


REPORT OF THE CHIEF LEGISLATIVE ANALYST

TO: Honorable Members of the Planning and Land Use Management Committee

FROM: Gerry F. Miller 
Chief Legislative Analyst

WAS #: 10-11-1110

Annexation of the City of Vernon – Feasibility Analysis

SUMMARY

At your request, we have prepared a report concerning Motion (Hahn-Perry, CF# 10-1686), which seeks an analysis of the feasibility of annexing the City of Vernon into the City of Los Angeles. There appear to be two ways that the City of Los Angeles could annex the City of Vernon: consolidation under existing law or by the adoption of new State law governing the dissolution of a municipal corporation. Issues related to the operation of municipal utilities would be a central concern in any such action, as Vernon owns and operates its own water, power, and gas services. Any change in Vernon's boundaries would likely involve review and consideration by the Los Angeles Local Agency Formation Commission.

Vernon provides a very limited slate of services compared to other cities. Police, Fire, and Legislative and Management services (City Administrator, City Council, City Clerk, City Attorney) comprise its core departments.

A full fiscal analysis will require access to a substantial amount of data and time necessary to evaluate that data. cursory review of data available from the State Controller indicates that in FY 2007-2008, Vernon had revenues of \$190 million and expenses of \$381 million. Most of these revenues and expenses are associated with Vernon's electric utility. In addition, Vernon's redevelopment area received \$14 million in tax increment revenue.

As explained in more detail below, should Vernon cease to exist as a Charter City, the most viable candidate for annexation would be the City of Los Angeles, and it may be in our mutual interests to proceed with the process. Accordingly, we recommend pursuing the matter through voluntary annexation, or, should the State pursue involuntary dissolution, through an alternative process through the State.

RECOMMENDATION

That the Council and Mayor:

1. Initiate discussions with the elected officials of the City of Vernon to explore the possibility of annexing Vernon into the City of Los Angeles; and

2. Adopt the attached Resolution (Attachment 2) to include in the 2011-2012 State Legislative program SUPPORT of AB 46 (Perez) that would dissolve cities with fewer than 150 residents IF AMENDED to prioritize the annexation of such areas into adjacent incorporated general law or Charter cities if an unincorporated “island” is formed as a result of the dissolution to ensure the efficient provision of services.

BACKGROUND

The City of Vernon is a Charter City, incorporated in 1905, located to the south and east of downtown Los Angeles. It is immediately on the border of the City adjacent to the communities of Boyle Heights and the Alameda corridor. It is also bounded by the cities of Commerce, Bell, Maywood, and Huntington Park. Vernon covers about 5.2 square miles and is comprised of mostly industrial land uses. The Los Angeles River runs through the center of Vernon.

State law provides that changes in local governmental structure are managed by Local Agency Formation Commissions (LAFCOs). Every county in the State has its own LAFCO. These agencies oversee incorporations, annexations, detachments, consolidations, and other types of changes in the boundaries of cities and special districts. Any change in the status of Vernon as an independent, incorporated city would likely involve the Los Angeles LAFCO.

There appear to be two ways that the City of Los Angeles could annex Vernon: consolidation under existing law or by the adoption of new State law governing the dissolution of a municipal corporation. Many issues of concern must be evaluated and resolved if such a process is to move forward, primary among them being the limitations and restrictions related to the operation of municipal utilities.

Consolidation under Existing Law

Existing State laws concerning the consolidation of cities could allow for the proposed type of change in local government discussed in the Motion. Applications would be submitted to the Los Angeles LAFCO, certain analytical and electoral requirements would be met, and a final outcome would be determined. Such a change would be considered a “Consolidation” under State law.

In the past, the City of Los Angeles consolidated governmental operations with the independent cities of Barnes City, Eagle Rock, Hollywood, Hyde Park, Sawtelle, San Pedro, Venice, and Wilmington. The last Consolidation was approved in 1932 when the City of Tujunga became part of the City of Los Angeles.

Consolidation under current State law requires the approval of the Vernon electorate. The key to a successful consolidation, then, would be agreement among Vernon officials and residents that joining the City of Los Angeles would be in their best interest. Preliminary efforts to gauge interest among Vernon voters and officials, with the joint development of a proposal to the Los Angeles LAFCO, would be the way to move forward. Such discussions should also include business representatives from the area as they have a very strong interest in the operations of its governmental services.

New State Legislation

Another way the City of Los Angeles might be able to annex Vernon would require the State to pass a law allowing for the dissolution of cities. This law would outline specific criteria related to whether a city would be a candidate for dissolution, as well as the steps necessary to effectuate that change. Note that such a law would not likely concern a specific city, but would create a standard process for dissolution of any city that meets the criteria set out in the law. It has been discussed in the press that criteria such as city size, population size, and a determination of malfeasance in City operation would be factors in determining whether the dissolution process would be activated. It is likely that LAFCOs would have a role in this process.

The State has long-established that unincorporated islands should be annexed into neighboring jurisdictions. Since Vernon is entirely surrounded by other incorporated cities, including the City of Los Angeles on its north and west boundaries, dissolution of Vernon would create an unincorporated island. Any law that provides for the dissolution of a city must address issues associated with the creation of an unincorporated island and solutions to ensure that those islands are quickly added to neighboring, incorporated jurisdictions.

Any effort to approve new State law to establish a means to dissolve an incorporated city, including a Charter City, should be careful and deliberate. Any law on this subject should ensure that such a process is invoked rarely and only under the most exceptional situations. It must not be easy to invoke such a process, nor should dissolution be an obvious outcome should such a process be initiated.

Should the State pass a law allowing for the dissolution of cities, and such law would apply to Vernon leaving it an unincorporated island, the City of Los Angeles would be the most viable candidate for annexation. Given the variety of issues currently involving the City of Bell, it would be unlikely that annexing additional territory into Bell at this time would be feasible. The City of Maywood recently eliminated virtually all city staff as a result of budgetary problems and the loss of insurance and has contracted with the City of Bell to provide its municipal services. Finally, as explained more fully below, Vernon owns its own utilities. It is unclear whether Huntington Park, Maywood, and Commerce, which are General Law cities, can own and operate utilities. Resolution of utility ownership would likely be much more complicated with one of the other jurisdictions in the area.

AB 46

AB 46 (Perez) was introduced on December 6, 2010, and would effect the dissolution of any city with fewer than 150 residents. State Controller data from 2007 indicate that there are 13 cities in California with fewer than 1,000 residents and only one city, Vernon, with fewer than 150 residents. AB 46 provides that control over a dissolved city would revert to county control. As currently written, cities that meet the designated size criteria would be automatically dissolved unless the county board of supervisors votes to continue that city.

This legislation will require significant revision to effectively address issues such as how to manage city-owned utilities which cannot be owned by a county and how to address bond payments. As discussed above, it should also address standing State policy concerning

unincorporated islands. It will also need to designate a benchmark for measuring 150 residents, such as a specific U.S. Census report or State Department of Finance report.

Utility Services

An important issue that will need to be considered in any change of Vernon governance is the continued provision of utility services. As a Charter City, Vernon currently owns and operates its water, power, and gas utilities. Likewise, the City of Los Angeles as a Charter City operates its own water and power utilities.

The surrounding cities of Huntington Park, Maywood, and Commerce, however, are not Charter Cities and do not own their own water or power utilities. Bell is a Charter City, but does not own and operate its own utilities. Certain provisions in the State Constitution and State law address issues concerning utility ownership. The City of Los Angeles is the most practical municipal corporation to assume responsibility for such services. Alternately, a special district would likely need to be formed to operate the Vernon utilities.

The State Constitution provides that “a municipal corporation may establish, purchase, and operate public works to furnish its inhabitants with light, water, power, heat, transportation, or means of communication.” No such provision is provided to counties. Any legislation, such as AB 46, would need to address ownership and transfer of municipal-owned utilities within a dissolved city.

Services Provided in Vernon

Vernon offers a very limited set of services. Vernon operates its own police and fire departments, and operates its own health department. Typical support services found in most cities are offered in Vernon, including a City Clerk, a Treasurer, and a City Attorney. It does not have parks or recreation facilities, a library department, or a sanitation department. Most of Vernon is included in a redevelopment area created in 1989, covering 3.1 square miles or 60% of the entire city.


Fiscal Analysis

A detailed fiscal analysis suitable to help determine whether consolidation of Vernon is appropriate would require a significant amount of data and time to evaluate that data. Provided below is summary data Vernon has provided to the State Controller and published in the *Cities Annual Report* for 2007-2008, the most recent year for which that report is available, which indicates that Vernon had \$190 million in revenues and \$381 million in expenses. Details from that report are provided in Tables 1 through 3 below.

The largest revenue source in Vernon is its utility services, which provided a combined total of \$138 million in FY 2007-2008, approximately 73% of its revenues. Approximately \$16.9 million, or 9% of Vernon revenues, were provided through taxes such as property tax, sales tax, and business license taxes. Vernon charges a special property assessment on non-refrigerated warehouses, truck terminals, and distribution fees which accounts for a substantial portion of this tax. The City of Los Angeles does not charge such a fee. Approximately \$15 million are reported in the undefined categories of “Other Sources of Revenue” and “Quasi-External Transactions.”

With regard to expenses, over \$350 million in costs are attributed to the Vernon electric utility. Public Safety accounts for about \$22 million in costs, and another \$5 million is attributed to legislative costs.

The *Cities Annual Report* does not include any data concerning the Vernon Redevelopment Agency, but the Controller also releases a report titled *Community Redevelopment Agencies Annual Report*. Again, the most recent report available is for FY 2007-2008. In that report, the Vernon Redevelopment Agency is reported to have received \$14.5 million in revenues, including over \$12 million in property tax increment funds. In that year, the Agency expended nearly \$34 million on fixed asset acquisition, with total expenses in excess of \$41 million. The Agency ended FY 2007-2008 with equity of more than \$35 million.



John Wickham
Analyst

Attachment 1: Motion (Hahn-Perry)
Attachment 2: Resolution

Table 1
Cities Annual Report – Fiscal Year 2007-2008
Vernon Total Revenues

| | |
|---|----------------------|
| Taxes | |
| Secured and Unsecured Property Tax | \$ 2,167,171 |
| Other Property Tax | 21,638 |
| Sales and Use Tax | 4,238,405 |
| Transportation Tax | 1,267 |
| Franchises | 1,451,760 |
| Business License Taxes | 1,041,176 |
| Real Property Transfer Taxes | 311,512 |
| Other Non-Property Taxes | 7,459,894 |
| | |
| Licenses and Permits | |
| Construction Permits | 498,228 |
| Other Licenses and Permits | 666,325 |
| | |
| Fines and Forfeitures | |
| Vehicle Code Fines | 189,483 |
| Other fines, forfeitures, and penalties | 100,182 |
| | |
| Revenue from Use of Money and Property | |
| Investment Earnings | 5,056,138 |
| | |
| Intergovernmental | |
| State Homeowners Property Tax Relief | 19,215 |
| State Gasoline Tax | 9,003 |
| Other State Grants | 50,989 |
| County Grants | 326,129 |
| Federal Grants | 234,785 |
| Other Taxes In-Lieu | 3,401,651 |
| | |
| Current Service Charges | |
| Zoning, Subdivision, and Plan Checking Fees | 225,861 |
| Special Police Department Services | 81,754 |
| Special Fire Department Services and First Aid... | 80 |
| Engineering Fees, Inspections, and Other | 9,995 |
| Water Service Charges and Connection Fees | 7,430,230 |
| Electric Revenues | 103,405,106 |
| Gas Revenues | 27,730,435 |
| Quasi-External Transactions | 8,861,811 |
| Other Current Service Charges | 123,937 |
| | |
| Other Revenues | |
| Sale of Real and Personal Property | 8,585,356 |
| Other Sources of Revenues | 6,386,161 |
| | |
| Total Functional and General Revenues | \$190,085,677 |

Table 2
Cities Annual Report – Fiscal Year 2007-2008
Vernon Net Expenditures

| | |
|---|----------------------|
| General Government | |
| Legislative | \$ 5,329,190 |
| Management and Support | 388,588 |
| Public Safety | |
| Police | 9,926,576 |
| Fire | 12,800,347 |
| Emergency Medical Services | 345,868 |
| Street Lighting | 278,234 |
| Disaster Preparedness | 119,128 |
| Other | 523,655 |
| Transportation | |
| Streets, Highways, and Storm Drains | 2,547,053 |
| Community Development | |
| Planning | 641,067 |
| Construction and Engineering Regulation Enforcement | 222,085 |
| Community Promotion | 49,641 |
| Other | (2,451,567) |
| Health | |
| Physical and Mental Health | 980,258 |
| Other | (49,693) |
| Culture and Leisure | |
| Libraries | 7,532 |
| Public Utilities | |
| Water | (1,744,566) |
| Gas | (3,658,075) |
| Electric | 354,693,818 |
| Total Expenditures | \$381,012,139 |

Table 3
Community Redevelopment Agencies Annual Report Fiscal Year 2007-2008
Vernon Statement of Revenues and Expenditures

| | |
|--|-----------------------|
| Revenues | |
| Tax Increment | \$12,076,568 |
| Interest Income | 463,510 |
| Lease Revenue | 62,000 |
| Grants from Other Agencies | 1,920,091 |
| | |
| Total Revenues | \$14,522,169 |
| | |
| Expenditures | |
| Professional Services | \$941,859 |
| Interest Expense | 2,276,590 |
| Fixed Asset Acquisitions | 33,888,668 |
| Other Expenditures | 4,349,361 |
| | |
| Total Expenditures | \$41,456,478 |
| | |
| Other Financing Sources (Uses) | |
| Sale of Fixed Assets | \$11,589,424 |
| | |
| Total Other Financing Sources (Uses) | \$11,589,424 |
| | |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | |
| | \$(15,344,885) |
| | |
| Equity, Beginning of Period Adjustments (Net) | \$50,765,9243 |
| | |
| Equity, End of Period | \$35,421,038 |

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PLANNING & LAND USE MANAGEMENT

MOTION

Recent revelations concerning governing practices in the City of Vernon have brought to light significant questions concerning what it means to actually be a city and the responsibilities that individual cities have in our larger community of cities and counties.

Every city and county in the State has a responsibility to provide a range of housing opportunities for residents in the region, including the availability of housing. A significant source of funding for housing comes from redevelopment agencies to build affordable housing. This is required by State law. But Vernon, between 1999 and 2008, withheld about \$10 million that otherwise would have been designated for affordable housing. This is a critical failure in our current affordable housing crisis.


These and other findings have raised the most fundamental question of all: what does it mean to be a city? By virtually any measure, Vernon does not appear to be operating as a city and recent comments by State legislators show that this is a serious issue that must be addressed.

On-going investigations by the District Attorney, the Grand Jury, and the Attorney General indicate that the seriousness of these issues must be addressed. Further, a plan must be in place going forward that addresses governance of the Vernon area after disincorporation. The State has a long-standing policy of discouraging unincorporated islands and an action to disincorporate Vernon should not result in a new unincorporated island.

Broad governmental powers such as taxation, managing elections, and maintaining health and safety must be handled with the greatest respect for the public these powers are intended to serve. The time has come for the status of Vernon as a legitimate governmental agency to be reconsidered and its governmental authority to be annexed to the City of Los Angeles.

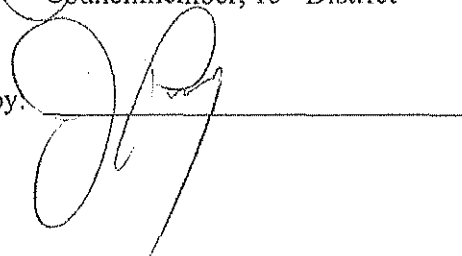
I THEREFORE MOVE that the City Council instruct the Chief Legislative Analyst to prepare a feasibility analysis of the annexation of Vernon into the City of Los Angeles, including a review of the actions necessary to implement this action, an economic impact analysis, and consideration of other relevant actions and impacts.

Presented by:



Janice Hahn
Councilmember, 15th District

Seconded by:



OCT 27 2010





RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations, or policies proposed to or pending before a local, state, or federal governmental body or agency must first have been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, recent news reports indicate that the District Attorney, Attorney General, and other governmental officials are focused on concerns with fiscal, housing, and operational issues in the City of Vernon; and

WHEREAS, many of these reports suggest that a change in the jurisdictional nature of Vernon, including the dissolution of Vernon, may be necessary to correct the issues that have been identified; and

WHEREAS, AB 46 (Perez) has been introduced to immediately dissolve any city with fewer than 150 residents; and

WHEREAS, any change in State law causing the dissolution of a city should ensure that a plan is in place to provide for the efficient continuation of services to the area; and

WHEREAS, any change in State law causing the dissolution of a city should not create an unincorporated "island", an unincorporated area completely surrounded by incorporated cities, but rather should include a process to ensure the expeditious annexation of that area into an adjacent city; and

WHEREAS, the City of Los Angeles is an immediate neighbor to Vernon, is a Charter City, operates its own electric and water utilities, and would be most impacted by any potential dissolution of Vernon; and

WHEREAS, the City of Los Angeles should engage in conversation with Vernon to ensure that a clear line of communication is established to prepare for any change in jurisdiction that may result either from changes in State law or by agreement with neighboring jurisdictions.

NOW THEREFORE BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2011-2012 State Legislative Program SUPPORT of AB 46 (Perez) that would dissolve cities with fewer than 150 residents IF AMENDED to prioritize the annexation of such areas into adjacent incorporated general law or Charter cities if an unincorporated "island" is formed as a result of the dissolution to ensure the efficient provision of services; and

BE IT FURTHER RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2011-2012 State Legislative Program should State law be passed to allow for an involuntary dissolution process for cities, the City wishes to pursue the annexation of the City of Vernon through any process established by the State.