31. Recommendation: Adopt Board Policy that is intended to guide the County's review and response to annexation and sphere of influence proposals pursued by cities, including the negotiation of property tax transfer resolutions, and promote the ability of residents and other stakeholders of unincorporated County communities to determine their preferred government structure alternatives; and instruct the Chief Administrative Officer and other County departments, as appropriate, to implement the Board Policy effective immediately. (03-1209)

ADOPTED

See Supporting Document

Absent: None

Vote: Unanimously carried

County of Los Angeles
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DAVID E. JANSSEN
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

May 6, 2003

Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

POLICY – CITY ANNEXATIONS AND SPHERES OF INFLUENCE (ALL AFFECTED) (3 VOTES)

IT IS RECOMMENDED THAT YOUR BOARD:

1. Adopt the attached Board Policy that is intended to guide the County's review and response to annexation and sphere of influence proposals pursued by cities, including the negotiation of property tax transfer resolutions, and promote the ability of the residents and other stakeholders of unincorporated County communities to determine their preferred government structure alternatives.

2. Instruct the Chief Administrative Office (CAO) and other County departments, as appropriate, to implement the Board Policy effective immediately.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The Board of Supervisors does not have an adopted policy providing guidance to County staff, cities, and residents about the County's interests in city annexation of unincorporated areas. The proposed Policy provides such guidance.

The key elements of the Policy are as follows:

- The Policy provides that the County will: (1) promote the ability of residents and other stakeholders of unincorporated communities to determine their preferred government structure, (2) establish the criteria for County review, evaluation, and negotiation of each city sphere of influence and annexation proposal including analysis of the fiscal, social, geographic, environmental, and/or operational impacts of the proposal on the affected unincorporated community and the County, and (3) establish periodic review and evaluation of unincorporated "island" areas to ensure that opportunities for providing the most cost-effective and responsive services to these areas are explored.

- Provides background on the three types of local government services: regional services provided by the County to all County residents and properties; basic municipal services provided by cities within their corporate limits and by the County to unincorporated communities; and extended municipal services defined as nonbasic municipal services or a higher level of basic municipal services.

- Establishes policies to guide County staff in evaluating city annexation and sphere of influence proposals, and in negotiating property tax transfers related to annexation proposals.

California's tax structure provides for a significant discrepancy between the tax revenues generated by residential as opposed to commercial and industrial areas. Commercial and industrial areas generally produce higher levels of property tax revenues and often generate some level of sales tax. Residential areas produce lower relative property tax revenues and no sales tax. As a result of these differences, cities have historically had a preference for annexing commercial and industrial areas. Over time, this pattern has culminated in County unincorporated communities that are predominantly residential.

In addition, California's tax structure does not recognize county government's dual responsibilities: the provider of regional services, such as health and social services, for the benefit of all residents of the County regardless of place of residence; and the provider of municipal services, such as law enforcement, parks and road maintenance to the residents of unincorporated communities.

Annexations involving commercial and industrial parcels may negatively impact the County. While fiscal impact is not necessarily a reason to oppose city annexations, it does merit action by the County to carefully evaluate city annexation proposals.

Implementation of Strategic Plan Goals

The proposed policies are consistent with the following Strategic Plan Goals and Strategies:

Goal 3: **Organizational Effectiveness**: Ensure that service delivery systems are efficient, effective, and goal oriented.

Goal 4: **Fiscal Responsibility**: Strengthen the County's fiscal capacity.

FISCAL IMPACT/FINANCING

Approval of the Board Policy will not have a direct fiscal impact on current services. However, implementation of the Policy will help ensure the County considers opportunities to maximize the potential long-term benefits of annexation and minimize the operational and fiscal impact inherent in certain annexation proposals.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Cities were provided an opportunity to give input on the Annexation-Sphere of Influence Policy proposed for your Board's consideration. CAO staff conducted briefings on the proposed policy with four city manager groups representing sub-regional councils of government located throughout Los Angeles County. In addition, staff contacted those cities that do not belong to a city managers group.

The proposed Policy provides four sets of guidelines for County staff in evaluating city annexations and sphere of influence proposals, and in negotiating property tax transfer agreements related to annexations.

Pursuant to Revenue and Taxation Code Section 99, a property tax transfer resolution must be negotiated between the County and a city proposing annexation. Provisions of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 require that the property tax transfer resolution be adopted by both the affected city council and your Board prior to any hearings and/or action by the Local Agency Formation Commission (LAFCO) for Los Angeles County on an annexation proposal. In addition, the Cortese-Knox-Hertzberg Act also provides that prior to determining a new sphere of influence for a city or updating an existing sphere of influence, a process of consultation between the affected city and the County must occur for the purpose of seeking agreement on boundaries, development standards, and zoning requirements. If an agreement is reached, LAFCO is required to give the agreement great weight in making its final determination of the city's sphere of influence. Spheres of influence are plans adopted by LAFCO for the probable physical boundaries and service area of a local agency. An area cannot be annexed to a city unless it is within a city's sphere of influence. These State statutes outline the role and authority of your Board in the city annexation and sphere of influence process.

The four Policy guidelines are summarized as follows:

1. General Policies

a. Develop unincorporated areas so that they can be assimilated into adjacent areas should residents so desire.

b. Support revenue allocations that equitably reflect the County's regional service responsibilities.

c. Encourage or discourage annexations and/or spheres of influence based upon the impact to an unincorporated community's sense of identity, revenue base, land use planning and development patterns, and/or the impact on County initiated programs to improve infrastructure or services in the area.

d. Support providing options to unincorporated community residents who desire a higher level of service while remaining unincorporated. Such options may include assessment districts, County budget decisions, local revitalization programs, community standards districts, or service contracts.

e. Review annexation proposals on a case-by-case basis rather than adopting master agreements or formulas.

2. Annexation Policies

a. Oppose annexations that carve up or fragment an unincorporated community that has a strong sense of identity.

b. Oppose annexations of commercial or industrial areas that would have a significant negative impact on the County's provision of services, unless the annexing city provides financial or other mitigation satisfactory to the County.

c. Review annexations that include areas where the County has established revitalization efforts and/or has committed significant resources for the benefit of the unincorporated community to determine the impact on the County program(s) and oppose if the annexation will adversely impact the County program(s).

d. Review annexation proposals to ensure that streets or other local County facilities that serve the annexing area are included, and when a street is the demarcation between the area proposed to be annexed to a city and unincorporated area, the city boundary should be to the centerline of the street.

e. Consider the cumulative impact of past city annexations on the County generally, and the affected unincorporated community specifically.

f. Request an annexing city to demonstrate support for the annexation proposal by the affected landowners or voters in the annexing area.

3. Unincorporated "Island" Policies

a. Inventory unincorporated islands in urbanized areas that do not include residents or business, but consist of County roads, streets, flood channels or other public purpose lands and facilities, and pursue annexation of such areas to adjacent cities.

b. Periodically conduct assessments regarding the most cost-effective, responsible and community-desired manner to deliver municipal services to unincorporated "island" areas.

c. Consider service delivery options that may include contracts with neighboring cities, expanding County contract services to city areas, and/or annexation to the adjacent city.

d. The desires and preferences of "island" residents will be a guiding factor in developing service delivery options.

4. Sphere of Influence Policies

a. Support the statutory requirements for regular reviews of city spheres of influence.

b. The provisions of the City Annexations and Sphere of Influence Policy will guide the participation of the County in city sphere of influence reviews.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

The proposed Policy strives to promote the ability of residents and other stakeholders of unincorporated communities to retain their unincorporated status if that is their desire. It also promotes the identity of such communities by indicating that the County will oppose annexations that are detrimental to the ability of the community to determine its own destiny because such annexations fragment the community and/or negatively impact the fiscal viability of the community and the County's ability to provide municipal services thereto. In addition, the proposed Policy provides that the existence of a County project to enhance County infrastructure and/or services to a community, or other County community revitalization activities, may be a basis for opposing a city annexation.

CONCLUSION

City annexations and sphere of influence decisions may have a major impact on unincorporated communities' ability to determine their preferred government structure alternatives and on the County's ability to continue to finance the provision of municipal services to these communities. The proposed Policy, if adopted by your Board, would ensure that these issues are made a part of County staff review of annexation and sphere of influence proposals and negotiation of property tax exchange resolutions. The Policy will also provide effective notice to cities about your Board's position that may be factored into their development of annexations and spheres of influence proposals.

Upon adoption of the City Annexations and Spheres of Influence Policy, the CAO will provide a copy to each city in the County.

Respectfully submitted,

DAVID E. JANSSEN
Chief Administrative Officer

DEJ:LS
MS:os

Attachment (1)

c: Auditor-Controller
County Counsel
Executive Director, LAFCO

Los Angeles County
BOARD OF SUPERVISORS POLICY MANUAL

Policy #:	Title:	Effective Date:
0.000	City Annexations and Spheres of Influence	00/00/00

PURPOSE

Establish policies for the review and consideration of city annexation proposals and for the establishment and updating of city spheres of influence by the Local Agency Formation Commission, which determine where future annexations are likely to occur.

The County of Los Angeles supports the concept that urbanizing areas should have the option to attain municipal status through annexation, if so desired by area residents and not in conflict with County interests. Recognize that Los Angeles County is generally an urban county with a diverse population and a variety of communities, lifestyles and interests, and that unincorporated area residents may also chose to remain unincorporated under County government and not become part of a city.

In recognition of the population diversity and variation between unincorporated communities, the County will review and evaluate each city annexation proposal or sphere of influence amendment on a case-by-case basis and negotiate with each city in good faith as needed, under the guidance of this policy to determine its fiscal, social, geographic, environmental and/or operational impacts on the affected unincorporated community(s) and the County of Los Angeles. Furthermore, it is County policy to provide assistance to residents of unincorporated areas in determining their preferred government structure alternatives.

Finally, while many unincorporated communities reflect distinct, mature, and cohesive identities, other areas are characterized as "islands" created as a result of historical incorporations and annexations. Providing municipal services may involve sending County staff across neighboring cities to respond to community needs. Ensuring the most cost-effective and responsive services to these areas may involve exploring such vehicles as contracts with surrounding/neighboring cities or expanding County services via contract to address the needs of a larger area.

REFERENCE

Government Code Section 56000, *et seq.*, Revenue and Taxation Code Section 99

Background:

A. There are three general categories of local government services:

1. Regional Services are services provided by the County at a standard level to all County residents and properties. Regional services include public health, welfare and social service programs, the criminal justice system, property assessment, tax collection, voter registration and many others.

2. Basic Services are available countywide but are provided by cities, either directly or through contract, within their corporate boundaries, and by the County in unincorporated areas. Basic services include law enforcement, road maintenance, animal control, land use planning, zoning and building inspection and others. Although service levels may differ between jurisdictions, all cities and the County provide at least a basic level of these services.

3. Extended Services may be either additional, non-basic types of services or a higher level of a basic service. Extended services are provided either by cities or special districts. The County generally does not provide extended services out of general tax revenue, but can administer dependent taxing districts (e.g. assessment and benefit districts) to support extended services.

B. Traditionally, cities have been incorporated, or their boundaries expanded, to encompass additional areas because residents and/or property owners have desired improved, extended services.

C. Pursuant to State Revenue and Taxation Code Section 99, the County Board of Supervisors is responsible for negotiating property tax exchange resolutions with any city proposing to annex unincorporated territory. The County may also enter into a master property tax exchange agreement with other local agencies within the County to provide for a formula for determining property tax exchanges.

D. Heretofore, the Los Angeles County Board of Supervisors has not adopted a formal policy regarding city annexations. Nor has the Board adopted a master property tax exchange formula. However, an informal formula negotiated by the Chief Administrative Office and the Los Angeles League of Cities has been historically used.

Policies:

A. General Policies

1. The County encourages development of unincorporated areas in a manner that permits their assimilation into adjacent cities, should area residents desire

annexation.

2. The County supports revenue allocations that equitably reflect the County's regional responsibilities as well as the responsibilities of the County, cities and special districts for basic and extended services.

3. In implementing this Policy, the County may encourage or discourage all or a part of specific annexations or spheres of influence proposals based upon the impact on an unincorporated community's sense of identity, revenue base, land use planning and pattern of development, and/or impact on County-initiated programs to improve services and infrastructure in the area, so as to avoid premature annexations that may prejudice more favorable long-term government structures.

4. The County Board of Supervisors supports the concept of providing positive options to residents of unincorporated communities who desire a higher level of service but prefer to remain unincorporated. Such options may include the use of assessment districts, the County budget process, local revitalization programs, contracts with neighboring cities, special planning standards or other mechanisms, as needed, subject to Board approval, and in most cases, subject to the approval of the affected communities.

5. Based upon the above policies, the County Board of Supervisors has determined that it is in the best interest of the County's unincorporated communities to review annexation proposals on a case-by-case basis rather than to adopt master agreements or formulas relating to the allocation and/or exchange of revenues between the County and affected cities.

B. Annexation Policies

1. The County will oppose annexations that carve up or fragment an unincorporated community that has a strong sense of identity.

2. The County will oppose annexations of commercial or industrial areas that have a significant negative impact on the County's provision of services, unless the annexing city provides financial or other mitigation satisfactory to the County.

3. Annexations that include areas where the County has established revitalization efforts and/or has committed significant resources for the benefit of the unincorporated community will be reviewed to determine the impact on the County program(s) and may be opposed if the annexation will adversely impact the County program(s).

4. The County will review annexation proposals to ensure that streets or other County local facilities that serve the annexing area are included so that the city assumes responsibility for maintaining these public facilities. When streets are the demarcation between jurisdictions, the City boundary should be to the centerline of the streets that form the boundary of their jurisdiction.

5. The cumulative impact of past city annexations on the County generally, and the affected unincorporated community specifically, will be considered by the Board of Supervisors.

6. The Board of Supervisors requests that any city initiating an annexation demonstrate support for the annexation by the affected landowners for uninhabited territory or registered voters for inhabited territory.

C. Unincorporated "Islands" Policies

1. The Board of Supervisors directs its staff to develop and maintain an inventory of unincorporated islands in urbanized areas that do not include residents or businesses, but consist of County roads, streets, flood channels or other public purpose lands and facilities. These island areas should be considered for annexation to adjacent cities.

2. The County will periodically conduct "make-buy-sell-annex" assessments regarding the most cost-effective, responsive and community-desired manner in which municipal services are delivered to unincorporated "island" communities.

3. These assessments will examine whether services could be provided more effectively by neighboring cities via contracts with the County or if County services could be expanded to other surrounding communities to achieve economies of scale. Formal annexation to a neighboring city will also be reviewed where relevant.

4. The desires and preferences of the residents of the affected "island" community will be a guiding factor in developing recommendations. As appropriate, residents will be provided with service comparison and related information regarding the potential annexation to a neighboring city.

D. Sphere of Influence Policies

1. The County Board of Supervisors supports the intent of Government Code Section 56425, *et seq.,* and will work with LAFCO and all of the cities of the County to review and update city spheres of influence according to its provisions which provide a process for negotiating agreements between the County and each city on sphere updates.

2. The County will include the above-stated policies as a component of the negotiating process for spheres of influence and may oppose any sphere of influence proposal that is inconsistent with those policies.

RESPONSIBLE DEPARTMENT

Chief Administrative Office

DATE ISSUED/SUNSET DATE

Issue Date: **Sunset Date:**

mailto:countypolicy@bos.co.la.ca.us