nonconformance of proposed boundaries with lines of assessments or ownership, the creation of islands or corridors of unincorporated territory, and other similar matters affecting the proposed boundaries.

"(g) Consistency with city or county general and specific plans."

In addition and particularly relevant to the evaluation of an annexation proposal is Section 56653 of Cortese-Knox pertaining to the plan for providing services:

"56653. (a) Whenever a local agency submits a resolution of application for an . . . [annexation] . . . , the local agency shall submit . . . a plan for providing services within the affected territory. (b) The plan for providing services shall include all of the following information and any additional information required by the commission or the executive officer: (1) An enumeration and description of the services to be extended to the affected territory. (2) The level and range of those services. (3) An indication of when those services can feasibly be extended to the affected territory. (4) An indication of any improvement or upgrading of structures, roads, sewer or water facilities, or other conditions the local agency would impose or require within the affected territory if the . . . . [annexation] . . . is completed. (5) Information with respect to how those services will be financed."

LOCAL POLICIES

Along with the Cortese-Knox provisions, factors and criteria, LAFCos may adopt local policies and guidelines, provided they are consistent with the statute. Shasta LAFCo has adopted policies pertaining to compliance with the California Environmental Quality Act (CEQA), spheres of influence, and annexation. The annexation policies are summarized as follows:

Conformance with Applicable General and Specific Plans

Shasta LAFCo will only approve annexations which are consistent with the general plan and all applicable specific plans of the annexing jurisdiction.

Boundaries

Shasta LAFCo *encourages* annexation boundaries which correct illogical boundaries within the sphere of influence and which follow natural or man-made features and include logical service areas.

LAFCo *discourages* boundaries which would split neighborhoods, divide an identifiable community, commercial district, or divide other areas that have a social or economic identify. LAFCo will not approve boundaries which create corridors or peninsulas of incorporated or unincorporated territory or otherwise cause distortion of boundaries or are drawn for the exclusive purpose of encompassing revenue-producing territories.

LAFCo also discourages boundaries which create areas where it is difficult to provide services, and where the new city limits would fall in the road right-of-way or would create "islands" of county roadway between longer stretches of city roadway.

Agricultural Land

Shasta LAFCo will approve an annexation which would convert prime agricultural land to other uses *only* if it can be found and determined that the proposal will lead to the planned, orderly, and efficient development of the area.

Need for Services

Shasta LAFCo recognizes that a need for services exists if any of these situations are present:

- The growth rate and/or density pattern indicates that the annexation area will be developed for urban use within five years.

- The area has been pre-zoned and there is a comprehensive community plan which is designed for urban uses, and development at the site is not inconsistent with the policies of the annexing agency's general plan.

- There is other evidence of impending urbanization, such as a pending or approved land use entitlement, the issuance of building permits, the creation of assessment districts, or other evidence of impending urban development.

Services and Orderly Development

Shasta LAFCo has determined that community needs for efficient services and orderly development are generally met most effectively by proposals which correct a threat to public health and safety, consolidate and restructure the activities and boundaries of public agencies to achieve efficiencies and economies, and to provide for the more logical and efficient delivery of local governmental services. One other area under this policy category which could stand alone as a policy statement and warrants an expanded discussion is:

> ***Agency Priority.*** LAFCo recognizes an order of preference in the consolidation of services, that preference, in descending order, being annexation to a city, then annexation to either an existing multi-purpose special district governed by the Board of Supervisors (a County Service Area), or an existing independent multi-purpose special district, whichever is more efficient for providing services, and then annexation to an existing single-purpose special district. In specifying *existing*, LAFCo recognizes that formation of new independent special districts should be minimized and duplication of services avoided.

The factors and requirements of Cortese-Knox, coupled with Shasta LAFCo's adopted policies, establish the framework for evaluating proposals. These requirements also assure a certain procedural logic to the Commission's decision-making process.

CITY OF REDDING
ELEMENT III PERSPECTIVES

As a participant in the process and as a forum for people for or against different proposals, LAFCo becomes a focal point where an actual decision is made by an oversight body. From the City's perspective, annexation decisions made by LAFCo, and the issues associated with those decisions, are intermingled with a lot of other issues, among them, and not necessarily in priority order are:

Long-range planning
Facility investments
Development outside the City
Growth
Raising funds for City services
Avoiding major expenses
LAFCo requirements
Managing utilities
State mandates
Room for future growth
Standards for development
Time
Incurred costs
Keeping land prices affordable

Generally, the City defines areas it expects to annex as "urban". Since LAFCo makes the decision on whether or not an annexation occurs, LAFCo, in effect, tells the City where its urban boundaries are or will be. Other than Churn Creek Bottom, the City basically limits its planning to the sphere of influence established by LAFCo, with the assumption that over the years, the community will grow into this area. The sphere of influence is, therefore, a key aspect of the City's planning efforts for streets, drainage, utilities and land use, and also represents to the City a public policy statement as to the area the City is expected to occupy. Conversely, the statute does not give LAFCo a similar review of County planning, yet County planning decisions, in effect, define where urbanization around the City or elsewhere in the County will occur, where obstacles to future expansion will be created, or where long term investment planning will be negated.

The annexation process, as it is currently established in the LAFCo statute, is extremely frustrating for the property owner, the City, and presumably the County *and LAFCo*. Timing is very important, especially if property owners want to annex in order to complete a development project. Property owners usually assume that an annexation can be done within a fairly short period time, and in keeping with their development schedule. Property owners and developers do not always understand the lead time needed by the City to evaluate the proposed annexation and make the decision on whether or not to proceed. Sometimes, too, the City must defer an annexation until a later time; sometimes the City rejects the annexation altogether.

The City goes through an extensive *pre-LAFCo* process associated with determining boundaries, services plans, financing agreements, and so forth. Followed by this is the time-consuming tax exchange process discussed in Element II. If a proposal makes it through tax exchange, LAFCo has its hearing and action process, which can, by itself, be protracted if controversy and property owner opposition develops. If LAFCo approves the annexation, there is a final "protest hearing", and the State closure process. *At the very best*, then, if there are no complications, an annexation can be accomplished in about three months; however, even the simple annexations take six months. A more complex annexation can sometimes take two years. The entire process is also compounded intermittently as the State and the public keep changing the rules on local government funding.

Boundaries are the toughest thing about annexations. The City must first meet the statutory requirement that the annexation area be within the City's sphere and contiguous at some point to the City boundary. After that, the City tries to secure 100% consent of the property owners to better insure that:

* property owners are willing to pay the costs to process the annexation,
* an election will not be required,
* formation of a Mello-Roos or assessment district will be successful, and
* logical areas to extend services are defined.

The record shows that LAFCo has approved most of the annexation boundaries submitted by the City; however LAFCo has also modified boundaries, sometimes significantly, and has also directed that additional surveys be done on larger areas to see if expansion is warranted. LAFCo has also deleted parcels in annexation areas, and has added County roadway to annexations. Therefore, there is always uncertainty about what LAFCo will do to the boundaries, or whether an annexation will go forward, and what hidden costs might be incurred.

From the City's perspective, if territory is urban or in the City's sphere of influence, it should be in the City with a full range of urban services. The already-developed Buckeye, Enterprise, and Cascade areas had such an adverse impact on the City that ever since these areas were annexed the City's planning philosophy has been that it is better to annex *before* urban development occurs rather than afterwards.

In retrospect, the City probably has more issues with the County than it does with LAFCo. Annexations are seldom easy. There are boundary problems to overcome, neighborhood or people issues to deal with, and feasibility determinations to be made on a number of issues. From the City's point of view, there are several flaws in the system which need to be addressed. To date, however, the only way the City can address these issues is through annexation.

In summary, the City will consider an annexation that is expenditure neutral, will provide resources to solve community problems, will minimize future problems, will support general plan objectives, will support extension of infrastructure, will lead to economic development, and which will protect the City's sphere of influence. Given the lead times for extension of services and permit approvals, annexations need to occur in advance of development so they become part of the City's financial and infrastructure planning process.

COUNTY OF SHASTA
ELEMENT III PERSPECTIVES

The County's evaluation of proposals to annex territory to any one of the three cities in the County generally focuses on three issues:

First, the impacts associated with the County's fiscal conditions;

Second, the potential for improvement of the community's economic development position; and

Third, the impacts on the natural environment and natural resources of the region.

(As noted in the sections above, matters related to timeliness and completeness of an annexation are properly left to Shasta LAFCo for its factual review and a non-political evaluation.)

With regard to the first issue, much has been said earlier in this report regarding the fiscal impacts of annexations on the involved jurisdictions, the relative gains and losses, and the need for maintaining the fiscal viability of county government. It is from this basis that the County must thoroughly evaluate each proposal to transfer potential revenue-generating territory to a city.

The County has an obligation to its constituents to ensure that the revenues it needs to continue to provide existing services and to meet the demands to serve new development are not lost as a result of annexation. Failure to maintain a vigilant position would lead to deteriorating county services or to increased taxes to generate the revenues necessary to maintain current service levels. In an era of fiscal uncertainty for local government, and particularly counties, the County must protect its limited, locally-controlled revenue sources.

Equally important is the need to stimulate the economic base of the region. To the extent that an annexation will create jobs, enhance the tax base, and provide needed public infrastructure, the County will actively support such proposals. On the other hand, annexation proposals which would result in inefficient public services, unsightly or "leap-frog" development, or threats to existing or potential commercial or industrial developments or productive agricultural operations should be scrutinized carefully and either modified or disapproved.

The County also has an obligation to protect the natural environment of the region. This natural environment is one of the best *attractions and incentives* we have to offer potential developers. Annexation proposals which could diminish the environment and affect the long-term long-term "quality of life" sought by all who consider this region as a place to live, work, and retire should be discouraged.

In conclusion, the County will support annexations that are fiscally beneficial to county government, that contribute to the economic development of the region, and that protect and preserve the natural environment which creates the region's exceptional quality of life.

ELEMENT IV
COMPARING SERVICES OPTIONS AND ALTERNATIVES

INTRODUCTION

Element IV has a three principal objectives: First, to identify and discuss how "community services" are presently provided to development in the sphere area surrounding the City of Redding; second, to identify and discuss options and alternatives for providing services to development, this discussion to include the limitations on extending City services; and third, to consider the more realistic and practical ways to overcome the limitations.

The discussion to follow assumes that the "community services" of paramount interest are sewers, water, and electricity. While street systems, storm water drainage, lighting, and other systems and facilities are certainly necessary, absent sewers, water, or power, the ability to complete a project is seriously impeded -- if not impossible. Further, sewer and water services generally define whether annexation to a city or a special district will occur.

Element IV Organization

Element IV begins with a discussion of the interrelationship of General Plan decisions and decisions with respect to the extension and delivery of community services. Thereafter the focus is on the realistic and practical alternatives and options for delivering services to new development. The use of scenarios will be an important part of this discussion as a mechanism to illustrate how the identified options and alternatives could be implemented.

When this report was first commissioned, it was thought that this element would include a discussion of the "differences" between County and City development standards, as well as a review of the differing revenue sources and expenditure categories available to counties and cities for extending and providing services.

With respect to the latter intention, the CMS report in Element I already presents this information; therefore, it is not repeated here. With respect to development standards, counties and cities typically work well together in developing compatible standards for projects in sphere of influence areas. When differences *do* develop, they tend to be linked to the development being proposed or to the future vision of the area, i.e., the City will think urban while the County will be thinking more suburban or rural; therefore, it seems more appropriate for these differences to be expressed under the "Perspectives" discussions at the end of Element IV.

SERVICES OPTIONS AND ALTERNATIVES

As part of determining General Plan land use designations for areas within their jurisdiction, cities and counties consider the "fit" of the land uses to available services. For example, in a very general sense, it would not be a good "fit" to assign a high-density residential land use designation to an area which does not now have nor is expected to have during the life of the Plan community water or sewer systems, or soils which can accommodate conventional septic tank/leach field systems or individual wells for water. On the other hand, it *would* be a good "fit" to match industrial uses with areas where community or regional sewer and water systems are available and potential conflicts between land uses are minimized.

In other words, General Plans -- and the land use designations in those plans -- are the "blueprints" for building a community and these plans are based primarily upon an analysis of *both* population growth and land use trends *as well as* the ability of the land or the availability of community infrastructure, existing or planned, to accommodate new growth and development.

Cities and counties recognize that over the life of a General Plan, conditions and issues -- economic, social, institutional -- emerge which call for a reexamination of the planned land uses and the provisions for providing services to development in a given area. This is why there is a General Plan amendment process available to property owners and developers, and this is also why cities and counties conduct periodic General Plan reviews.

Often a reexamination comes about when a developer identifies a site which appears to be suitable for his purposes from the perspective of location or economics or both, but the site lacks adequate sewer, or water, or electric facilities. What, then are the services options and alternatives available to the developer? Consider these hypothetical, intentionally *generic,* development scenarios:

<u>Annexation Likely</u>

"Developer A" proposes to build a residential subdivision on a site in the sphere area which is contiguous to the City on two sides and bordered on these two sides by residential development. The proposed lot sizes are consistent with those of adjacent development, and are of a size which requires "community" sewer and water systems. The City is the only provider of sewer and water systems in the area, and the City has indicated that these services could be extended, subject to the City's standard terms and conditions, and subject to annexation. The developer, in turn, is prepared to comply with the City's requirements.

Solely from the perspective of providing services to the proposed development, the most logical and practical alternative is connection to sewer and water service from the City's readily-available systems. Based, too, upon LAFCo's criteria and policies with respect to orderly development and efficient delivery of services, annexation is equally logical and "timely". Much the same could also be said for the next development scenario.

"Developer B" proposes to build an industrial facility on a single large parcel in the City's sphere. The parcel is contiguous to the City on two sides, and similar industrial activities are occurring on parcels adjacent to the project site. Given the size of the facility and the nature of the proposed industrial activity, "community" sewer and water services will be required. The City's water and sewer infrastructure is immediately adjacent to the project area and would be available to the site upon annexation and compliance with the City's terms and conditions.

Again, when considered solely from the services perspective, the most logical and practical alternative is services by the City. Likewise, annexation is logical, for the same reasons given above.

Annexation Difficult

Consider, however, how the situation changes when similar types of projects are proposed on sites somewhat removed from the City boundary.

"Developer C" proposes to build a residential subdivision on a large parcel which is not contiguous to the City. In fact, the project site approximately one-half mile from the nearest City boundary. Existing residential development bordering the project site is on lots large enough for individual septic tanks and leach fields and private water wells; however, the developer of the new subdivision proposes lots which would be too small to accommodate individual systems. The project would not be financially feasible for the developer if done with fewer, larger lots, nor is it feasible for the developer to construct a "community" sewer and water system to serve only the new project. Therefore, the developer proposes to install and extend the infrastructure necessary to connect to the City's sewer and water systems. The City has indicated that this project could be served by the City, subject to terms and conditions, and subject to annexation and formation of a Mello-Roos district. The issue under this scenario is how to deal with the owners of the intervening land who are not yet looking for City services, or who seek to block the developer's project, or who do not want to participate in the extension of services.

Developer D" proposes to build an industrial facility on a large parcel in the sphere area which is not contiguous to the City boundary. There are industrially-designated parcels between the project site and the City boundary, some of which are developed. Individual septic tank/leach field systems and private water wells serve existing development, as does PG&E; however, the size of the new facility and the nature of the proposed industry would require "community" sewer and water services. The City has indicated that these services could be extended, subject to terms and conditions, including annexation and formation of a Mello-Roos district and inclusion of intervening property in the annexation boundary.

Again, while generally accepted services and development principles would encourage services by the City in their sphere area, the fact that the projects proposed by Developers C and D are sited on parcels which are some distance from the City boundary will likely make compliance with the City's conditions for acquisition of services difficult. In these cases, then, annexation will be difficult if not impossible.

LAFCo requires that annexation areas be contiguous at some point to the City boundary, which means that in both cases some or all of the parcels "in between" would have to be included in the annexation. Given that existing homes adjacent to the proposed subdivision are already adequately served by individual sewer and water systems, and by PG&E, from their perspective there may be no particular need to convert to City services -- therefore no need to annex. Likewise, there is no particular incentive for these property owners to participate in a Mello-Roos district just so a developer can proceed with his project.

The same can also be said for the proposed industrial project. Existing industry could continue to be served by their individual on-site sewer and water systems, and by PG&E. One could argue that, over time, ownerships and uses, particularly in industrial areas, tend to change, and that the use changes may require "community" services. However, there is really no reliable way to predict when that might happen.

There *are* other options the developers could pursue, however, they may not be all that practical and workable. For example, the developers could seek City services via an "Out of Agency Services Agreement", also called "contract services". As discussed in Element III, such an agreement is subject to LAFCo approval, and must be within parameters established in the LAFCo statute. The burden is on the applicant to justify contract services in lieu of annexation. Furthermore, unless there is a clearly compelling reason -- resolution of a significant health and safety issue being the most compelling reason -- LAFCo is reluctant to approve such contract arrangements. Likewise, the City is reluctant to enter into such arrangements, for the reasons discussed in their "Perspectives" statement at the end of Element III.

The developers could also explore the potential for services from a special district. There might be an independent district in the area that could provide water service; however, there would not be much gained if sewers are not also available. Further, it would not be consistent with County policy to form a County Service Area (CSA), particularly in the City's sphere area, solely to provide either sewer or water or both services to a single new project. If the thought is that the CSA could be expanded to include adjacent parcels, it is likely that adjacent property owners would be just as opposed to this concept as they would be opposed to annexation.

As a practical matter, then, the developers options for securing urban services appear to be limited to either redesigning both the residential and industrial projects so that they could be served by on-site systems, or to putting the project "on hold" until a point in time when the City boundary and the City's infrastructure moves out to the project sites, or to seek another location. The advantage of staying with the original site depends on the cost of land and/or if they already own the property.

Annexation Unlikely

The preceding scenarios evaluated the services options and alternatives which might be available to new development *within* the City's sphere. The next scenario considers the alternatives and issues associated with providing services to development in an area outside the sphere, but within the City's "Planning Area" boundary. The specific area of focus is the Interstate 5/Knighton Road area of Churn Creek Bottom. Because the matter of sewer service to this area has been the subject of considerable discourse by and between the County, the City, developers, and landowners in the area, the discussion to follow will be more comprehensive than the discussions for the preceding scenarios, beginning with a general description of the area.

Area Description

The following description written in a 1988 memo to the Redding City Council remains, for the most part, accurate in 1996:

> "The Churn Creek Bottom area consists of 7.3 square miles. Its borders are easily discernible by the Sacramento River to the west and south, and bluffs to the east and north. The major geographic features of the area are the Sacramento River, Churn Creek, and Interstate 5. The width of the area varies from three miles at its widest point to about one mile at the south end. Access to the area is via Churn Creek Road, Meadow View Drive, Sunnyhill

Lane, and the Knighton Road interchange. Three of the five access points are through Redding streets. The length of I-5 through the area is about 4.7 miles.

"In terms of land use, the area is a mix. There are urban single-family subdivisions, apartments, and mobile-home parks; a school, a truck stop, scattered rural lots, farms, and traveling operations; an RV park, a golf course, and a gravel operation. The area is not all rural nor is it all urban. The area is bordered by urban development across the river and to the north. Areas to the east for the most part are still developing. Further east is the Municipal Airport.

"Under the County General Plan, the area is classified as Residential, 1.0 unit per two acres, Agriculture, with a minimum of three and five acres, Commercial, and Resource Habitat.

"The County General Plan does not recognize the existing mobile-home parks or small-lot subdivisions. Except along Riverland Drive, Knighton Road, and Commercial Way, the County has pretty much kept the commitment made several years ago to preserve a rural lifestyle. Since many of the existing lots are smaller than what the General Plan will allow, there is considerable potential, even under the existing General Plan classification, for subdivision and population increases in the area. . . . . Under the present zoning, much of the area is 5-acre minimums; however, there are also areas with minimums of 20,000 square feet and 2 acres."

Existing development in the area utilizes wells for domestic water, conventional septic tank and leach field systems for sewage disposal, PG&E for natural gas and/or electricity, and the Anderson-Cottonwood Irrigation District provides irrigation water.

Sphere/Annexation/Land Use Decisions

Shasta LAFCo has conducted two hearings on the matter of placing Churn Creek Bottom in Redding's sphere of influence. The first hearing was in September, 1983, after which the Commission elected *not* to place all or any portion of Churn Creek Bottom in Redding's sphere.

In early 1988, a residential subdivision at the north end of Churn Creek Bottom was annexed to Redding in order to resolve a water quality problem. At about the same time, the owners of the UnoCal truck stop were beginning to experience sewage disposal problems at the complex. Given these events, LAFCo agreed that it would be appropriate to include Churn Creek Bottom in its "five-year review" of adopted spheres. The outcome of the 1988 review was that the Commission again voted *not* to place Churn Creek Bottom in a city sphere, with the Commission also concluding that the area constituted an appropriate *buffer zone* between the Cities of Redding and Anderson.

Also in 1988 the City of Redding acquired a 54-acre parcel in the I-5/Knighton Road area. Later the City proposed to develop a regional softball complex on the property. The City's project was subject to a hearing before the Board of Supervisors, as well as litigation. The Board found the proposed use inconsistent with the County General Plan. Later the City abandoned the softball complex project because of the controversy over the project.

Knighton Road Sewer Service Effort

Beginning in early 1989, property owners stepped-up their efforts to secure sewer service for existing and planned development in the Knighton Road area. The operator of the UnoCal truck stop asked the County to assist in identifying alternatives for sewering the truck stop and proposed development on the north side of Knighton Road. A preliminary engineering study identified three alternatives: (1) Discharge to the proposed Stillwater regional treatment facility; (2) On-site treatment and discharge into the Sacramento River; and (3) On-site treatment with winter storage and effluent summer irrigation or leach field disposal.

Initially the plan was that the property owners would select an alternative which would best suit their development needs and financing capabilities, and the County would proceed on their behalf; however, the principal landowners were not able to meet the financing requirements under any of the alternatives, and the project languished.

By early 1992 the truck stop was again under considerable pressure by State and federal environmental protection and permitting agencies to develop a long-range solution to mounting surface drainage and sewage disposal problems. Also by this time the Clover Creek collection system and the Stillwater treatment facilities were operational. Based upon discussions with their engineer, the property owners concluded that connection to the regional system would be the most cost-effective project. The next step was to seek annexation to the City of Redding.

After completing their internal review and evaluation, the City submitted an annexation and concurrent sphere amendment application to LAFCo in June, 1994. To satisfy the requirement that the annexation area be contiguous to the City, private and public parcels between the Knighton Road area and the Sacramento River were added to the annexation. The tax exchange agreement process began, and for several months thereafter the City and the County negotiated; however, by the end of 1994 an agreement had not been adopted.

During this same period the County, at the request of property owners in the area, began to review the merits of another sewer service alternative in the event that tax exchange negotiations failed, or in the event that a tax exchange agreement was reached only to have LAFCo deny the annexation. This new alternative involved formation of a CSA which would then contract with the City for service from the Stillwater facilities. This arrangement would not require annexation and a related tax exchange agreement, nor would it be subject to LAFCo's approval of an "Out of Agency Services Agreement". In January, 1995 the Board of Supervisors began the CSA formation process. Shortly thereafter the Redding City Council took a formal position in opposition to the CSA/City contract concept.

While these events were taking place, two other situations developed: First, the Pacheco School District asked to be included in the CSA project; and second, the new owners of the truck stop (now National Auto/Truck Stops) were able to solve their sewage disposal and drainage problems to the satisfaction of the regulatory agencies. Consequently, they were no longer interested in participating in a "community" sewer project.

Given, then, the changing dynamics of property owner participation, coupled with City opposition to sewering without annexation, the principal property owners and developers concluded that access to the Stillwater facilities would likely not occur in a timely fashion, if at all. They indicated a renewed interest in constructing an area serving sewer and water project. The concept was that a CSA would be the public agency responsible for constructing, operating, and maintaining the new "stand alone" sanitary sewer facilities and a domestic water system.

In May, 1995 Shasta LAFCo approved formation of a CSA, *subject to terms and conditions* which required that the property owners enter into appropriate agreements with the County pertaining to project construction financing, as well as financing on-going operation and maintenance. For a period of time after LAFCo's action, the principal property owners considered various financing scenarios as well as potential financial participants; however, by May, 1996, no substantial progress had been made and the County was not actively engaged in development of a project. Also, given the time which had expired, LAFCo terminated further proceedings on the formation of the CSA.

It is clear that resolution of the issues associated with sewering the Knighton Road area appears to be no closer now, at the beginning of 1997, than they were when property owners first approached the County and the City near the end of the 1980's. It should, however, be equally clear that the lack of a sewer project (be it a City, County, or joint-agency project) -- as well as the lack of additional development in the area -- is *not solely attributable* to lack of a tax exchange agreement, or lack of annexation, or both. At critical points in the development of each project alternative, the principal property owners declined to meet financing requirements on their end; therefore, neither the County nor the City could be expected to proceed, and continue to incur associated costs, if there was reluctance on the part of property owners to participate financially in a project which would be to their direct benefit by creating opportunities for additional commercial development.

Putting Options and Alternatives in Perspective

The discussions under the preceding sections focused on the more *realistic and practical* options and alternatives for extending community services to new development in the area surrounding Redding. These alternatives are not, by any means, the *only* alternatives to meeting services needs. On a statewide basis, community services are provided by a broad spectrum of servers and server combinations. In California, 58 counties, more than 500 cities, and more than 3,000 special districts provide services to residential areas, commercial enterprise, and industrial development. From these 4000+ agencies, many examples of innovative and creative approaches to responding to the needs of new development can be found, the point being that there is no *one way* to solve services issues.

It should also be noted that throughout California the entire system for planning, building, and extending community infrastructure has changed dramatically in recent years. To paraphrase a discussion in the book **Guide to California Planning** pertaining to infrastructure, the traditional sources of funding for infrastructure have disappeared. The financial squeeze forces local governments into financial partnerships with individual developers in order to pay for new infrastructure. Sometimes it falls to the developers entirely to pay for new infrastructure, but more often it requires the local agency to risk its own financial status in order to provide facilities and infrastructure to large private development. This road must be taken carefully, because it intertwines private and public interests and leads to a further fiscalization of land use and potential deterioration in services levels.

CITY OF REDDING
ELEMENT IV PERSPECTIVES

From the City's perspective, this element is probably as important as Element I. While Element I is a careful analysis of today's direct costs, Element IV opens the talk to hidden costs and long term expectations that occur before, during, and after annexation occurs.

The City has a sphere of influence. Based on the sphere, the City does long range land use planning, plans capital expenditures, and plans its infrastructure with the expectation that annexation will occur. The only question, then, is *when*. Streets, water systems, sewer systems, energy acquisition, distribution systems, fire stations, and parks planning are long term decisions of the City. They are not 5 or 10 year land use decisions, they are 30, 40, and 50 year investments. As stated in the Land Use Element of the Redding General Plan, the policy of the City is if annexing land is or will be urban, is within the sphere of influence, makes fiscal sense, and is part of the various master utility plans, it should annex to the City. The City is not a one, five, or ten year entity that might move to another location tomorrow – it has been here for 100 years, and expects to be here for the next several hundred years.

Given the qualities of this area, people will come to Shasta County. At its biggest, Redding will not be more than two or three percent of the total County area, but to have healthy growth, to avoid stagnation, and to avoid being surrounded by other cities, Redding needs room to grow. That growth needs to occur in areas that are not overly fragmented, where it is forced to leap over existing urban or low density development in the unincorporated area, or be uneconomical for future buyers, the City, and the developer. The factors which will force expansion sooner than later are:

- threats of encroachment into the sphere of influence by other cities,
- urban development within the sphere but outside the City,
- funding decisions on extension of services,
- competition for revenues,
- seeking annexation before development occurs, not afterwards,

- funding of improvements needed in the City that are caused by growth, both within and outside the City,
- economic development opportunities,
- obtaining street right-of-way, park sites, and locations for capital facilities,
- preserving open space along the Sacramento River and on steep slopes, and
- protecting and expanding revenues.

In the City's sphere of influence area, it is the City's position that annexation is the foremost method of meeting services needs; therefore, the City does not look at alternatives to annexation, nor does it look at other alternatives to provide services which would make annexation more difficult later. This position is generally reflected in Council policy, the Redding General Plan, and in practice. These policies came about as a result of efforts to get the City to extend services outside the City.

In regard to the Knighton Road example, on two occasions the City informally submitted to County and LAFCo staff a proposed "annexation agreement" which was designed to accomplish the following:

1. Share property taxes.
2. Share sales taxes.
3. Provide that the City would not seek annexation of any area in Churn Creek Bottom that the County classified as residential or agriculture with a minimum parcel size of three acres or larger.
4. Provide that if the County classified an area as residential with a parcel size of less than three acres, or classified an area as commercial or industrial, that the Board and LAFCo would not oppose annexation to the City.

In addition, the proposed agreement was structured to:

1. Encourage the area to remain rural as long as possible.

2. Give the City the assurance that it would not have to deal with urban development outside the City in this area and that urban development would occur in the City.

3. Give the Board the assurance that the City would not try to annex the area.

4. Allay concerns to residents in the area that the City was trying to urbanize the area.

5. Minimize shopping between the City and County and give property owners a set of rules to go by if they want other than rural.

6. Make sure any urban development has a full range of urban services and contributes to the overall development of the urban area.

The section on the different annexation scenarios are essentially all true examples of what *can* occur. They also reflect some fundamental problems in dealing with land use, government revenue, long term planning, and competing interests. While the present system does work, it is flawed in that few parties take the long view, and when they do they usually have the rules changed on them by the State Legislature or by voter approval of State-wide propositions.

COUNTY OF SHASTA
ELEMENT IV PERSPECTIVES

The analysis under the scenarios presented in the preceding sections clearly demonstrates that no one option or alternative for providing services to new development is automatically the "best" or that the option should be automatically extended. Each development proposal has a set of circumstances which must be objectively evaluated to determine the optimum program to serve the specific needs of that development *in the context of the larger community and the various criteria used to make such an evaluation.* Such a services program may consist of a variety of services providers, each providing its service in the most cost effective manner for the community. On the other hand, there may be one clearly logical provider of the basic infrastructure needed to service new development.

For example, the County concurs that for new residential development which is immediately adjacent to the City, annexation and services by the City is the logical and appropriate alternative (this logic also supported by the fiscal impact findings in Element I and the LAFCo criteria in Element III). The County also agrees that new industrial development adjacent to the City should be served by the City after annexation. However, beyond these two types of scenarios, the County also recognizes that "annexation for services" could be difficult to achieve -- for any number of reasons -- and when this is the situation a choice must be made: Either the City, the County, and the developer can work with each other to implement an alternative services program, or the burden can be put solely on the developer to alter his project, or the developer can wait or not develop at all.

The Knighton Road area is a classic example of where "annexation for services" would be extremely difficult to achieve. Recognizing this, the desire to mutually work together to identify and implement a realistic and workable services alternative was precisely why the County proposed the City/County contract alternative. The terms of the contract would be established solely by and between the two agencies. It could include a provision for sharing of new tax revenue generated as a product of the new development which could happen with sewering in place. It could also contain specific provisions with respect to development standards. In other words, the agencies would have maximum flexibility in crafting a contract which could address each of their respective fiscal, development, and services issues. Likewise, the contract alternative could go a long way toward assuaging the socio-political opposition among surrounding landowners who have been adamant in their opposition to City annexation of *any* portion of Churn Creek Bottom.

From the County's perspective, if we -- the County and the City as services providers -- are truly committed to participating in economic development efforts, we cannot let potential development which would create jobs slip through our fingers simply because one or the other of us cannot bring ourselves to revisit and perhaps restructure *policy positions* which might now be somewhat "dated" and in conflict with current goals and objectives. We must be sure that policy positions are not based upon *misguided perceptions.* For example, when the City adopted its policy requiring annexation before services, how much of the decision was based upon the perception that the County's development standards were "lower"? In taking the policy position, how much was based upon the City's desire to impose restrictions which would effectively thwart development in the unincorporated sphere area?

Counties are aware of a line of thinking which holds that cities do "good" development, while counties do "bad" development in the unincorporated sphere area. Implied in this thinking is that counties allow "substandard" development which cities ultimately have to "fix". Counties do acknowledge that some historic development in areas which are now in city spheres may exhibit deficiencies in infrastructure; however, it should also be acknowledged that much of this development, when it occurred, predates spheres and urban influences in these areas. Furthermore, just as cities change over time, so do counties in terms of how they look at development. Therefore, from the County's perspective, any "good" vs "bad" line of thinking simply ignores the critical linkage between private property rights, density of development, and the *appropriate* standard.

The **Conflict or Consensus** report first referenced in Element II presents an excellent discussion of this linkage. To paraphrase from that report, when counties approve 'urban development', they have very strict standards for development which in many cases mirror those imposed by cities. Sewage treatment, a public water system, transportation mitigation, public services mitigation, and other improvements consistent with what cities require are also required by counties. The two principal forces which dictate approval of development in the unincorporated areas are private property rights and market forces. Often the type of development proposed is less dense and can rely upon approved septic systems and wells. Counties cannot agree with cities that *all* development must have sewer, curbs, gutters and sidewalks. This is not always appropriate.

Many counties encourage development which is more urban in nature to occur within their cities; however, simply because development occurs under approval by a county board of supervisors, rather than a city council, does not necessary violate this goal. . . . when a county chooses to develop at urban densities and in areas planned for growth, there is no differentiation from city development.

Both cities and counties are granted local planning and land-use regulation authority by the State Constitution. Police power, granted to the state by the U.S. Constitution and delegated to both cities and counties by Article XI, Section 7 of the California Constitution, is the authority to regulate citizen's behavior, including the use of private property, to promote health, safety and general welfare of the public. Land-use planning, zoning, subdivision regulation and building regulation are all appropriate exercises of police power. There is no distinction between cities and counties under current law regarding the right to plan for and seek economic development opportunities. In fact, other than revenue-generating authority, the law treats both cities and counties equally in this regard.

In addition, cities and counties are required under current law to prepare and adopt local general plans. These general plans are mutually exclusive -- meaning that they are in effect relied upon independently by the respective local jurisdictions when making development decisions; however, local jurisdictions should coordinate and cooperate with neighboring jurisdictions in the planning process due to the growing interdependence of cities and counties and regional impacts of future growth. Such cooperation is particularly important within cities' sphere of influence and counties are responsible to ensure that coordination occurs with their cities. (The **Conflict** report found that city/county cooperative efforts are, in fact, *the overwhelming rule, rather than the exception*). Since county boards of supervisors are elected to represent the county wide population, they are the appropriate entity to fulfill the role of ensuring coordination among various city plans to ensure compatibility within the county wide geographical area. This process should not be driven by individual cities' general plans or actions which advantage a single city at the expense of county wide residents.

So, to the question of growth and development being "good" or "bad" for a community, it is the County's observation that there is no simple "yes" or "no" answer. It *is* clear that there are costs associated with development. Development requires services, and unless development pays the full costs for these services, the public ends up subsidizing growth. On the other hand, there are the improved employment opportunities that many feel are created by new commerce and industry. Proponents of growth and advocates for development argue that any growth buildings the tax base and provides desperately needed public revenues.

Given, then, these differing perspectives, it is obvious that a complete understanding of the real benefits versus the real costs of development is essential long before making the decision with respect to who will provide sewer or water service.

FINDINGS, CONCLUSIONS AND PROPOSED ACTIONS

This report reflects the collaborative effort of County and City staff to develop and assemble under one cover the data and information which presents the fiscal "facts of life" with respect to costs for services and the revenues to cover those costs. An additional purpose was to identify and discuss the issues associated with tax exchange agreements, annexation, and the delivery of services to new development. Primarily from the fiscal impact analysis prepared by the consultant, it has been found that:

- New residential development adjacent to Redding results in *significant net costs to the County*; whereas, new residential development which is annexed to the City results in a *modest fiscal gain to the County* -- provided the County retains the pre-annexation share of property taxes.

- Annexed residential development results in *small net costs to the City*, while residential development which is not annexed is a *net fiscal gain to the City* because the new residents shop in Redding, thereby increasing sales tax revenues, while the range of services provided by the City is reduced.

- Density is an important factor when it comes to residential land use paying for itself. Higher density land use requires a disproportionately higher service level relative to revenues generated than does lower density land use; on the other hand, very low density (estate) residential development in annexed areas results in a significant net fiscal gain to the City.

- Sales tax producing commercial development will be of *significant fiscal benefit to whichever jurisdiction it locates in.*

- Industrial development (assuming no sales tax) is a *small fiscal drain on the jurisdiction in which it is located.*

- Mixed commercial-residential development, *when annexed*, generates *net revenue to both the City and the County*; however, when this development occurs in the unincorporated area, only the City continues to realize *some fiscal benefit*, while the costs for providing County services to the new residential far outweighs the benefits of new commercial revenue and results in a *substantial net loss* to the County.

- For annexations of *residential development only*, the County could reduce its share of property tax and still "break even"; however, for non-residential development, *the continued full allotment of property tax is insufficient to "break even".*

From the tax exchange, annexation, and services discussions which followed the consultant's report, it has been concluded that:

- Consideration should be given to initiating the tax exchange agreement process *prior to application to LAFCo.*

- Crafting of a "master" tax exchange agreement which could be uniformly applied to all annexation proposals would be difficult; however, consideration should be given to developing a standard approach or formula for each of the categories of annexation, i.e., residential, a commercial, and/or an industrial area, the objective being to achieve *expenditure/revenue neutrality* for both parties to the agreement.

- Annexation *need not always* be a prerequisite to provision of urban services in the sphere area; consideration *could* be given to alternative ways to meet services needs. Conversely, if it is clear that the City is the logical provider, annexation should be a high priority.

- Consideration should be given to revising policies which may now be inconsistent with economic development goals.

To begin to address the findings and conclusions cited above, as well as the other issues raised throughout this study, it is suggested that the following occur:

1. The Board of Supervisors and the City Council receive and discuss this report at a joint meeting. It is suggested that this meeting be in a "workshop" format, and that invitations to participate in the discussion be extended to the Board of Directors of the Economic Development Corporation and the Local Agency Formation Commission. The meeting, of course, would also be open to all interested groups and organizations, as well as the general public.

2. The Board of Supervisors and the City Council agree to convene again for the specific purpose of determining respective positions on tax exchange negotiations. It is suggested that any negotiated agreement be predicated on balancing property taxes in areas proposed for annexation to the City to allow both agencies to have a positive cash flow.

3. The Board of Supervisors and the City Council ask their State Assemblyman and State Senator to sponsor legislation whereby the following would occur:

   - In Shasta County, 14 percent of the property tax would be shifted to the County, thereby raising the County's share of the property tax from 15 to 29 percent (the net result of which would be to achieve parity with the statewide average).

   - In any area which is now within a city, or is annexed to a city in the future, 8 percent of the property tax would be shifted from schools to the city involved, in addition to what the agency now receives.

   - These two property tax shifts are not to be subject to any future property tax agreements.

4. Copies of this report be sent to LAFCo, to the City and County Planning Commissions, and to the City's General Plan Task Force.

5. Copies of this report also be sent to the League of California Cities and to the California State Association of Counties because the findings and conclusions herein are reflective of many of California's rural counties and cities.

The simple reality of the situation in California cities and counties is that the rules have changed. By both State propositions and legislative act, previously long-standing principles and practices with respect to the division and distribution of the revenues which local governments rely on to meet services demands have been substantially altered. Thus, for the good of both agencies and the constituency we serve, Shasta County and the City of Redding must be cooperatively adaptive and proactive in this new environment in order to make the highest and best uses of the scarce resources left to us.

AFTERWORD

If nothing else is gained from this study, what has been gained is a better understanding of each other's problems. Many areas of mutual interest and agreement have been identified, among them:

- *Both agencies need and want to be forward looking; it is not in the interest of either the County or the City to have the other agency fail; and both agencies must work together to address the impacts of actions of the State, the electorate, and the economy;*

- *More than ever before, both agencies must work together to manage the fiscal impacts of new development on their respective jurisdictions and on the community as a whole. The agencies must work together if we are to remain healthy, and to the extent the agencies can cooperate, then an improved relationship can occur.*

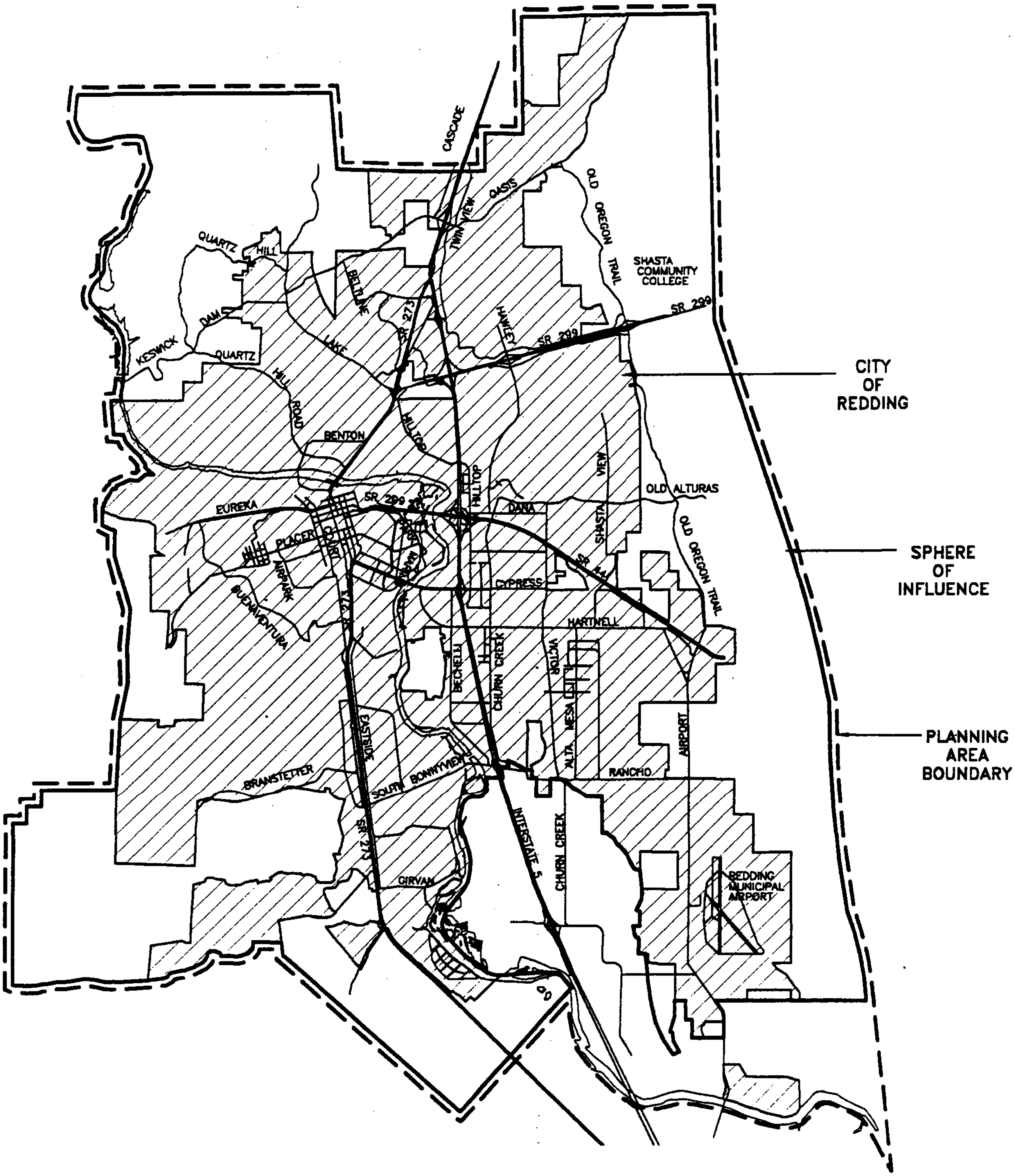
- *There is a great deal of interaction between development in the County and development in the City; both the City and the County encourage orderly development, discourage "shopping" between jurisdictions, and want to avoid major planning and services mistakes which result in expensive costs to cure.*

- *Land use cannot be looked at in isolation, you need to look at a package or mix of uses to get a full picture. Just as you can't market the City of Redding without also marketing Shasta County, you can't say the world stops at a city boundary line.*

This report should also go a long way toward fostering a better understanding and awareness on the part of the constituency served by local governments as to the realities of fiscal constraints on the delivery of services. Only through across-the-community understanding, coupled with an across-the-community willingness to join with local governments in finding solutions, that we will be able to retain the vitality and quality of life that we have come to enjoy in Shasta County's cities and unincorporated communities.

January, 1997

FIGURE 1



	SOURCE: **GIS DIVISION** DEVELOPMENT SERVICES DEPARTMENT	**CITY OF REDDING**	
	0 1 2 3 MILE	PLANNING AREA SPHERE OF INFLUENCE CITY LIMITS	ITEM:
DWG. NO: 1	DATE: JANUARY 1997		ATTACHMENT:

APPENDIX A - COUNTY COST/REVENUE "SPLITS"

1. SHASTA COUNTY FISCAL IMPACTS Summary Sheet

ASSUMPTIONS

total co pop	161600	household size	3	sales price house	140000	% prop tax to county
unincorp pop	67000	employee/1000sf --com	2.5	comm value per sf	75.00	after annexation
total co employees	64200	employee/1000sf -- ind	1.7	ind value per sf	40.00	0.15
unincorp employees	27400	% prop tax to co	0.15	sales per sf	155.00	

		in annexed	in non-annexed
RESULTS		areas	areas
	net revenue	(annex)	(unincorp)
res	per house	158.51	-301.76
comm	per sf	-0.08	1.33
industrial	per sf	-0.18	-0.17

COSTS		% total co	% unincorp	% res	% non-res	in annex per capita	in annex per employ	unincorp per capita	unincorp per employ
General	5422935	0.91	0.09	0.87	0.13	26.57	9.99	32.91	12.31
General cap	2858247	1.00	0.00	0.87	0.13	15.39	5.79	15.39	5.79
Intermt Fair	457872	1.00	0.00	0.00	1.00	0.00	7.13	0.00	7.13
Public prot	45633301	0.78	0.22	0.89	0.11	196.03	60.99	329.39	101.29
Public ways	11151234	0.12	0.88	0.81	0.19	6.71	3.96	125.34	72.01
Health	21941210	1.00	0.00	0.90	0.10	122.20	34.18	122.20	34.18
Public Assist	64621453	0.99	0.01	1.00	0.00	395.89	0.00	405.53	0.00
Education	556306	1.00	0.00	0.78	0.22	2.69	1.91	2.69	1.91
Recreation	138681	0.43	0.57	1.00	0.00	0.37	0.00	1.55	0.00
Contingency	1126017	0.70	0.30	0.86	0.14	4.19	1.72	8.53	3.44
Other uses	19922509	0.91	0.09	0.87	0.13	97.60	36.71	120.89	45.22
Reserves	1868207	0.22	0.78	0.82	0.18	2.09	1.15	19.92	10.73
sum	175697972					869.72	163.52	1184.32	294.00

REVENUES		total co residential	total non-res	unincorp residential	unincorp non-res	annex per capita	annex per employ	unincorp per capita	unincorp per employ
Prop tax	-	NA							
Prop 172	7857519	1	0	0	0	48.62	0.00	48.62	0.00
Sales	2425000	0	0	0	1				
LTF	1435000	0	0	1	0	0.00	0.00	21.42	0.00
Doc Trans	300000	0.8	0.2	0	0	1.49	0.93	1.49	0.93
TOT	400000	0	0	0	1				
Timber	500000	0	0	0	0	0.00	0.00	0.00	0.00
Licenses	2209413	0.07	0.21	0.57	0.15	0.96	7.23	19.75	19.32
Fines	3307528	0.33	0.07	0.48	0.12	6.75	3.61	30.45	18.09
Mon&Prop	1405959	0.76	0.17	0.06	0.01	6.61	3.72	7.87	4.24
Intergovt	104734498	0.935	0.002	0.046	0.017	605.98	3.26	677.89	68.24
Serv Chrge	9756665	0.955	0.01	0.025	0.01	57.66	1.52	61.30	5.08
Misc/Other	22858675	0.88	0.01	0.06	0.05	124.48	3.56	144.95	45.27
sum						852.55	23.83	1013.74	161.18

2. EXPENDITURE DISTRIBUTION

CATEGORY									
		attributable to entire county							
General				% entire co	0.91	% unincorp	0.09	% res	0.87
	amount	%	amount						
non-prog	548300	0.80	438640						
b of s	412842	0.95	392200						
cao	82159	0.80	65727						
clerk	145169	0.95	137911						
auditor	525158	1.00	525158						
tax coll	915345	1.00	915345						
assessor	1899519	1.00	1899519						
purchasing	45524	0.80	36419						
counsel	261518	0.80	209214						
personnel	-93653	0.90	-84288						
elections	719538	1.00	719538						
facilities	2917	0.80	2334						
econ dev	66536	0.80	53229						
surveyor	13951	1.00	13951						
csa	336781	0.00	0						
cen serv	-458669	0.80	-366935						
sum	5422935		4957962						
Capital	2858247	1.00	2858247	% total co	1.00	% unincorp	0.00	% res	0.87
Intermt Fair	457872	1.00	457872	% total co	1.00	% unincorp	0.00	% res	0.00
Public Protection		% total co		% total co	0.78	% unincorp	0.22	% res	0.89
				Attributable to res					
				%	amount				
defender	1929084	1.00	1929084	1.00	1929084				
grand jury	37106	1.00	37106	0.80	29685				
trial court	6751823	1.00	6751823	0.80	5401458				
child sup	5006311	1.00	5006311	1.00	5006311				
d.a.	2447708	1.00	2447708	0.80	1958166				
boating	487623	1.00	487623	1.00	487623				
detention	991535	1.00	991535	1.00	991535				
vic assist	297942	1.00	297942	1.00	297942				
jail	8169846	1.00	8169846	1.00	8169846				
juvenile hall	1885947	1.00	1885947	1.00	1885947				
probation	2620498	1.00	2620498	1.00	2620498				
boys camp	1028652	1.00	1028652	1.00	1028652				
animal con	353976	0.00	0	1.00	353976				
coroner	693544	1.00	693544	1.00	693544				
guardian	118857	1.00	118857	1.00	118857				
wildlife	12512	1.00	12512	1.00	12512				
lafco	140211	1.00	140211	0.80	112169				
ag comm	544992	1.00	544992	0.00	0				
bldg insp	894184	0.00	0	0.80	715347				
planning	592030	0.00	0	0.80	473624				
clerk	117761	1.00	117761	0.80	94209				
sheriff	6406333	0.07	448443	0.80	5125066				
marshall	1247902	1.00	1247902	0.80	998322				
substation	1397667	0.00	0	0.80	1118134				
recorder	687484	1.00	687484	0.80	549987				
dispatch	723997	0.07	50680	0.80	579198				
911	12799	0.00	0	0.80	10239				
admin	34977	0.80	27982	0.80	27982				
sum	45633301		35744443		40789913				
Public ways				% total co	0.12	% unincorp	0.88	% res	0.81
				% res	amount				
roads	10695434	0.12	1283452	0.8	8556347				
transit	450000	0.00	0	1.00	450000				
st airport	5800	0.00	0	1.00	5800				
sum	11151234		1283452		9012147				

2. EXPENDITURE DISTRIBUTION (cont.)												
Health	21941210		1.00	21941210		% total co	1.00		% unincorp	0.00	% res	0.90
						% res	amount					
public health	2292842					0.50	1146421					
env health	1192524					0.20	238505					
	21941210						19840770					
Public Asst						% total co	0.99		% unincorp	0.01	% res	1.00
social serv	18469118		1.00	18469118								
opp center	1660322		1.00	1660322								
indigent	1021377		1.00	1021377								
welfare	40862321		1.00	40862321								
vets	114557		1.00	114557								
caa	1635210		1.00	1635210								
housing	442875		0.00	0								
cdbg	415673		0.00	0								
sum	64621453			63762905								
Education	733306		1.00	733306		% total co	1.00		% unincorp	0.00	% res	0.78
						% res	amount					
library	431763					1.00	431763					
ag ext	81694					0.00	0					
farm adv	33294					0.00	0					
coop forest	9555					0.00	0					
sum	556306						431763					
Parks/Rec						% total co	0.43		% unincorp	0.57	% res	1.00
park dev	99642		0.20	19928								
vets hall	39039		1.00	39039								
sum	138681			58967								
Contingency						% total co	0.70		% unincorp	0.30	% res	0.86
						% res	amount					
general	653804		0.91	594962		0.87	568823.639					
prod imprv	97186		0.91	88439		0.87	84553.9247					
mental	14770		1.00	14770		1.00	14770					
opp cen	56257		1.00	56257		1.00	56257					
road	300000		0.12	36000		0.80	240000					
housing	400		0.00	0		1.00	400					
sum	1122417			790428			964805					
Other uses						% total co	0.91		% unicorp	0.09	% res	0.87
						% res	amount					
general	19651767		0.91	17883108		0.87	17097463					
gen prod	92576		0.91	84244		0.87	80543					
mental	121166		1.00	121166		1.00	121166					
social	32000		1.00	32000		1.00	32000					
pub sale	25000		0.80	20000		0.89	22347					
sum	19922509			18140518			17353519					
Reserves						% total co	0.22		% unincorp	0.78	% res	0.82
						% res	amount					
general	159926		0.91	145533		0.87	139139					
library	61293		1.00	61293		1.00	61293					
opp cent	17509		1.00	17509		1.00	17509					
wildlife	418		1.00	418		1.00	418					
road	1526090		0.12	183131		0.80	1220872					
reserves	102971		0.91	93704		0.87	89587					
sum	1868207			407883			1528818					

3. REVENUE ATTRIBUTION

CATAGORY	AMOUNT
Prop tax	na
Prop 172	7857519
Sales	2425000
LTF	1435000
Doc Trans	300000
TOT	400000
Timber	500000

		attribute to entire co		attribute to	attribution to residential		
LICENSES	AMOUNT	%	amount	unincorp only	%	total co pop	unincor pop
animal	50000	0.00	0	50000	1.00	0	50000
firearms	1500	1.00	1500	0	1.00	1500	0
sec hand	400	0.00	0	400	0.00	0	0
undeground	91000	1.00	91000	0	0.00	0	0
has mat	178000	1.00	178000	0	0.00	0	0
food est	135000	1.00	135000	0	0.00	0	0
amb	300	0.00	0	300	0.00	0	0
rec	29000	1.00	29000	0	1.00	29000	0
pest	350	1.00	350	0	0.00	0	0
repair	350	1.00	350	0	0.00	0	0
weigh	38100	1.00	38100	0	0.00	0	0
housing	7000	0.00	0	7000	1.00	0	7000
water per	77000	0.00	0	77000	0.80	0	61600
well per	60000	0.00	0	60000	0.80	0	48000
liquid waste	125000	0.00	0	125000	0.00	0	0
med waste	4500	1.00	4500	0	0.00	0	0
app filing	139426	0.00	0	139426	0.80	0	111540.8
bldg permit	369053	0.00	0	369053	0.80	0	295242.4
grdng permit	40267	0.00	0	40267	0.80	0	32213.6
fee renewal	33768	0.00	0	33768	0.80	0	27014.4
elec permit	41368	0.00	0	41368	0.80	0	33094.4
gas permit	16372	0.00	0	16372	0.80	0	13097.6
plmb permit	10732	0.00	0	10732	0.80	0	8585.6
smi tax	7721	0.00	0	7721	0.80	0	6176.8
mh utility	5470	0.00	0	5470	1.00	0	5470
mh install	5417	0.00	0	5417	1.00	0	5417
plan chck	76852	0.00	0	76852	0.80	0	61481.6
fha/cal vet	14756	1.00	14756	0	1.00	14756	0
up comp	200	1.00	200	0	1.00	200	0
trans perm	10000	1.00	10000	0	0.00	0	0
zoning	18000	0.00	0	18000	0.80	0	14400
plan review	34111	0.00	0	34111	0.80	0	27288.8
franchises	415000	0.00	0	415000	1.00	0	415000
use permits	56000	0.00	0	56000	0.80	0	44800
gun permits	15600	1.00	15600	0	1.00	15600	0
gun renew	36000	1.00	36000	0	1.00	36000	0
marr license	58500	1.00	58500	0	1.00	58500	0
explosives	600	1.00	600	0	1.00	600	0
burials	6700	1.00	6700	0	1.00	6700	0
sum	2209413		620156	1589257		162856	1267423

Attribution breakdown	
% total co population	0.074
% unincorp pop only	0.574
% total co employment	0.207
% unincorp employ only	0.146
	1.000

3. REVENUE ATTRIBUTION

CATEGORY	AMOUNT
Prop tax	na
Prop 172	7857519
Sales	2425000
LTF	1435000
Doc Trans	300000
TOT	400000
Timber	500000

		attribute to entire co		attribute to	attribution to residential			Attribution breakdown	
LICENSES	AMOUNT	%	amount	unincorp only	%	total co pop	unincor pop	% total co population	0.074
animal	50000	0.00	0	50000	1.00	0	50000	% unincorp pop only	0.574
firearms	1500	1.00	1500	0	1.00	1500	0	% total co employment	0.207
sec hand	400	0.00	0	400	0.00	0	0	% unincorp employ only	0.146
undeground	91000	1.00	91000	0	0.00	0	0		1.000
has mat	178000	1.00	178000	0	0.00	0	0		
food est	135000	1.00	135000	0	0.00	0	0		
amb	300	0.00	0	300	0.00	0	0		
rec	29000	1.00	29000	0	1.00	29000	0		
pest	350	1.00	350	0	0.00	0	0		
repair	350	1.00	350	0	0.00	0	0		
weigh	38100	1.00	38100	0	0.00	0	0		
housing	7000	0.00	0	7000	1.00	0	7000		
water per	77000	0.00	0	77000	0.80	0	61600		
well per	60000	0.00	0	60000	0.80	0	48000		
liquid waste	125000	0.00	0	125000	0.00	0	0		
med waste	4500	1.00	4500	0	0.00	0	0		
app filing	139426	0.00	0	139426	0.80	0	111540.8		
bldg permit	369053	0.00	0	369053	0.80	0	295242.4		
grdng permit	40267	0.00	0	40267	0.80	0	32213.6		
fee renewal	33768	0.00	0	33768	0.80	0	27014.4		
elec permit	41368	0.00	0	41368	0.80	0	33094.4		
gas permit	16372	0.00	0	16372	0.80	0	13097.6		
plmb permit	10732	0.00	0	10732	0.80	0	8585.6		
smi tax	7721	0.00	0	7721	0.80	0	6176.8		
mh utility	5470	0.00	0	5470	1.00	0	5470		
mh install	5417	0.00	0	5417	1.00	0	5417		
plan chck	76852	0.00	0	76852	0.80	0	61481.6		
fha/cal vet	14756	1.00	14756	0	1.00	14756	0		
up comp	200	1.00	200	0	1.00	200	0		
trans perm	10000	1.00	10000	0	0.00	0	0		
zoning	18000	0.00	0	18000	0.80	0	14400		
plan review	34111	0.00	0	34111	0.80	0	27288.8		
franchises	415000	0.00	0	415000	1.00	0	415000		
use permits	56000	0.00	0	56000	0.80	0	44800		
gun permits	15600	1.00	15600	0	1.00	15600	0		
gun renew	36000	1.00	36000	0	1.00	36000	0		
marr license	58500	1.00	58500	0	1.00	58500	0		
explosives	600	1.00	600	0	1.00	600	0		
burials	6700	1.00	6700	0	1.00	6700	0		
sum	2209413		620156	1589257		162856	1267423		

3. REVENUE ATTRIBUTION (cont.)								Attribution breakdown	
FINES	amount	% total	total co	unincorp	% res	total pop	unincor pop	% total co population	0.329
veh code	214169	0.30	64251	149918	0.80	51401	119935	% unincorp pop only	0.483
court	20350	1.00	20350	0	0.80	16280	0	% total co employment	0.074
warrants	63300	1.00	63300	0	0.80	50640	0	% unincorp employ only	0.115
substance	300	1.00	300	0	1.00	300	0		1.000
restitute	1200	1.00	1200	0	0.80	960	0		
ag comm	5500	1.00	5500	0	0.00	0	0		
fish & game	7200	1.00	7200	0	1.00	7200	0		
crt hse	245000	1.00	245000	0	0.80	196000	0		
crt hse ph 1	733950	1.00	733950	0	0.80	587160	0		
forfeit	100746	1.00	100746	0	1.00	100746	0		
alc rehav	23138	1.00	23138	0	1.00	23138	0		
fingerprnt	66175	1.00	66175	0	0.80	52940	0		
tax del	250000	0.00	0	250000	0.80	0	200000		
tax red	1500000	0.00	0	1500000	0.80	0	1200000		
penalties	2000	0.00	0	2000	0.80	0	1600		
delinq bnds	500	0.00	0	500	0.80	0	400		
teeter fee	30000	0.00	0	30000	1.00	0	30000		
teeter cost	44000	0.00	0	44000	1.00	0	44000		
sum	3307528		1331110	1976418		1086765	1595935		
								Attribution breakdown	
MON&PROP	amount	% total	total co	unincorp	% res	total pop	unincor pop	% total co population	0.764
interest	978170	0.90	880353	97817	0.80	704282	78253.6	% unincorp pop only	0.057
int on pay	22800	0.90	20520	2280	0.80	16416	1824	% total co employment	0.165
rent land	5300	1.00	5300	0	0.80	4240	0	% unincorp employ only	0.014
rent bldg	32000	1.00	32000	0	0.80	25600	0		1.000
fair	60443	1.00	60443	0	0.80	48354	0		
vending	150000	1.00	150000	0	0.80	120000	0		
locker	7600	1.00	7600	0	0.80	6080	0		
tel	750	1.00	750	0	0.80	600	0		
hlth ctr	148896	1.00	148896	0	1.00	148896	0		
sum	1405959		1305862	100097		1074469	80078		
								Attribution breakdown	
INTERGOVT	amount	% total	total co	unincorp	% res	total pop	unincor pop	% total co population	0.935
aviation	5200	1.00	0	0	1.00	0	0	% unincorp pop only	0.046
highway	3865577	0.20	773115	3092462	1.00	773115	3092461.6	% total co employment	0.002
mv in lieu	11489000	1.00	11489000	0	1.00	11489000	0	% unincorp employ only	0.017
ag comm	6600	1.00	6600	0	0.00	0	0		1.000
ag weights	5000	1.00	5000	0	0.00	0	0		
trapping	50500	1.00	50500	0	0.00	0	0		
pesticide	20000	1.00	20000	0	0.00	0	0		
nursery	11000	1.00	11000	0	0.00	0	0		
bridge rep	1153560	0.20	230712	922848	0.80	184570	738278.4		
trans enhanc	320000	0.00	0	320000	0.80	0	256000		
storm dam	750000	0.20	150000	600000	0.80	120000	480000		
fema	45000	0.20	9000	36000	0.80	7200	28800		
forest	1400000	0.00	0	1400000	0.00	0	0		
grazing	4752	0.00	0	4752	0.00	0	0		
cdbg	214305	0.00	0	214305	1.00	0	214305		
redding con	0	1.00	0	0	1.00	0	0		
anderson	0	1.00	0	0	1.00	0	0		
all other	85394004	1.00	85394004	0	1.00	85394004	0		
sum	104734498		98138931	6590367		97967889	4809845		

3. REVENUE ATTRIBUTION (cont.)								Attribution breakdown	
SRV CHRGES	amount	% total	total co	unincorp	% res	total pop	unincor pop	% total co population	0.955
lafco	25000	1.00	25000	0	0.80	20000	0	% unincorp pop only	0.010
encroach	10000	0.00	0	10000	0.80	0	8000	% total co employment	0.025
subdiv	5000	0.00	0	5000	0.80	0	4000	% unincorp employ only	0.010
parc map	56800	0.00	0	56800	0.80	0	45440		1.000
er fees	14000	0.00	0	14000	0.80	0	11200		
mining	59000	0.00	0	59000	0.00	0	0		
gen plan	5200	0.00	0	5200	0.80	0	4160		
egg	900	1.00	900	0	0.00	0	0		
residue	2750	1.00	2750	0	0.00	0	0		
pests	7000	1.00	7000	0	0.00	0	0		
apiary	750	1.00	750	0	0.00	0	0		
pesticide	31500	1.00	31500	0	0.00	0	0		
fict name	48500	1.00	48500	0	0.00	0	0		
tent map	2100	0.00	0	2100	0.80	0	1680		
solid wste	87000	1.00	87000	0	0.00	0	0		
water	4500	0.00	0	4500	0.00	0	0		
land use	20000	0.00	0	20000	0.80	0	16000		
liq waste	15000	1.00	15000	0	0.00	0	0		
food est	4500	1.00	4500	0	0.00	0	0		
comm pool	400	1.00	400	0	0.00	0	0		
caf ins	12000	1.00	12000	0	0.00	0	0		
coll	16000	1.00	16000	0	1.00	16000	0		
lost books	2000	1.00	2000	0	1.00	2000	0		
libr	4500	1.00	4500	0	1.00	4500	0		
others	8222265	1.00	8222265	0	1.00	8222265	0		
sum	8656665		8480065	176600		8264765	90480		
MISC&OTHER								Attribution breakdown	
	22858675							% total co population	0.880
								% unincorp pop only	0.050
	based on proportional distribution of other revenues (approx)							% total co employment	0.010
								% unincorp employ only	0.060
									1.000

APPENDIX B: CITY RESULTS SUMMARY
Three Persons Per Home

	Low Density Residential		1000 Square Foot Commercial		1000 Square Foot Industrial	
	Annexed	Not Annexed	Annexed	Not Annexed	Annexed	Not Annexed
REVENUES						
Property Taxes	$98	$0	$53	$0	$28	$0
Sales and Use Taxes						
sales taxes						
based on commercial area	$0	$0	$1,550	$0	$0	$0
based on population	$267	$267	$0	$0	$0	$0
transient occupancy tax	$0	$0	$0	$0	$0	$0
franchise taxes	$19	$0	$1	$0	$0	$0
real property transfer tax	$5	$0	$0	$0	$0	$0
business taxes	$0	$0	$187	$0	$91	$0
Other Revenue						
licenses and permits	$27	$0	$6	$0	$4	$0
fines, forfeitures, penalties	$7	$4	$0	$0	$0	$0
intergovernmental revenues	$138	$0	$0	$0	$0	$0
charges for services	$36	$2	$2	$0	$1	$0
use of money and property						
sales based on commercial area	$6	$2	$22	$0	$2	$0
sales based on population	$9	$4	$3	$0	$2	$0
revenue from internal depts.	$65	$0	$36	$0	$36	$0
gas tax and local transportation funds	$89	$0	$0	$0	$0	$0
public safety sales tax	$0	$0	$0	$0	$0	$0
other	$13	$0	$0	$0	$0	$0
Total Revenue						
Based on Commercial Area	**$502**	**$9**	**$1,856**	**$0**	**$163**	**$163**
Based on Population	**$772**	**$278**	**$288**	**$0**	**$163**	**$0**
EXPENDITURES						
General Government	$89	$22	$57	$16	$41	$2
Police	$209	$0	$173	$0	$123	$0
Fire	$144	$0	$83	$0	$59	$0
Public Works						
engineering	$12	$0	$8	$0	$6	$0
land Development & transportation	$10	$0	$6	$0	$4	$0
streets	$100	$54	$147	$134	$24	$15
Planning	$58	$0	$37	$0	$27	$0
Recreation and Culture		$0		$0		$0
recreation and culture	$56	$56	$0	$0	$0	$0
parks maintenance	$56	$56	$0	$0	$0	$0
Debt Service	$19	$5	$13	$4	$8	$0
Capital Outlay	$23	$6	$15	$5	$11	$1
Total Expenditures	**$775**	**$198**	**$539**	**$159**	**$303**	**$19**
NET REVENUE						
Sales Tax Based On Commercial Area	**($274)**	**($189)**	**$1,317**	**($159)**	**($139)**	**($19)**
Sales Tax Based On Population	**($4)**	**$79**	**($251)**	**($159)**	**($139)**	**($19)**

Appendix C: Examples of How Property Tax Can Change Over Time

As noted in the text, under existing rules linked to the adoption of Proposition 13, estimating property tax over time requires assumptions about the general inflation rate, the appreciation of real estate, and the frequency of real estate turnover or re-sale. Under California law, a property's assessment can generally increase by a maximum of 2% per year, except when the property is sold or transferred. At the time of re-sale, the property is re-assessed at the sales price. Total property tax is generally set at 1% of the sales prices (remember, that the City and County receive only fractions of that 1%; most of the total goes to the schools). Thereafter, the assessment again increases only 2% per year until it is sold again.

Thus, if property is not sold and inflation is anything higher than 2%, then property tax actually declines over time in constant (ie: inflation adjusted) dollars. Consider an example of a new house in an annexation area that sells for $140,000. The total property tax is 1% or $1,400 (again, the County receives only about 15% of that or $210; the City would receive only about 7% of that or $98). If inflation is only 3% (a reasonable approximation for the last several years), the tax in constant dollars continually declines if the house is not re-sold and re-assessed at a new, higher market value. See Example 1, below.

In Example 2, we envision the house being re-sold every seven years -- an often used rule-of-thumb. Here we assumed that the housing market is such that the average annual appreciation of home prices is approxmitely equal to the overall inflation rate. In that situation, the property tax generally declines (in constant dollars) each year until the house is re-sold. At that time, the tax adjusts back to the original amount (in constant dollars), then declines each year until the property is sold and re-assessed again.

When most people invest in real estate, they anticipate that it will appreciate faster than the overall inflation rate. And, in the long run, history has shown that this is generally the case. For any particular time frame, however, this appreciation rate is difficult to predict with certainty. Example 3 illustrates the case where real estate is appreciating at an average annual rate of 5%, higher than the overall inflation rate of 3%. As in Example 2, we also assume that the house re-sells every 7 years. The result is that property tax declines (in constant dollars) at first, until the house is re-sold. Because the value of the house has increased faster than the overall inflation rate, however, the new property tax is higher (in constant dollars) than it was in the beginning. For the next seven years, the tax declines annually, but when it is re-sold again, the property tax increases once more.

It is interesting to note the underlying basis of this element of California municipal finance: in the case of property tax, increasing revenues over time are contingent on a real estate market in which values are rising faster than the general cost of living and where the turnover rate is robust.

1. Property tax performance: Inflation 3%; no resale of property

year	prop tax	prop tax constant $	gain/loss constant $	inflation rate
1	1400			
2	1428	1386	-14	0.03
3	1457	1373	-27	
4	1486	1360	-40	
5	1515	1346	-54	
6	1546	1333	-67	
7	1577	1320	-80	
8	1608	1308	-92	
9	1640	1295	-105	
10	1673	1282	-118	
11	1707	1270	-130	
12	1741	1258	-142	
13	1776	1245	-155	
14	1811	1233	-167	
15	1847	1221	-179	
16	1884	1209	-191	
17	1922	1198	-202	
18	1960	1186	-214	
19	2000	1175	-225	
20	2040	1163	-237	
			-2438	

	2. Property tax performance: real estate appreciation equals inflation; 7 year average re-sale								
	year	prop tax	prop tax	gain/loss					
			constant $	constant $		inflation		real estate	
	1	1400				rate		appreciation rate	
	2	1428	1386	-14		0.03		0.03	
	3	1457	1373	-27					
	4	1486	1360	-40					
	5	1515	1346	-54					
	6	1546	1333	-67					
	7	1577	1320	-80					
	8	1722	1400	0					
	9	1756	1386	-14					
	10	1791	1373	-27					
	11	1827	1360	-40					
	12	1864	1346	-54					
	13	1901	1333	-67					
	14	1939	1320	-80					
	15	2118	1400	0					
	16	2160	1386	-14					
	17	2203	1373	-27					
	18	2247	1360	-40					
	19	2292	1346	-54					
	20	2338	1333	-67					
				-763					

	3. Property tax performance: inflation 3%; real estate appreciation 5%; 7 year average re-sale								
	year	prop tax	prop tax	gain/loss					
			constant $	constant $		inflation		real estate	
	1	1400				rate		appreciation rate	
	2	1428	1386	-14		0.03		0.05	
	3	1457	1373	-27					
	4	1486	1360	-40					
	5	1515	1346	-54					
	6	1546	1333	-67					
	7	1577	1320	-80					
	8	1970	1602	202					
	9	2009	1586	186					
	10	2050	1571	171					
	11	2091	1556	156					
	12	2132	1540	140					
	13	2175	1525	125					
	14	2218	1511	111					
	15	2772	1833	433					
	16	2827	1815	415					
	17	2884	1797	397					
	18	2942	1780	380					
	19	3000	1762	362					
	20	3060	1745	345					
				3142					

Appendix D: Examples of Differences in Fiscal Impacts Among Housing Types

As noted in the text, the type of residential development that this study focused on was "low density" (about three units per acre) detached, single family housing. Such housing is presently the most likely to be proposed in potential annexation areas. However, other types of housing may be developed, and their fiscal impacts will be different.

The variables that can affect costs and revenues include the valuation of the unit, frequency of re-sale, household size, traffic generation, the need for new streets, frequency of police service calls, and household income. The fiscal model being used for assessing alternatives for the City's General Plan update has the capability of accepting assumptions about these variables to highlight different fiscal impacts among housing types.

The relationships among the variables that contribute toward the differences in fiscal impacts are complex. For example, estate housing tends to more expensive than multifamily on a per unit basis, and therefore, contributes more property tax per unit. Detached units tend to turn over more frequently than apartment complexes; as noted in Appendix C, more frequent re-sale can help raise property tax revenues. Households that can afford estate housing tend to have higher incomes and, thus, tend to generate above average per capita sales tax revenues. Police calls tend to be more frequent (on a per capita basis) in higher density areas than in lower density ones. On the other hand, estate housing requires more new streets to be built on a per unit basis, resulting in higher per unit street maintenance costs compared to higher density development.

The following table shows the preliminary results for different kinds of units built in newly annexed areas. The net fiscal impacts relate to the City's General Fund.

Preliminary Results: Differences in Impacts Among Certain Housing Types
City of Redding

Housing Type	Very Low Density "Estate Housing"	Low Density "Single Family"	High Density "Multi Family"
Net Fiscal Impacts (per unit)	+$169	-$4	-$100

Note that these are preliminary only and may be refined as work on the City's General Plan progresses. However, as expected, the larger, more expensive homes show a net positive impact on the General Fund while the smaller, multifamily units generate net costs. Detached single family, as already discussed in the text of the study, is essentially "neutral."