

**FINANCIAL INFORMATION TO BE SUBMITTED  
WITH INCORPORATION PROPOSAL APPLICATIONS**

This appendix provides the formats for the financial analysis required by LAFCo for an incorporation proposal. Specifically, this appendix provides instructions and forms relating to the financial feasibility and impact of incorporation proposals for the incorporating city, the county, and special districts. The following sections provide the instruction for completing the nine exhibits contained in this appendix.

**A. INSTRUCTIONS FOR COMPLETING EXHIBIT I - SUMMARY OF THE FINANCIAL FEASIBILITY OF THE INCORPORATING CITY**

1. Total Annual Revenues - the total annual revenues for the base year, transition year, first full year and second full year are computed in Exhibit III. The information from the bottom line in Exhibit III should be transferred to the same line and column under total annual revenues in Exhibit 1.
2. Total Annual Operations and Maintenance Costs - the total annual operating and maintenance costs for the base year, transition year, first full year and second full year are computed in Exhibit II. The information from the bottom line in Exhibit II should be transferred to the same line and column under total annual operating and maintenance costs in Exhibit 1.
3. Difference - the difference in the total annual revenues and the total annual operating and maintenance cost for each of the years shown in Exhibit I is calculated by subtracting the total annual operating and maintenance cost in each year from the respective year's total annual revenues. The difference for each year, which may be a positive or negative amount, is entered on the bottom line of Exhibit I.

**B. INSTRUCTION FOR COMPLETING EXHIBIT H - SUMMARY OF THE TOTAL ANNUAL OPERATING AND MAINTENANCE COSTS OF THE INCORPORATING CITY**

1. The base year amount for each function of services is the amount that was spent on that function of services in the most recently available annual audited financial statements of the County or other appropriate government agency providing the services.
2. Where audited financial statements are not available to indicate a base year cost of services, supporting computations for an estimation of the base year cost should be provided.

**EXHIBIT I**

**SUMMARY OF THE FINANCIAL FEASIBILITY OF THE  
INCORPORATING CITY**

	<u>Base Year</u>	<u>Transition Year</u>	<u>1st Full Year</u>	<u>2nd Full Year</u>
Total Annual Revenues	\$ _____	\$ _____	\$ _____	\$ _____
Total Annual Operating and Maintenance Costs	( _____ )	( _____ )	( _____ )	( _____ )
Difference	\$ _____	\$ _____	\$ _____	\$ _____

**EXHIBIT II**

**SUMMARY OF THE TOTAL ANNUAL OPERATING AND  
MAINTENANCE COSTS OF THE INCORPORATING CITY**

<u>Function</u>	<u>Base Year</u>	<u>Transition Year</u>	<u>1st Full Year</u>	<u>2nd Full Year</u>
Legislative and General Government	\$ _____	\$ _____	\$ _____	\$ _____
Financial and Administrative Service	\$ _____	\$ _____	\$ _____	\$ _____
Planning and Land Use Regulation	\$ _____	\$ _____	\$ _____	\$ _____
Engineering and Building Inspection Services	\$ _____	\$ _____	\$ _____	\$ _____
Facilities Maintenance	\$ _____	\$ _____	\$ _____	\$ _____
Public Safety	\$ _____	\$ _____	\$ _____	\$ _____
Recreation and Leisure Services	\$ _____	\$ _____	\$ _____	\$ _____
Other Miscellaneous Services*	\$ _____	\$ _____	\$ _____	\$ _____
Total Annual Operating and Maintenance Costs	\$ _____	\$ _____	\$ _____	\$ _____

\* Note: Other Miscellaneous Services may include, but not be limited to, cemeteries, drainage, fire protection, libraries, sewers, solid waste disposal, and street lighting services.

3. A separate supporting cost computation sheet should be provided to show how the base year costs for each function of services was calculated. Specifically, the individual functions include, but are not limited to, the following:
  - (a) Legislative and General Government - includes the costs of a city manager, assistant city manager, city council, and other supporting staff and related;
  - (b) Financial and Administrative Services - includes the cost of the fiscal officer, the personnel officer, business services, administrative services and other supporting staff and related costs;
  - (c) Planning and Land Use Regulation - includes the cost of planning staff and permitting staff and related costs;
  - (d) Engineering and Buildings Inspection Services - includes the cost of engineering and construction services, including road construction, and building inspection services and related costs;
  - (e) Facilities Maintenance - includes the costs for personnel, equipment and supplies to maintain and upkeep existing facilities in the proposed new city;
  - (f) Public Safety - includes the costs for law enforcement services and animal control services and related costs;
  - (g) Recreation and Leisure Services - includes the costs of providing parks, recreation and other community leisure services; and
  - (h) Other Miscellaneous Services - includes but is not limited to, cemeteries, drainage, fire protection, libraries, sewers, solid waste disposal, and street lighting services.
4. The total operating and maintenance costs for the base year is calculated by adding the sum of the cost of each function of services.
5. The transition year cost for each function of services is computed by multiplying the portion of the year (i.e., the number of months that service will be provided at a cost to the newly incorporating city divided by 12 months) times the base year cost for each service function. It is important to note that in some cases services will be provided to the newly incorporated city by an existing agency during a portion of the transition year at no or reduced costs to the newly incorporated city.
6. The first full year of costs for each function of services is computed by multiplying the base year amount for each function of services times an escalator amount to reflect the anticipated growth in the cost of services. The escalator amount is based on the average annual growth in the cost of providing the same or related services in the

base year and the two prior fiscal years, as provided in the County of other appropriate agency's annual audited financial statements.

7. The second full year of cost for each function of services is computed by multiplying the first full year amount for each function of services times the escalator amount. The escalator amount is based on the average annual growth in the cost of providing the same or related services in the base year and the two prior fiscal years.

**C. INSTRUCTIONS FOR COMPLETING EXHIBIT M - SUMMARY OF THE ESTIMATED TOTAL ANNUAL REVENUES FOR THE INCORPORATING CITY**

1. The base year amount for each revenue category is the amount of revenue that the newly incorporating city is anticipated to receive based on the most recently available annual audited financial statements of the County or other appropriate government agency providing the service.
2. The base year amount of sales tax will be requested to be provided by the State Board of Equalization by LAFCo. If this differs from the base year amount estimated by the proponents of a proposed application for incorporation, the LAFCo will adjust the anticipated amount of base year sales tax.
3. The total annual revenues for the base year is calculated by adding the sum of the cost of each revenue category in the base year.
4. The transition year amount of revenue for each revenue category is computed by multiplying the portion of the year (i.e., the number of months that revenue will be received by the newly incorporating city divided by 12 months) times the base year revenue for each revenue category. It is important to note that although some revenues are received by the newly incorporating city in arrears, such revenues accrue to the newly incorporating city and should be counted in the year that the revenues were earned.
5. The first full year of revenue for each revenue category is computed by multiplying the base year amount for each revenue category times an escalator amount to reflect the anticipated growth in revenues. The escalator amount is based on the average annual growth in revenues in each revenue category in the base year and the prior two fiscal years, as, reflected in the County or other appropriate agency's annual audited financial statements.
6. The second full year of revenue for each revenue category is computed by multiplying the first full year amount of revenue for each revenue category, times the escalator amount. The escalator amount is based on the average annual growth in revenues in each revenue category in the base year and the prior two fiscal years, as reflected in the County or other appropriate agency's annual audited financial statements.

**EXHIBIT III**

**SUMMARY OF THE ESTIMATED TOTAL ANNUAL REVENUES FOR THE INCORPORATING CITY**

<u>Revenue Category</u>	<u>Base Year</u>	<u>Transition Year</u>	<u>1st Full Year</u>	<u>2nd Full Year</u>
Property Tax	\$ _____	\$ _____	\$ _____	\$ _____
Sales and Use Tax	\$ _____	\$ _____	\$ _____	\$ _____
Transit Occupancy Tax	\$ _____	\$ _____	\$ _____	\$ _____
Franchise Fees	\$ _____	\$ _____	\$ _____	\$ _____
Property Transfer Tax	\$ _____	\$ _____	\$ _____	\$ _____
Homeowner's Property Tax Relief	\$ _____	\$ _____	\$ _____	\$ _____
Business Licenses	\$ _____	\$ _____	\$ _____	\$ _____
Fines and Penalties	\$ _____	\$ _____	\$ _____	\$ _____
Motor Vehicle In-Lieu Fees	\$ _____	\$ _____	\$ _____	\$ _____
Trailer Coach In-Lieu Fees	\$ _____	\$ _____	\$ _____	\$ _____
Off-Highway Vehicle Fees	\$ _____	\$ _____	\$ _____	\$ _____
Cigarette Tax	\$ _____	\$ _____	\$ _____	\$ _____
Service Charges and Fees	\$ _____	\$ _____	\$ _____	\$ _____
Interest Income	\$ _____	\$ _____	\$ _____	\$ _____
Other Revenues	\$ _____	\$ _____	\$ _____	\$ _____
Total Annual Revenues	\$ _____	\$ _____	\$ _____	\$ _____

**D. INSTRUCTIONS FOR COMPLETING EXHIBIT IV - SUMMARY OF THE FINANCIAL "APACT OF THE INCORPORAT16N ON SACRAMENTO COUNTY**

1. Total Annual Reductions in County Revenues - the total annual reductions in County revenues for the base year, transition year, first year, and second year full year are computed in Exhibit VI. The information from the bottom line in Exhibit VI, Section F should be transferred to the same line and column under total annual reductions in County revenues in Exhibit IV.
2. Total Annual Reductions in County Costs - the total annual reductions in County costs for the base year, transition year, first full year, and second full year are computed in Exhibit V. The respective information for the total annual reductions in County costs in each respective year in Exhibit V should be transferred to the appropriate line and column under total annual reductions in County costs in Exhibit IV.
3. Difference - the difference in the total annual reductions in County revenues and the total annual reductions in County costs for each of the years shown in Exhibit IV is calculated by subtracting the total annual reductions in County costs in each year from the respective year's total annual reductions in County revenues. The difference for each year, which generally will be a negative amount, is entered on the bottom line of Exhibit IV.

**E. INSTRUCTIONS FOR COMPLETING EXHEBIT V - SUMMARY OF THE TOTAL ANNUAL REDUCTIONS IN COUNTY COSTS**

1. The base year amount for each service to be transferred from the County is the amount that was spent on that service in the most recently available annual audited financial statements of the county.
2. The transition year cost for each service to be transferred from the County is computed by multiplying the portion of the year (i.e., the number of months that the cost of services will be paid for by the County divided by 12 months) times the base year cost for each service to be transferred from the County. It is important to note that in some cases the County is still required to pay for the costs of certain services even though the revenues generated for such services are received by the newly incorporated city.
3. The first full year of the cost of each service to be transferred from the County is computed by multiplying the base year amount for each service times an escalator amount to reflect the anticipated growth in the cost of services. The escalator amount is based on the average annual growth in the cost of providing each service in the base year and the two prior fiscal years, as provided in the County's annual audited financial statements.

**EXHIBIT IV**  
**SUMMARY OF THE FINANCIAL IMPACT**  
**OF THE INCORPORATION ON SACRAMENTO COUNTY**

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	<u>Base</u> <u>Year</u>	<u>Transition</u> <u>Year</u>	<u>1st Full</u> <u>Year</u>	<u>2nd Full</u> <u>Year</u>
Total Annual Reductions in County Revenues	\$ _____	\$ _____	\$ _____	\$ _____
Total Annual Reductions in County Costs	( _____ )	( _____ )	( _____ )	( _____ )
Difference	\$ _____	\$ _____	\$ _____	\$ _____

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**EXHIBIT V**

**SUMMARY OF THE TOTAL ANNUAL REDUCTIONS  
IN COUNTY COSTS**

Service to be Transferred from the County	Base Year	Transition Year	1st Full Year	2nd Full Year
Law Enforcement/ Police Protection	\$ _____	\$ _____	\$ _____	\$ _____
Planning and Land Use Control	_____	_____	_____	_____
Engineering and Building Inspection	_____	_____	_____	_____
Street Maintenance and Construction	_____	_____	_____	_____
Animal Control	_____	_____	_____	_____
Cemeteries	_____	_____	_____	_____
Drainage	_____	_____	_____	_____
Fire Protection	_____	_____	_____	_____
Libraries	_____	_____	_____	_____
Parks and Recreation	_____	_____	_____	_____
Sewers	_____	_____	_____	_____
Solid Waste Disposal	_____	_____	_____	_____
Street Lighting	_____	_____	_____	_____
Other	_____	_____	_____	_____
Total Cost of Services Transferred	\$ _____	\$ _____	\$ _____	\$ _____

4. The second full year of the cost of each service to be transferred from the County is computed by multiplying the first full year amount for each service times the escalator amount. The escalator amount is based on the average annual growth in the cost of providing the service in the base year and the two prior fiscal years.

**F. INSTRUCTIONS FOR COMPLETING EXHIBIT VI - SUMMARY OF THE TOTAL ANNUAL REDUCTIONS IN COUNTY REVENUES**

**Section A - Computation of Sacramento County's General Purpose Revenues**

1. The base year amount for each revenue item is the amount that the County spent on each revenue item in the most recently available annual audited financial statements of the County. Section A lists which funds Sacramento County currently uses to identify funding sources for each revenue item.
2. The total general purpose revenue is calculated by adding the sum of the amounts for each revenue item in the base year.

**Section B - Computation of the Property Tax Transfer Ratio**

1. The property tax revenue for the County in the base year, as indicated on the County's most recently available annual audited financial statements, is entered on the appropriate line Section B.
2. The general Purpose revenue, as computed in Section A, is also entered on the appropriate line in Section B.
3. The ratio of property tax to general purpose revenue is computed by dividing the amount of property tax revenue by the amount of general purpose revenue. The resulting ratio of property tax to general purpose revenue is expressed as a percent.

**Section C - Computation of the Service Costs to be Transferred**

1. The base year cost of services to be transferred from the County is the same information that was computed in Exhibit V. Thus, the information from Exhibit V should be transferred to Section C of Exhibit VI.

**Section D - Computation of the County's Property Tax Transfer**

1. The ratio of property tax revenue to general purpose revenue, as computed in Section B of Exhibit VI, is entered on the appropriate line in Section D.
2. The cost of service costs to be transferred, as computed in Section C of Exhibit VI, is entered on the appropriate line in Section D.

**EXHIBIT VI**

**SUMMARY OF THE TOTAL ANNUAL REDUCTIONS  
IN COUNTY REVENUES**

*A. Computation of Sacramento County's General Purpose Revenues*

<u>Revenue Item</u>	<u>Base Year Amount</u>
Secured Property Tax (Funds 1 & 13)	\$ _____
Unsecured Property Tax (Funds I & 13)	\$ _____
Sales and Use Tax (Fund 13)	\$ _____
Franchises (Fund 13)	\$ _____
Transient Occupancy Tax (Fund 1)	\$ _____
Property Transfer Tax (Fund 1)	\$ _____
Taxes-Aircraft (Fund 1)	\$ _____
Taxes-Livestock (Fund 1)	\$ _____
Taxes-Tax Sales (Funds 1 & 13)	\$ _____
Vehicle Code Fine (Fund 1)	\$ _____
Other Court Fines (Fund 1)	\$ _____
Forfeitures and Penalties (Fund 1)	\$ _____
Interest Income (Funds 1 & 13)	\$ _____
Building Rental-Other (Fund 1)	\$ _____
Ground Leases-Other (Fund 1)	\$ _____
Recreational Concessions (Fund 1)	\$ _____
Other Vending Devices (Fund 1)	\$ _____
Cigarette Tax (Fund 1)	\$ _____
Homeowner's Property Tax Relief (Funds I & 13)	\$ _____
Motor Vehicle In-Lieu (Fund 1)	\$ _____
Trailer Coach In-Lieu (Fund 1)	\$ _____
Williamson Act Tax Relief (Fund 1)	\$ _____
Sale of Personal Property (Fund 1)	\$ _____
County Wide Cost Plan (Fund 1)	\$ _____
Revenue-Other (Funds 1 & 13)	\$ _____
Prior Year Revenues (Funds 1 & 13)	\$ _____
Sales-Other (Fund 13)	\$ _____
Total General Purpose Revenue	\$ _____

**EXHIBIT VI -continued-**

**SUMMARY OF THE TOTAL ANNUAL REDUCTIONS  
IN COUNTY REVENUES**

*B. Computation of the Property Tax Transfer Ratio (Base Year)*

Property Tax Revenue		General Purpose Revenue (as computed in A)		Ratio of Property Tax to General Purpose Revenue
\$ _____	+	\$ _____	=	_____

*C. Computation of the Service Costs to be Transferred*

<u>Service to be Transferred from the County</u>	<u>Base Year Cost of Service</u>
Law Enforcement/Police Protection	\$ _____
Planning and Land Use Control	\$ _____
Engineering and Building Inspection	\$ _____
Street Maintenance and Construction	\$ _____
Animal Control	\$ _____
Cemeteries	\$ _____
Drainage	\$ _____
Fire Protection	\$ _____
Libraries	\$ _____
Parks and Recreation	\$ _____
Sewers	\$ _____
Solid Waste Disposal	\$ _____
Street Lighting	\$ _____
Other	\$ _____
<b>Total Cost of Services Transferred</b>	<b>\$ _____</b>

**EXHIBIT VI -continued-**

**SUMMARY OF THE TOTAL ANNUAL REDUCTIONS  
IN COUNTY REVENUES**

*D. Computation of the County's Property Tax Transfer* (Base Year)

Ratio of Property Tax Revenue to General Purpose Revenue (as computed in B)	Cost of the Service Costs to be Transferred (as computed in C)	Amount of County Property Tax Transfer*
\$ _____	x _____	% = \$ _____

\* Note: Per AB 672 the full implementation of the property tax transfer will be phased in over a three-year period.

*E. Computation of Sales and Use Tax Revenue Reduction to County*

Base Year Sales and Use Tax Amount = \$ \_\_\_\_\_

**Transition Year**

Base Year Amount	Portion of the Year	Transition Year Amount
\$ _____	x _____	% = \$ _____

**First Full Year**

First Full Year Amount	Escalator	First Full Year Amount
\$ _____	x _____	% = \$ _____

**Second Full Year**

Second Full Year Amount	Escalator	Second Full Year Amount
\$ _____	x _____	% = \$ _____

**EXHIBIT VI**

**SUMMARY OF THE TOTAL ANNUAL REDUCTIONS  
IN COUNTY REVENUES**

-continued-

*F. Computation of the Total Annual Reduction in County Revenues\**

	<u>Base Year</u>	<u>Transition Year</u>	<u>1st Full Year</u>	<u>2nd Full Year</u>
Property Tax Transfer	\$ _____	\$ _____	\$ _____	\$ _____
Sales and Use Tax Reduction	+ _____	+ _____	+ _____	+ _____
Miscellaneous Revenues	+ _____	+ _____	+ _____	+ _____
Total Annual Reduction in County Revenues	\$ _____	\$ _____	\$ _____	\$ _____

\* Note: For purposes of analysis, do not include appropriation for AB 672 implementation over a five-year period.

3. The amount of County property tax transfer in the base year is calculated by multiplying the ratio of property tax revenue to general purpose revenue times the cost of service costs to be transferred.
4. As the note in Section D indicates, AB 672 mandated that the full implementation of the property tax transfer will be phased in over a three-year period. For purposes of this analysis, no adjustment for this phase-in will be made in this exhibit. However, it is understood that the full amount of property tax transfer will take three years to be realized.

#### **Section E - Computation of Sales and Use Tax Revenue Reduction to County**

1. The base year sales and use tax amount is the estimated amount of sales and use tax that will be transferred to the newly incorporated city. The estimate will be based upon some percentage of the sales and use tax earned by the newly incorporating city according to the most recently available annual financial audit statements of the County and other relevant information.
2. The LAFCo staff will verify the estimated amount of sales tax to be transferred to the newly incorporating city by contacting the State Board of Equalization. The LAFCo staff will adjust the estimate in the proposal for incorporation to be consistent with the sales tax information provided by the State Board of Equalization.
3. The transition year amount of sales and use tax to be transferred from the County to the newly incorporated city is computed by multiplying the portion of the year (i.e., the number of months that the newly incorporated city will be in existence divided by 12 months) times the base year sales and use tax amount. It is important to note that the sales and use tax is transferred to the newly incorporated city beginning with the effective date of the incorporation, even though the County may be responsible for paying for certain services during the entire transition year.
4. The first full year of the sales and use tax to be transferred from the county is computed by multiplying the base year amount of sales and use tax times an escalator factor to reflect the anticipated growth in the amount of sales and use tax. The escalator amount is based on the average annual growth in sales and use tax in the county during the base year and the two prior fiscal years, as provided in the county's annual audited financial statements.
5. The second full year of the sales and use tax to be transferred from the County is computed by multiplying the first full year amount of sales and use tax times an escalator factor. The escalator factor is based on the average annual growth in sales and use tax in the county during the base year and the two prior fiscal years.

