



## AGENDA ITEM 8A

**MEETING:** May 15, 2019  
**TO:** Humboldt LAFCo Commissioners  
**FROM:** George Williamson AICP, Senior Advisor  
**SUBJECT:** **Potential McKinleyville Incorporation Discussions**  
The Commission will receive a report for information only.

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### BACKGROUND

McKinleyville is the largest unincorporated community in Humboldt County, with an estimated population of over 15,000. Periodically, there is interest in incorporating the McKinleyville Community into the County's eighth city. Incorporations must be approved by LAFCo.

### DISCUSSION

LAFCo staff met with County Supervisor Madrone, who is conducting incorporation research. He is requesting County revenue and expenses information for serving the community and wanted information on the LAFCo process. Incorporation proceedings may be initiated either by a resolution of an affected local agency or by petition. A registered voter petition must be signed by not less than 25% of the registered voters residing in the area to be incorporated.

Prior to initiating an incorporation proposal, the applicant (usually a citizens' incorporation committee or an affected local agency) prepares a preliminary study to determine the feasibility of incorporation based on proposed and alternate boundary configurations and government organization. A preliminary feasibility study should generally include the following information:

- A description of the proposed incorporation boundaries and possible alternatives;
- A discussion of the range and level of services potentially available to the community after incorporation;
- A projected revenues and expenditures forecast resulting from incorporation; and
- An analysis of the effects of the incorporation upon adjacent communities, special districts, and the county.

It is important to conduct a preliminary feasibility study at an early stage (i.e., prior to initiation by a resolution or petition) to ensure that an incorporation proposal is financially feasible prior to filing an application to LAFCo.

At the County's request, Humboldt LAFC prepared and provided the attached Incorporation process fact sheet. In addition, a letter outlining the feasibility study process described above is being provided to the County and Supervisor Madrone.

### RECOMMENDATION

Staff recommends the Commission receive and file this report.

Attachment Incorporation process fact sheet



1125 16<sup>th</sup> Street, Suite 202, Arcata, CA 95521  
 (707) 445-7508 / (707) 825-9181 fax  
 www.humboldtlaoco.org

## CITY INCORPORATION FACT SHEET

Incorporation is defined as the creation or establishment of a new city with corporate powers. At least 500 registered voters must reside within the proposed territory. Most cities incorporate to gain local control of land use decisions and to access new revenues to support local services. Incorporation shifts local government responsibility for an unincorporated area under the jurisdiction of a county board of supervisors to a newly established city council. This process is accomplished under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, the law governing Local Agency Formation Commissions (LAFCo) and local government organizational changes.

Currently there are seven incorporated cities in Humboldt County (see Table 1). As in the rest of California, most cities were incorporated more than 30 years ago. Statewide, the local government revenue landscape has changed dramatically since a city was last incorporated in Humboldt County. Changes to State law such as Proposition 13 (1978) and Senate Bill 89 (2011) have impacted the ability of newly incorporated cities to adequately finance needed services.

City incorporation requires LAFCo approval and majority voter approval as part of an election. The long-term financial viability of a city is key to LAFCo approval of an incorporation proposal. Historically, California has seen a significant number of cities with insufficient or inadequate economic and revenue bases. In response, LAFCo is required to conduct an in-depth analysis when evaluating incorporations, including requiring revenue neutrality, a comprehensive fiscal analysis, and a plan for services.

**Table 1: Humboldt County Incorporations**

City	Incorporation Date	Founding Legislation
<b>Eureka</b>	1856	Charter City
<b>Trinidad</b>	1870	General Law
<b>Ferndale</b>	1893	General Law
<b>Arcata</b>	1903	General Law
<b>Fortuna</b>	1906	General Law
<b>Blue Lake</b>	1910	General Law
<b>Rio Dell</b>	1965	General Law

## Provision of Services

Essential to a community incorporation discussion is weighing the community's municipal service needs against the types and level of service they are able to finance. As with all new cities, the municipal government will evolve over time. Initially, many services may be provided by contract with the county or other entities. Over time, these services may be provided directly by the city.

Currently, McKinleyville receives municipal services primarily from Humboldt County and the McKinleyville Community Services District (see Table 2). A community services district (CSD) the closest form of government to a municipal corporation. Government Code (G.C.) §61100 empowers CSDs with the ability to provide a wide variety of services to a community, including water and wastewater, fire protection, road maintenance, and parks and recreation services. However, CSDs cannot exercise land use control, which is the role of the county in unincorporated areas. McKinleyville incorporation would therefore place planning and land use control in the hands of a city council elected by McKinleyville residents.

Additionally, the financial ability of a CSD may be considered more limited than that of a city or county. Although CSDs can collect property taxes, issue bonds, collect user fees and charges, and enact special taxes with 2/3 voter approval, cities can use other revenue-raising measures, such as transient occupancy taxes, utility user taxes, and general taxes enacted with majority voter approval.

**Table 2: McKinleyville Municipal Services**

Service	Provider
Water	McKinleyville CSD
Wastewater	McKinleyville CSD
Fire Protection	Arcata Fire Protection District
Paramedic/Ambulance	Arcata Mad-River Ambulance
Parks and Recreation	McKinleyville CSD
Roads/Drainage	Humboldt County
Law Enforcement	Humboldt County
Land Use and Planning	Humboldt County
Street Lighting	McKinleyville CSD

## Initiation of Incorporation Proceedings

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incorporation based on proposed and alternate boundary configurations and government organization.

A preliminary feasibility study should generally include the following information:

- A description of the boundaries proposed for incorporation and possible boundary alternatives;
- A discussion of the range and level of services potentially available to the community after incorporation;
- A forecast of projected revenues and expenditures that would result from incorporation; and
- An analysis of the effects of the incorporation upon adjacent communities, special districts, and the county.

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### **Revenue Neutrality**

Any proposal that includes incorporation should result in a similar exchange of both revenue and responsibility for service delivery among the county, the proposed city, and other subject agencies, and as a result serve to minimize the long-term negative fiscal effects incorporations have on counties. LAFCo may approve a proposal that includes an incorporation if it finds either of the following (G.C. §56815):

1. The county and all of the subject agencies agree to the proposed transfer; or
2. The negative fiscal effects have been adequately mitigated by tax sharing agreements, lump-sum payments, and payments over a fixed period of time, or any other terms and conditions.

Financial impacts to affected agencies, positive and negative, must be identified and mitigation measures proposed as needed. As a part of this process, affected agencies need to verify existing levels of service, associated costs, and revenues associated with the provision of services to the proposed incorporation area. This information is used to establish the base year costs and revenues (G.C. §56810).

If precise cost figures and levels of service are not available or if the reporting agency does not collect data specific to the proposed incorporation area, the reporting agency must document the source of information and the method used to extrapolate the data. Projected general government costs are frequently based on staffing levels, salaries, and associated costs for cities of similar size.

Explicitly identifying existing levels of service, associated costs, and revenues associated with the provision of services to the proposed incorporation area is the first step in developing a Comprehensive Fiscal Analysis with revenue neutrality determinations, a process which is initiated once an incorporation application is submitted to LAFCo.

## LAFCo Process

Upon receipt of application filing materials, LAFCo staff reviews for completeness and initiates the development of a Comprehensive Fiscal Analysis (CFA) and related CEQA documents. The CFA provides LAFCo with information necessary to make the determinations required by statute. This typically includes developing a municipal budget model that reflects a hypothetical city budget during its first ten years of municipal operations. In addition to a public review period, a State Controller's Office review of the CFA may be necessary.

Following review and a public hearing, LAFCo has the authority to approve, deny, or modify the incorporation proposal (as defined in the petition) and must in all cases impose specific terms and conditions regarding the transition of governance to a municipality. If LAFCo approves the proposal, and if no formal majority protest as specified in the law occurs, an election would be held. Majority voter approval is required to create the incorporated city.

### City Incorporation Flowchart

