

Date of Hearing: April 10, 2024

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

AB 3277 (Committee on Local Government) – As Introduced February 27, 2024

SUBJECT: Local agency formation commission: districts: property tax.

SUMMARY: Specifies that, if a proposal includes the formation of a district, a Local Agency Formation Commission (LAFCO) shall only determine the amount of property tax revenue to be exchanged by an affected local agency if the applicant is seeking a share of the 1% ad valorem property taxes.

EXISTING LAW:

- 1) Specifies that if a proposal to LAFCO includes the incorporation of a city, as defined, the commission shall determine the amount of property tax revenue to be exchanged by the affected local agency, as specified [Government Code (GC) § 56810].
- 2) Provides that if a proposal includes the formation of a district, as defined, the commission shall determine the amount of property tax to be exchanged by the affected local agency, as specified (GC § 56810).
- 3) Requires the LAFCO to 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 (GC § 56810).

FISCAL EFFECT: This bill is keyed fiscal and contains a state-mandated local program.

COMMENTS:

- 1) **Local Government Boundaries.** The Legislature has the authority to create, dissolve, or otherwise modify the boundaries and services of local governments. Beginning in 1963, the Legislature delegated the ongoing responsibility to control the boundaries of cities, county service areas, and most special districts to LAFCOs in each county. The responsibilities and authority of LAFCOs have been modified in subsequent legislation, including a major revision of the LAFCO statutes in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 [AB 2838 (Hertzberg), Chapter 761, Statutes of 2000]. The courts often refer to LAFCOs as the Legislature's watchdog over boundary changes.

Local governments can only exercise their powers and provide services where LAFCO allows them to. LAFCOs' boundary decisions must be consistent with spheres of influence (SOIs) that LAFCOs adopt to show the future boundaries and service areas of the cities and special districts. Before LAFCOs can adopt their SOIs, they must prepare Municipal Service Reviews (MSRs) which analyze population growth, public facilities, and service demands. LAFCOs may also conduct special studies of local governments.

Most boundary changes begin when a city or special district applies to a LAFCO, or when registered voters or landowners file petitions with a LAFCO. In limited circumstances, LAFCOs can initiate some special district boundary changes: consolidations, dissolutions,

mergers, subsidiary districts, or reorganizations. Formations of special districts are generally conducted as authorized in the principal act of the special district, except that the LAFCO typically serves as the conducting authority.

- 2) **Purpose of the Bill.** Current state law includes the process for LAFCOs to determine the amount of property tax revenues to be exchanged by the affected local agency for proposals involving the formation of a special district. The law requires LAFCOs to calculate the net costs for each local agency to provide the service that would be provided by the new special district.

According to the Los Angeles LAFCO, over the past four years, it has received four applications initiating the formation of special districts. However, for two of these applications, the applicants have explicitly indicated that they are not seeking, nor will accept a share of, the 1% ad valorem property tax. Los Angeles LAFCO staff, in compliance with Government Code section 56810, has initiated the multiple requests to agencies to compile the financial information necessary to perform the statutory calculation. However, for one application, the proposed territory includes multiple cities and the County. Being required to obtain this information can delay or stall the processing of an application.

This bill maintains the authority and requirement for a LAFCO to determine the property tax revenues to be exchanged for an affected agency for applications involving the formation of a special district when the affected agency is seeking a share of the 1%, while excluding this requirement if the applicant has indicated that the agency will not be seeking a share of the 1% ad valorem property tax.

- 3) **Arguments in Support.** The California Association of LAFCOs, sponsor of this bill, states, “Under existing statute, a commission must perform a financial analysis of ad valorem property taxes each time that a proposal is received that includes the incorporation of a city and the formation of a district – regardless of whether a prorated share of the taxes is being sought. However, the sole purpose of this analysis is to determine how best to apportion the ad valorem property taxes between the agencies.

“Occasionally, an application is received in which the district waives any portion of the ad valorem taxes making a fiscal analysis unnecessary. Yet, statute is silent on that circumstance which has the effect of requiring LAFCOs to expend staff time or funds to perform an unneeded analysis. This bill, consequently, will add language that differentiates that the performance of that financial analysis is required only in those instances when it is actually needed.”

- 4) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association of LAFCOs [SPONSOR]
Alameda LAFCO
Amador LAFCO
Butte LAFCO
Contra Costa LAFCO

Del Norte LAFCO
El Dorado LAFCO
Fresno LAFCO
Los Angeles LAFCO
Marin LAFCO
Mendocino LAFCO
Nevada LAFCO
Orange LAFCO
Placer LAFCO
Riverside LAFCO
San Joaquin LAFCO
San Mateo LAFCO
Santa Cruz LAFCO
Sonoma LAFCO
Stanislaus LAFCO
Yolo LAFCO

Opposition

None on file.

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