

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

1112 I Street #100

Sacramento, California 95814

(916) 874-6458

August 15, 2007

TO: Sacramento Local Agency Formation Commission
FROM: Peter Brundage, Executive Officer
RE: Arden Arcade Status Report

RECOMMENDATION

1. Receive and File Status Report
2. Approve Amended Scope of Work and Cost related to the Arden Arcade Incorporation Proposal.

The amended scope of work options are outlined in this report as well as set forth in the attached proposal.

The Commission may choose any of the options set forth. I am recommending that the Commission amend the scope of work to evaluate all of the options (A, B, C, and D). This should provide the Commission with sufficient information to evaluate this incorporation proposal. It may be possible to defer Option D until it is determined if there is any benefit if the new city were to assume service responsibility of the Special Districts.

Total Estimated Cost Increase: \$125,000

DISCUSSION

Funding Issues and Projected Timelines

The Arden Arcade Incorporation proponents missed a key payment deadline to initiate the Comprehensive Fiscal Analysis (CFA) and Environmental Impact Report (EIR) by July 1, 2007.

I sent a letter to the Arden Arcade Incorporation Proponents on July 10, 2007. In that letter I stated that LAFCo could no longer complete the CFA and EIR to meet the proponents November 2008 election timeline and further that we would not process the application without payment. In response to my letter, the proponents called and advised me that they were not withdrawing their application and that they did not think that I had the authority to terminate processing their application. I reiterated that the Commission had instructed me on June 6, 2007, not to proceed without funding and a signed indemnity agreement from the proponents. Several times during discussions with the proponents, I stated that timing of the payments was critical to meet the proposed (original) work schedule.

Although the proponents had signed an indemnity agreement, payment as well as signing the Funding Agreement was critical to commencing work. I further told the proponents that the examination of the proposal would include an annexation analysis based on Commission direction. In the original scope of work the consultant had indicated that such an analysis would require additional funds. The Commission directed me to obtain a cost estimate and scope of work for a more detailed annexation analysis for Commission consideration during August. (This issue will be discussed in subsequent sections of this report).

After discussing this delay with LAFCo's consultants and legal counsel, I modified the Funding Agreement to indicate that LAFCo would no longer be able to complete the studies in time to meet the November 2008 election deadline, however, the consultants stated they would make every effort to do so. The proponents did not make sufficient payment until July 25, 2007 and did not sign the Funding Agreement until August 3, 2007. They signed this Agreement under protest.

Among their other concerns, the proponents felt that it was unfair to sign a Funding Agreement not knowing the cost related to the amended scope of work for the annexation alternative analysis.

Summary of Key Changes to Funding Agreement

The Funding Agreement between LAFCo and the Incorporation Proponents was amended to take into account the impacts of both payment delays and amounts. **As a result of these delays, LAFCo will most likely not be able to meet the proponent's timeline to complete studies in time for a November, 2008 election, however, LAFCo and its consultants will make every reasonable effort to do so.** In addition, further delays in timing of payments and payment amounts less than the revised payment schedule will result in the stoppage of work and/or the slow down of work by LAFCo and its' consultants resulting in additional delays.

In addition, LAFCo's consultants are only authorized to expend funds on deposit and shall cease work immediately as soon as funds on deposit are expended. No work will resume until sufficient deposits are made by the proponents.

Finally, the CFA scope of work and cost will be amended based on Commission direction relating to the annexation analysis described in subsequent sections of this report.

As with any application, the applicants have several options:

1. Withdraw their application and request a refund of unspent funds, or
2. Continue to fund and process the application over an extended time period.

In the event the application is processed over a longer period of time, there are likely greater risks and costs incurred by the proponents, even if the VLF sunset provision is extended or terminated by the legislature.

As to incorporations, the fiscal data necessary for the Comprehensive Fiscal Analysis must be based on the most recent fiscal data available. As a result, fiscal data must be updated every fiscal year. Thus, delays in processing the Arden Arcade Incorporation Proposal would require the proponents to pay the costs of updating the CFA and possibly the EIR.

If the November 2008 election is missed, it may be possible to conduct a special election. However, even if it is possible to conduct a special election, the proponents would have to pay the election costs prior to conducting the special election. In the event the VLF sunset provision is extended, it then becomes possible to conduct the election at a later General Election. ***Under either scenario, the proponents would be required to update the CFA and EIR studies as discussed above, in the event the data is not current at the time of the public hearings.***

Summary of Funding Issues

The processing of an Incorporation petition is a lengthy and expensive process. To date, the Arden Arcade Incorporation Committee has spent a significant amount of time and money on this effort. As with many applications before LAFCo, delays are not unusual. The Panhandle Annexation to the City of Sacramento has taken 6 to 7 years and it is still a pending application. Also, the Folsom Sphere of Influence took many years to complete. Both of these projects required various studies to be updated. As well, prior incorporations have taken more than a year to process and sometimes several years to process.

I believe I have treated the Arden Arcade Incorporation Application fairly and consistently with past practices as well as LAFCo Policies. This approach is consistent with all applicants: it allows the proponents/applicants to raise funds and process the application over a longer period time. However, it will likely increase the risk and costs to be borne by the proponents/applicants.

Timing of the project schedule is dependent on the applicants' ability to pay the required fees on time and also provide the required information to LAFCo as requested by the Executive Officer.

Scope of Work and Cost of Annexation Study for the CFA

On June 6, 2007, the Commission directed staff to obtain an amended scope of work from Burr Consulting, LAFCo's CFA consultant to more thoroughly review an annexation analysis and potential impacts to Special Districts. Burr Consulting has prepared several scope of work options and cost estimates that examine annexation and other special district reorganization options. The Commission may select the scope of work option that it feels is appropriate to examine as part of its evaluation of the incorporation proposal.

The scopes of work and cost estimates are summarized below. The complete scopes of work and cost estimates are attached to this report.

Summary of Options for Amended Scope of Work

Options	A	B	C	D
Cost	\$40,000	\$10,000	\$2,000	\$5,000 to \$10,000
Total Cost per Option	\$40,000	\$10,000	\$20,000	\$55,000

Total Cost of all options \$125,000.

Option A: Basic (minimum scope of work)

Cost: \$40,000

This option assumes that if the City of Sacramento were to annex the affected territory, Special Districts would be detached. It also assumes that the City of Sacramento would be the sole service provider similar to its current service delivery system. This option does not analyze the impacts to the special districts. It assumes that districts would be reorganized to continue to provide services to the remaining unincorporated area. In some cases, an affected district may be dissolved depending if it lies entirely within the proposed city limits.

This option will show a comparison of service levels, costs and revenues between the proposed city, the City of Sacramento (sole provider) and by the County of Sacramento. Note: This option also assumes that services would continue to be provided by Special Districts for the proposed City of Arden Arcade and the County of Sacramento (status quo).

Option B: Evaluate the Array of Municipal Services Provided by the City of Citrus Heights.

Cost: \$10,000

This option would evaluate the current municipal service delivery system of the City of Citrus Heights as it exists today. The City of Citrus Heights is similar in both population and vacant land inventory.

This option would examine the existing services and service configuration of Citrus Heights in an attempt to determine if that City is competitive with the City of Sacramento and the County of Sacramento service delivery system i.e. are there potential efficiencies or inefficiencies that may translate to Arden Arcade.

Option C: Examine the impact on the Arden Arcade Incorporation if the proposed city provides services that previously have been provided by the Special Districts

Cost: Up to \$20,000 depending on the number of special districts studied.

This option would explore the advantages and disadvantages of reorganizing special districts as part of the proposed incorporation in terms of a city service delivery system. The model would explore the possibility of the proposed city providing any number of services currently provided by Special Districts. There are approximately 10 special districts that serve the proposed incorporation territory. All or a portion of these districts could become part of the new city. There are a multitude of various combinations that could be studied.

The proponents petition did not propose any change to the special district governance structure. Nonetheless, LAFCo has the ability to study and recommend changes as part of the incorporation process. Note: there are also several private water purveyors that serve this area which are not subject to LAFCo.

This analysis would evaluate a broader service delivery system that could be provided by the new city if Special Districts were reorganized. This type of analysis can get relatively complicated because there are a number of possible combinations.

Option D: Analyze the Impacts to Special Districts if they are reorganized as part of the incorporation

Cost: \$5,000 to \$10,000 per district

This option evaluates the impacts to special districts if they are reorganized as part of the incorporation. This analysis evaluates the impacts to the special districts and areas served by these special districts after reorganization and incorporation. For example, several

districts would have to be annexed to other districts; this analysis would evaluate if the reorganized districts could adequately serve the area outside of the proposed city limits.

Executive Officer's Comments

I am asking the Commission to select the scope of work from the above options that you feel is most appropriate. I recommend that the Commission approve options A, B, C, and D discussed above. It may be possible to defer Option D until it is determined if there are any benefits if the proposed city assumes service responsibility of services currently provided by Special Districts.

Based on my recommendation, the total increase in cost is estimated to be \$125,000. The proposed budget had included \$25,000 for contingency and other costs. This amount was factored in as an estimate to cover unforeseen charges. Therefore, the net increase at this time would be $\$125,000 - \$25,000 = \$100,000$.

Beverly Burr has indicated that there may be some cost savings if all of the options are evaluated simultaneously because there could be some overlap of data and analysis. Also, additional cost savings may occur if it is determined that some of the possible reorganizations result in a fatal flaw. The amount of time to evaluate and analyze these cases would be reduced but not eliminated.

Revised budget for the CFA and amended scope of work, EIR and Legal Costs:

CFA	\$215,000
EIR	145,000
Legal	<u>30,000</u>
Total	\$390,000

LAFCo's share is not to exceed \$100,000 and the proponents share is \$290,000 or whatever the balance may be based on actual costs.

Legal costs are only an estimate and the above budget no longer includes a contingency of \$25,000.

I believe this recommendation is the most comprehensive approach and it appears to be consistent with Commission direction to evaluate annexation and potential implications to Special Districts.

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

Respectfully,

A handwritten signature in black ink that reads "Peter Brundage". The signature is written in a cursive, flowing style.

Peter Brundage
Executive Officer

PB

(fyarden arcade august 2007 status report)