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New City Incorporations: Arden-Arcade
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The issue of new city incorporations as a statewide policy matter is primarily focused on ensuring that potential negative fiscal implications are mitigated. It is less a policy question about the wisdom of incorporation from a local control or community services perspective; rather, it is a focus on the fiscal question of how the bills get paid and by whom.

New City Incorporations: Key Definitions

Revenue Neutrality: In 1992, after the property tax shifts known as Educational Revenue Augmentation Fund (ERAF) shifts, the Legislature approved a statute that required that new city incorporations were "revenue neutral" and would result in a similar exchange of both revenue and responsibility for service delivery among the county, the proposed city, and other subject agencies.

Vehicle License Fee (VLF): Vehicle License Fee is an annual fee on the ownership of a registered vehicle in California, essentially an in-lieu property tax. VLF revenues are constitutionally dedicated to local governments and are currently allocated primarily to counties for purposes of funding realigned programs and services in the health, behavioral health, social services, and public safety areas.

VLF/Property Tax Swap: In 2004, the California Legislature approved a swap of general-purpose VLF revenues for property taxes from ERAF as part of a state budget agreement that included Proposition 1A. Each county and most cities "swapped" their general purpose VLF for property taxes. (These revenues are considered a jurisdiction's "VLF Adjustment Amount" for purposes of the allocation of property tax revenue.) Subsequent legislation authorized a remaining portion of general purpose VLF for new city incorporations and annexations until 2011.

2011 Realignment: In 2011, facing an historic $26 billion budget deficit, Governor Jerry Brown proposed to "realign" $6.3 billion in state programs to counties with a dedicated revenue source and constitutional protections that would ensure that counties would have reliable resources for providing such programs and services. 2011 Realignment was then partially funded with the remainder of the VLF, which was redirected from new city incorporations and annexations. (Note: the League of California Cities filed a lawsuit against the state arguing that this redirection was unconstitutional and was unsuccessful.)

New City Incorporations: Legislative Hurdles

LAFCO Incorporation Study: LAFCOs are prohibited from approving new incorporations unless cityhood was or could be made revenue neutral. The revenue neutrality calculation is based on the LAFCO executive officer's fiscal estimates of the proposed city's revenues and service costs.

State Fiscal Incentives: During both the Brown and Newsom Administrations, the state has balked at providing additional state resources to newly incorporated cities, except in narrow circumstances. (See SB 130, Roth, 2017, which provides the Cities of Eastvale, Jurupa Valley, Menifee, and Wildomar with a "VLF Adjustment Amount.")

Depending on the Proposition 98 calculation, the state or the schools will experience an ongoing (and likely growing) fiscal obligation if a new VLF Adjustment Amount is authorized for a new city.

The question that new city proponents have to address is simply: why should the state help finance the formation of new cities?

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