



AGENDA ITEM 6B

MEETING: March 20, 2024
TO: Humboldt LAFCo Commissioners
FROM: Colette Santsche, Executive Officer
SUBJECT: **Letter of Support Assembly Bill 3277**
The Commission will receive a report regarding AB 3277 which is currently being considered by the state legislature. This bill, if enacted, would clarify the tax exchange process for special district formations, explicitly when subject agencies waive the exchange of property tax revenue.

The State Legislature reconvened from the winter recess on January 3, 2024. Approximately 2,100 bills were introduced during the 2024 legislative session, which included an estimated 1,500 bills in the Assembly and 600 in the Senate. The deadline to introduce a bill was February 17. All bills must pass out of their house of origin (Assembly or Senate) no later than May 17. Afterwards, all bills must pass through both houses by August 31 with a 30-day period for the Governor to either sign or veto passed bills. More information is available on <http://leginfo.legislature.ca.gov/>.

BACKGROUND

LAFCo staff, through participation on the California Association of LAFCOs (CALAFCO) Legislative Committee, monitors proposed LAFCo-related legislation. During the January 12th and February 16th Committee Meetings, CALAFCO provided an update on bills continued from the 2023 legislative session and this year's Omnibus Bill. CALAFCO and the Assembly Committee on Local Government regularly co-sponsor the annual Omnibus Bill to propose technical and non-substantive amendments to the CKH Act.

DISCUSSION

The 2024 Omnibus Bill initially included five proposed amendments to the CKH Act to clarify LAFCO processes and authority. However, through a recent review by the legislative staff of the proposed amendments, only one was deemed qualified to be in this year's Omnibus Bill – the other four proposals were determined to have substantive changes to the CKH Act and therefore unqualified to move forward. As a result, this year's bill will only include proposed language that would clarify the tax exchange process for special district boundary changes explicitly when subject agencies waive the exchange of property tax revenue, as described below. This bill is currently in print and is scheduled to be presented to the floor in April.

Government Code Section 56810 provides the process and authority for LAFCo to determine the amount of property tax revenue to be exchanged by an affected local agency involving the formation of a new special district. However, current law is unclear on guidelines for agencies seeking or not seeking a share of the ad valorem property taxes. The proposed change under the Omnibus Bill would add language

maintaining the authority and requirement for a LAFCo to determine the property tax revenues to be exchanged for an affected agency in applications involving the formation of a special district whereby the affected agency is seeking a share of the 1% ad valorem property taxes, while excluding this requirement for LAFCo if the applicant has indicated that the agency will not seek a share of the 1% ad valorem property taxes. The bill's language is shown in Attachment A for further review.

RECOMMENDATION

Staff recommends the Commission discuss this item and consider action on recommendation to support AB3277 and direct the Executive Officer to submit a letter of support for all stages of the legislative process.

"I move that the Humboldt LAFCo support AB 3277 and direct the Executive Officer to submit a letter of support, on behalf of the Commission, for all stages of the legislative process up to and including signature by the Governor."

Attachments

Attachment A – AB 3277 (Omnibus Bill)

Attachment B – AB 3277 Letter of Support



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AB-3277 Local agency formation commission: districts: property tax. (2023-2024)

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CALIFORNIA LEGISLATURE— 2023–2024 REGULAR SESSION

ASSEMBLY BILL

NO. 3277

Introduced by Committee on Local Government

February 27, 2024

An act to amend Section 56810 of the Government Code, relating to local government.

LEGISLATIVE COUNSEL'S DIGEST

AB 3277, as introduced, Committee on Local Government. Local agency formation commission: districts: property tax.

Existing law, the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, establishes the sole and exclusive authority and procedures for the initiation, conduct, and completion of changes of organization and reorganization for cities and districts. Existing law requires proceedings for the formation of a district to be conducted as authorized by the principal act of the proposed district, and authorizes the local agency formation commission in each county to serve as the conducting authority, as specified. Existing law requires a commission to determine the amount of property tax revenue to be exchanged by an affected local agency, as specified, if the proposal includes the formation of a district, as defined.

This bill would, instead, require a commission to determine the amount of property tax revenue to be exchanged by an affected local agency if the proposal includes the formation of a district and the applicant is seeking a share of the 1% ad valorem property taxes. By adding to the duties of a local agency formation commission, the bill would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that, if the Commission on State Mandates determines that the bill contains costs mandated by the state, reimbursement for those costs shall be made pursuant to the statutory provisions noted above.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: yes

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 56810 of the Government Code is amended to read:

56810. (a) (1) If the proposal includes the incorporation of a city, as defined in Section 56043, the commission shall determine the amount of property tax revenue to be exchanged by the affected local agency pursuant to this section and Section 56815.

(2) If the proposal includes the formation of a district, as defined in Section 2215 of the Revenue and Taxation Code, *and if the applicant is seeking a share of the 1 percent ad valorem property taxes*, the commission shall determine the amount of property tax to be exchanged by the affected local agency pursuant to this section.

(b) The commission shall notify the county auditor of the proposal and the services which the new jurisdiction proposes to assume within the area, and identify for the auditor the existing service providers within the area subject to the proposal.

(c) If the proposal would not transfer all of an affected agency's service responsibilities to the proposed city or district, the commission and the county auditor shall do all of the following:

(1) The county auditor shall determine the proportion that the amount of property tax revenue derived by each affected local agency pursuant to subdivision (b) of Section 93 of the Revenue and Taxation Code bears to the total amount of revenue from all sources, available for general purposes, received by each affected local agency in the prior fiscal year. For purposes of making this determination and the determination required by paragraph (3), "total amount of revenue from all sources available for general purposes" means the total amount of revenue which an affected local agency may use on a discretionary basis for any purpose and does not include any of the following:

(A) Revenue which, by statute, is required to be used for a specific purpose.

(B) Revenue from fees, charges, or assessments which are levied to specifically offset the cost of particular services and do not exceed the cost reasonably borne in providing these services.

(C) Revenue received from the federal government which is required to be used for a specific purpose.

(2) The commission shall determine, based on information submitted by each affected local agency, an amount equal to the total net cost to each affected local agency during the prior fiscal year of providing those services which the new jurisdiction will assume within the area subject to the proposal. For purposes of this paragraph, "total net cost" means the total direct and indirect costs that were funded by general purpose revenues of the affected local agency and excludes any portion of the total cost that was funded by any revenues of that agency that are specified in subparagraphs (A), (B), and (C) of paragraph (1).

(3) The commission shall multiply the amount determined pursuant to paragraph (2) for each affected local agency by the corresponding proportion determined pursuant to paragraph (1) to derive the amount of property tax revenue used to provide services by each affected local agency during the prior fiscal year within the area subject to the proposal. The county auditor shall adjust the amount described in the previous sentence by the annual tax increment according to the procedures set forth in Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code, to the fiscal year in which the new city or district receives its initial allocation of property taxes.

(4) For purposes of this subdivision, in any county in which, prior to the adoption of Article XIII A of the California Constitution, and continuing thereafter, a separate fund or funds were established consisting of revenues derived from the unincorporated area of the county and from which fund or funds services rendered in the unincorporated area have been paid, the amount of property tax revenues derived pursuant to paragraph (3), may, at the discretion of the commission, be transferred to the proposed city over a period not to exceed 12 fiscal years following its incorporation. In determining whether the transfer of the amount of property tax revenues determined pursuant to paragraph (3) shall occur entirely within the fiscal year immediately following the incorporation of the proposed city or shall be phased in over a period not to exceed 12 full fiscal years following the incorporation, the commission shall consider each of the following:

(A) The total amount of revenue from all sources available to the proposed city.

(B) The fiscal impact of the proposed transfer on the transferring agency.

(C) Any other relevant facts which interested parties to the exchange may present to the commission in written form.

The decision of the commission shall be supported by written findings setting forth the basis for its decision.

(d) If the proposal would transfer all of an affected agency's service responsibilities to the proposed city or district, the commission shall request the auditor to determine the property tax revenue generated for the affected service providers by tax rate area, or portion thereof, and transmit that information to the commission.

(e) The executive officer shall notify the auditor of the amount determined pursuant to paragraph (3) of subdivision (c) or subdivision (d), as the case may be, and, where applicable, the period of time within which and the procedure by which the transfer of property tax revenues will be effected pursuant to paragraph (4) of subdivision (c), at the time the executive officer records a certificate of completion pursuant to Section 57203 for any proposal described in subdivision (a), and the auditor shall transfer that amount to the new jurisdiction.

(f) The amendments to this section enacted during the 1985–86 Regular Session of the Legislature shall apply to any proposal described in subdivision (a) for which a certificate of completion is recorded with the county recorder on or after January 1, 1987.

(g) For purposes of this section, "prior fiscal year" means the most recent fiscal year for which data on actual direct and indirect costs and revenues needed to perform the calculations required by this section are available preceding the issuance of the certificate of filing.

(h) An action brought by a city or district to contest any determinations of the county auditor or the commission with regard to the amount of property tax revenue to be exchanged by the affected local agency pursuant to this section shall be commenced within three years of the effective date of the city's incorporation or the district's formation. These actions may be brought by any city that incorporated or by any district that formed on or after January 1, 1986.

(i) This section applies to any city that incorporated or district that formed on or after January 1, 1986.

(j) The calculations and procedures specified in this section shall be made prior to and shall be incorporated into the calculations specified in Section 56815.

SEC. 2. If the Commission on State Mandates determines that this act contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code.



March 20, 2024

Honorable Juan Carrillo, Chair
Assembly Local Government Committee
1020 N St.
Rm. 157
Sacramento, CA 95814

RE: **SUPPORT of AB 3277, Local agency formation commission: districts: property tax**

Dear Senator Carillo,

The Humboldt Local Agency Formation Commission (LAFCo) is pleased to **Support Assembly Bill 3277**, sponsored by the California Association of Local Agency Formation Commissions (CALAFCO), which makes a clarifying change to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (the Act).

Under existing statute, a commission must perform a financial analysis of ad valorem property taxes when a proposal is received that includes the incorporation of a city and the formation of a district. The only purpose of the analysis is to determine how best to apportion the property taxes between the agencies. However, occasionally, an application is received in which the district waives any portion of the ad valorem taxes. In those situations, no analysis is needed for the process, yet it remains required by statute.

This bill will add language that clarifies that the performance of the financial analysis in that situation only needs to be performed in those instances where a portion of the ad valorem property taxes is being sought.

By making this minor change, **AB 3277** will apply this time-consuming process only to those applications that require it.

For the reasons noted above, Humboldt LAFCO **Supports AB 3277**.

Yours sincerely,

Colette Santsche, AICP
Executive Officer
Humboldt LAFCo

cc: Members and Consultants, Assembly Local Government Committee
William Weber, Consultant, Assembly Republican Caucus
René LaRoche, Executive Director, CALAFCO