



## *City Council Agenda Report*

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Meeting Date: November 6, 2017

**TO: HONORABLE MAYOR & COUNCILMEMBERS**

**FROM: CITY MANAGER**  
**By: Robert Ferrier, Assistant to the City Manager**

**SUBJECT: APPLICATION REQUESTING THE LOCAL AGENCY FORMATION COMMISSION OF ORANGE COUNTY TAKE PROCEEDINGS PURSUANT TO THE CORTESE-KNOX-HERTZBERG LOCAL REORGANIZATION ACT OF 2000 FOR THE CITY OF LA HABRA TO ANNEX COUNTY ISLANDS DESIGNATED AS THE MACY/RANDALL ISLAND, CITRUS/IDAHO ISLAND, CITRUS/ENTRADA ISLAND, CYPRESS/TERRY ISLAND, HENSEL/MAGDA ISLAND AND PALM/SHADYCREST ISLAND CONSISTING OF APPROXIMATELY 130.7 ACRES OF PROPERTY AND A PROPERTY TAX EXCHANGE AGREEMENT AND ANNEXATION, DISSOLUTION OF COUNTY SERVICE AREA AND TRANSFER OF DRAINAGE FACILITIES BETWEEN THE CITY OF LA HABRA AND THE COUNTY OF ORANGE**

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### **SUMMARY RECOMMENDATION:**

Staff recommends the City Council take the following actions:

1. Approve a resolution requesting that the Orange County Local Agency Formation Commission (OC-LAFCO) approve the annexation to the City of La Habra of the following County Islands, known as the:
  - a. Macy/Randall Island,
  - b. Citrus/Idaho Island,
  - c. Citrus/Entrada Island,
  - d. Cypress/Terry Island,
  - e. Hensel/Magda Island, and;
  - f. Palm/Shadycrest Island.

**Agenda Item No. VI.2**

**Meeting Date: 11/6/17**

2. Approve a resolution that:

- a. Establishes a Property Tax Exchange Agreement and Annexation agreement between the City of La Habra and the County of Orange,
- b. Dissolves Orange County Service Area #20; and,
- c. Approves the transfer of Drainage Facilities between the City of La Habra and the County of Orange.

## **DISCUSSION:**

### **California Domestic Water Service**

On December 16, 2013, the La Habra Utility Authority (Authority) approved a memorandum of understanding (MOU) with California Domestic Water Company (CDWC) that transferred CDWC's La Habra area water system and retail water service for approximately 400 customers to the Authority, most of whom were located in Orange County; however, some of the customers were located in Los Angeles County bordering the City of La Habra. The CDWC had previously approached the City with a proposal to transfer their retail service accounts in the La Habra area to the Authority, as they shifted their business operations to wholesale water production and delivery rather than providing retail water service. In addition to transferring these retail accounts, CDWC agreed to pay the Authority \$1 million to help fund any system improvement costs deemed necessary by the Authority.

In considering CDWC's proposal staff determined that the acquisition of their retail accounts would also enhance the Authority's ability to serve customers in the northern portion of La Habra. Currently, the CDWC water system intersects the Authority's water system in several locations, creating "gaps" (identified as gray shaded areas in Attachment 26) in the Authority's water system network in the northern part of the City. By closing these "gaps" the Authority would be able to more efficiently continue with its plans to improve water pressure and water flow to both improve the City's ability to fight fires and to provide better water service reliability to approximately 1,200 retail water accounts in the northern portion of the City.

The MOU was approved after consideration at a public meeting of the La Habra Utility Authority Board. Pursuant to the terms of the MOU, CDWC agreed to pay the Authority \$1 million for upgrades to the system, as CDWC has been planning to invest these funds in improvements whether or not the water system transfer took place (Attachment 1).

### **La Habra Utility Authority Water System Upgrades and Cost Comparison**

Both the final 2007 and the draft 2017 La Habra Water Master Plans identified fire flow deficiencies in the northern portion of the City, north of Whittier Boulevard from the City's westerly border to the City's easterly border. The City currently serves its "Foothill Area" water pressure Zones 3, 4, and 5 via a complex water delivery system, which includes the Hacienda Pump Station, the Old Reservoir Pump Station, and by receiving water from the CDWC transmission main located in Whittier Boulevard. There are approximately sixteen metered interconnections between CDWC and the City that transport water to

these three zones. CDWC serves its County Island customers through a separate system from the Hacienda Pump Station, the Cypress Pump Station, and the Hart Pump Station.

Considering the risks associated with urban wildfires, as evidenced by the Freeway Fire several years ago and the more recent Anaheim Hills fires, it is prudent for the Authority to ensure that water systems and fire flows in sensitive areas of the City are designed and maintained in such a manner to provide sufficient water volume and pressure in the event of a major wildfire. Recognizing the risk that wildfires pose to the City, especially along its northern border with La Habra Heights, the City's Wildfire Annex to its Emergency Response Plan has identified plans to evacuate residents that live in the northern portion of the City to areas south of Whittier Blvd. in the event of a major wildfire.

Several scenarios have been considered in the draft 2017 Water Master Plan in order to achieve both the recommended fire flow identified in the plan, as well as water system efficiencies in the Foothill Area.

- Scenario 3 assumes the Authority would make fire flow upgrades to its system without consolidation of the Authority and CDWC water systems. This scenario would require replacement of the Hacienda Pump Station, the Old Reservoir Pump Station, and several water mains for a total estimated cost of \$9,902,200 (Attachment 27).
- Scenario 4 assumes a potential consolidation of the Foothill Area via the acquisition and integration of the current CDWC retail system. Under this scenario, the proposed consolidated system would allow for the elimination of the Old Reservoir Pump station and would allow the Foothill Area pressure zones to be reduced from three to two, with a westerly zone supplied by the Hacienda Pump Station and an easterly zone supply by CDWC Plant 6. This would be a less complex and more reliable configuration than the current system. The total cost for this scenario is approximately \$7,774,540, a savings of approximately \$2,127,660 compared to Scenario 3 (Attachment 27).

Additionally, CDWC's Plant 6 has connections to their existing two million gallon water reservoir that could provide the City with sufficient emergency water supply in case of a major wildfire in the northern portion of the City along the Foothill Area. If consolidation occurs, CDWC has indicated that they will provide the Authority with access to the reservoir through a proposed modification to Plant 6. If the Authority were to consider building its own two million gallon water reservoir it would first have to find and purchase a suitable location and then pay construction costs, estimated at approximately \$3 million. The Authority can avoid this potential expense if it is provided access to the existing CDWC reservoir facility. While building a new reservoir is not required to provide sufficient fire flow once the Foothill Area system improvements are made, access to that volume of water in a major wildfire event would be of significant benefit to the City.

## **LAFCO**

The Authority's approval of the MOU with CDWC necessitated separate approval by both Los Angeles and Orange County LAFCOs to allow the City to provide "out of area" service to CDWC customers who lived in Los Angeles County or in the Orange County islands adjacent to La Habra. Staff worked closely with staff at Los Angeles County LAFCO and the County of Los Angeles to process the necessary applications and agreements to secure approval to provide "out of area" service to the retail customers in Los Angeles County. This approval was secured on September 10, 2014 and the Authority approved an amendment to the MOU on March 16, 2015 to finalize the Los Angeles County portion of the project (Attachment 28).

Staff also initiated discussions with OC-LAFCO to secure similar "out of area" approvals for CDWC retail water customers residing in the Orange County islands. After preliminary discussions; however, OC-LAFCO staff indicated that in order for the Authority to provide water service to those customers, the City would be required to annex the affected County islands (Attachment 2).

In order to determine what impacts annexation would have on the City, staff assessed the condition of the public right of way in the six islands and initiated discussions with staff at the County of Orange. The County was very supportive of annexation and agreeable to a property tax and revenue sharing agreement; however, their position was that, as a condition of approval, the City would be required to annex all remaining Orange County islands in its sphere of influence, even those that did not contain any CDWC retail customers (Attachment 3).

It is a priority of both OC-LAFCO and the County of Orange for small County island pockets to be annexed by the appropriate local jurisdictions in the County. Specifically, OC-LAFCO's web site identifies as one of their primary missions under "Statutory and Commission-Initiated Mandates" to:

"Carry out the legislative purpose of LAFCO to encourage efficient municipal services and orderly formation and development of local agencies, through the annexation of areas to adjacent cities..."

### **Previous Actions Related to Annexation**

On December 5, 2016, staff presented this matter to the City Council, who then authorized staff to begin the process to consider annexation of the remaining County Islands into the City of La Habra (Attachment 4). OC-LAFCO conducted a community workshop with the residents of the County Islands at the La Habra Community Center on January 24, 2017. During that meeting, staff from OC-LAFCO, along with the County Chief Executive Officer and representatives from Orange County Supervisor Shawn Nelson's office, explained why the County had requested the City to consider annexing the remaining County islands into the City of La Habra's jurisdiction. OC-LAFCO staff described the annexation process to the attendees, including the provision in the law that exempts the process from protest proceedings. Approximately 250 individuals attended the workshop.

On May 1, 2017, the City Council conducted a hearing to consider an application to OC-LAFCO requesting annexation of all remaining County islands into La Habra's jurisdiction per the Cortese-Knox-Hertzberg Local Reorganization Act of 2000 (CKH Act). The CKH

Act establishes procedures for annexation, which was later amended so that qualified county islands smaller than 150 acres could be annexed without protest proceedings. Each of the remaining County Islands being considered for annexation by the City of La Habra is less than 150 acres in size and, combined, all the islands total less than 131 acres. At the May 1<sup>st</sup> meeting the City Council received testimony from 29 speakers, of which 20 speakers expressed opposition to the annexation, two spoke in support of annexation, and seven speakers did not express a specific position, but raised questions as to how the annexation could affect them from a cost and regulation standpoint (Attachment 5).

The City Council continued the item and directed staff return at a future Council meeting with responses to the questions raised by the speakers so that Council could then determine the appropriate action regarding annexation. In addition, the City Council discussed methods of improving outreach to residents in the County islands and directed a web site be established to allow residents and other interested parties to directly submit questions and receive responses to any concern they may have regarding the proposed annexation.

Since the first community meeting held in January 2017, City staff have had numerous conversations with staff at the County of Orange and OC-LAFCO to attempt to fully research and address the various questions and concerns that have been raised, by both residents and the City Council, as they relate to service levels, service costs, regulatory issues and other potential benefits and impacts related to annexation. Staff also reached out to private contractors to gather estimates and information regarding septic system maintenance costs, abandonment, and connection costs to connect to the City sewer system. Finally, in addition to the City's standard Council meeting notification process, notices regarding tonight's meeting were specifically mailed to the County Island property owners and occupants on Friday, September 15, 2017, and the date of tonight's meeting has been posted at the bottom of the City's main annexation webpage.

### **Response to Questions Asked at the Hearing**

The details provided in the previous staff report dated May 1, 2017 (Attachment 6) remain accurate as they relate to the sections identified as County Island, Annexation Process, City/County Agreement, Advantages/Disadvantages of Annexation, Fiscal Impact/Source of Funding, and General Plan Relevance; therefore those sections have not be replicated in this report.

This report addresses questions and concerns raised during the May 1<sup>st</sup> City Council meeting. A recap of those comments/concerns and staff responses are as follows:

- *Will the City rezone properties to allow for multi-family development in the area?*

Properties within the County Islands are developed. The General Plan Land Use designations in the County and the City are consistent with each other (Attachment 7). City Staff will be processing a Zone Change for the placement of a Pre-Zone of C-2 (Commercial) onto the properties addressed as 2331 to 2371 and 2601 West Whittier Boulevard. Pursuant to State Law, residential lots may contain a second residential unit subject to certain conditions whether it is located in the City or County. As with any parcel, whether located in the County of Orange or the City

of La Habra, a property owner can request a change in land use, at which time the governing body would conduct a public hearing, consider the impacts to the surrounding area and render a decision based on the merits of the project. The City is not currently aware of any development plans property owners may have for the parcels located in the County Islands.

- *If annexation occurs, will that mean I pay a higher property tax rate?*

The basic Levy Rate (1.000000 percent) remains the same whether the property is located in the County or the City. Service Agency charges differ based on the location of a property. For example, if a parcel is located within the boundary of the La Habra City School District, a voter-approved tax is assessed against the lot. This occurs in all islands with the exception of the Macy-Randall Island. The only other Service Agency Fee difference reflected on property tax bills is the Orange County Sanitation District Sewer User Fee. Parcels in the City that are connected to the City's sewer system are assessed this fee (Attachment 8). If a resident who is currently on a septic system were to connect to the City sewer system, they will be assessed a fee by the Orange County Sanitation District annually via their property tax bill. The amount assessed on property tax bills by the Orange County Sanitation District in 2016-17 was \$327.

- *What is the full cost to the resident upon annexation? Is not the cost to reside in La Habra higher than remaining in the County?*

Service needs for each parcel may vary; therefore, it is difficult to estimate what additional costs, if any, may be assumed by the property-owner if annexation occurs. City departments reviewed their fee schedules and attempted to identify common fees that could apply should a resident require a particular service. Fees for copies, home business licenses, plan check review, and refuse and water costs were identified and noted within the exhibit titled "Cost of Services Resident May Experience Upon Annexation" (Attachment 9). A copy of the City Fee schedule and County Fee schedule is included within the staff report (Attachment 10). In addition, staff reviewed typical residential home improvement projects (such as construction of a patio cover, construction of a bedroom addition, water heater replacement, construction of a block wall, construction of a swimming pool, and kitchen/bathroom remodels) to determine how permit fee costs in La Habra compare to those charged by the County. In most cases, the cost of these fees were less in La Habra than in the County (Attachment 11).

- *Obtaining permits from the County is simple.*

La Habra City Hall is far closer to County Island residents than Orange County's Administrative offices, which are located in Santa Ana. The City of La Habra is located 2.4 miles from the furthest home on Macy Avenue versus 19.2 miles to the County Administrative offices. In addition, the typical "turnaround time" for the City's review of building plan check is ten working days with building inspections usually performed the next day whenever possible. This is consistent with the County's practice.

- *If we currently have an active building permit, will we be able to complete the work with the County?*

Yes. The agreement that transfers the property from the County to the City will make the County responsible for completing all active building permits for work being performed in the County Islands (Attachment 12).

- *Any work done requiring a permit (including connection to sewer system) increases their property taxes.*

The County Tax Assessor's Office has indicated the removal of a septic system and subsequent connection to a sewer line **will not** trigger a reassessment of the property. Maintenance or replacement of existing improvements such as roofs, garage doors, kitchen cabinets and counters, flooring, patio covers, central heating or air-conditioning equipment, windows, doors, decks, flatwork and fences **do not** trigger reassessment of a property. The construction of any new buildings or structures, or significant remodeling of existing structures that changes the use or effective age of a property **will** result in the reassessment of the property, but just for the value of the improvements that are made (Attachment 13). It should be noted that this type of reassessment occurs whether or not the property is in the City or in a County Island.

- *Will existing property improvements be "grandfathered?"*

All permitted improvements constructed to County standards will be grandfathered into La Habra and receive legal non-conforming status. The development standards for the County and City are very similar and therefore staff expects only minimal conflicts for permitted construction (Attachment 14). If unpermitted improvements exist, those improvements could be required to be removed or be modified to comply with building and zoning codes, whether in the City or in a County Island.

- *What is the true cost to connect to the City's sewer system?*

In order to provide the best available information to the City Council, staff reached out to three private contractors to submit cost estimates to both abandon a septic tank system and connect five different homes to an existing sewer line located adjacent to a public street.

If annexation were **not** to occur, the total cost (including the cost of any Encroachment Permits, Building Permits, Orange County Sanitation Fee, Construction and Septic Tank Abandonment) would range from \$61,833 (Case Study #1) to \$333,046 (Case Study #5) and would require each parcel to obtain an "out of area" service agreement from OC-LAFCO.

If annexation is approved and if the Authority has installed a sewer main line and lateral line to the property line, the cost estimates could range from \$23,178 (Case Study #1) to \$85,564 (Case Study #5) depending on the contractor selected, and location of the home to a sewer line (Attachment 15).

These construction costs are all estimates since the contractors did not have access to the sample properties, but instead utilized aerial maps of the parcels to formulate estimates.

- *What is the cost for sewers versus septic tank maintenance?*

Properties connected to the City sewer system pay an annual Orange County Sanitation District Sewer User Fee of \$327 on their property tax bill. There is no fee required by the City regarding the maintenance cost for a septic tank system; however, in discussions with septic tank service providers, they recommend that it is good practice to pump a septic system once every two to three years at a cost ranging from \$400 - \$530 (Attachment 16), depending on the volume of use at an individual location.

- *Who is going to make the determination as to when connection to the sewer system will be required?*

The City's Chief Building Official will make the determination when a property owner is required to connect to a sewer line. This only applies to properties where the connection from the home is located within 200 feet of a public sewer line. Connection will be required when the existing septic tank fails and would have to be replaced, or when substantial improvements occur to the property (which is generally considered as having 50 percent or more square footage added to an existing building).

Construction by the Authority of sewer lines in the public right-of-way is subject to available funding. In the event sewer line improvements are constructed along Koopmans Way, Sharon Way, Randall Avenue, Wallace Avenue, Sharpless Street, and Gordon Avenue in the Macy-Randall Island (which is the largest of the six County Islands), there are 86 total parcels (subject to final field measurements of the location at each home) in all islands combined which may need future sewer connections (Attachment 17).

- *Will a sewer line be placed on private streets?*

The Authority would only consider placing a public sewer line in a private roadway under certain circumstances, which include:

- a petition of all property owners having interest/ownership of the private roadway,
- the successful negotiation of an agreement that grants the Authority an easement for the sewer line (at no cost to the Authority), and;
- the approval of the Authority to perform the work, subject to available funding (Attachment 18).

In that scenario, the connection of a sewer lateral from a home to the sewer main would be the responsibility of each individual property owner. As noted above, the Authority will install public sewer lines in public streets to complete missing gaps, subject to the availability of funding and Authority approval.



Given concerns expressed by residents within the Macy-Randall Island during the May 1, 2017 City Council meeting, should annexation be approved and, in the event certain public improvements are not desired by a majority of the residents in the area, a process exists where an area can be designated as “Rural” by the City Council thereby declaring this area free from certain public improvements (Attachment 19).

- *If no sewer line is to be built upon private roadways, there is no benefit for residents that about the private street to annex.*

The placement of a public sewer line onto a private roadway is subject to the owners of that private roadway allowing for such improvement, providing necessary easements, obtaining City Council approval, and the availability of funding. Annexation provides that opportunity in the future should there be a desire of the neighborhood to seek that service.

- *Macy-Randall is served by Suburban Water. Why should that County Island be annexed by the City?*

OC-LAFCO is requiring the City to annex any existing County Islands that currently receive CDWC water service before they will approve the City’s request to acquire those retail water accounts from CDWC (Attachment 2). The County of Orange has indicated that the related property tax and revenue sharing agreement negotiated between the County and City will only be considered if the City annexes all remaining County islands, whether they contain CDWC retail water accounts or not (Attachment 3).

- *What if County Island residents do not want other public improvements, such as sidewalks, streetlights, or sewers?*

The City will not construct any sidewalks or streetlights along private roadways. In addition, as noted above, no sewers lines will be constructed on private roadways unless certain criteria are met. In regards to improvements along public roadways, if annexation is approved, annexed neighborhoods may request that the City Council designate their area “Rural” thereby removing the requirement for certain public improvements to be constructed (Attachment 19).

- *You will be required to have a permit for overnight parking on the public street when none is required now. Are there exceptions?*

The City of La Habra requires parking permits for vehicles parked overnight on public streets between 2:00 a.m. to 6:00 a.m. Parking permits are issued in those situations when the property owner operates more vehicles than can be parked within the two-car garage (a minimum of one vehicle should be able to park in the garage) and as many as possible on the driveway. The cost of a parking permit is \$32.00 per year, per vehicle, and can be renewed on an annual basis. There are no formal exception procedures to the parking permit requirement or annual fee (Attachment 20).

- *Who is responsible for maintenance of private streets?*

The owners of private roadways are responsible for maintenance of those roads. Should the owners request and the Authority agree to place a sewer line within the private roadway, the Authority would be responsible for repairing the portion of the private roadway disturbed as a result of the placement of the sewer line. Once repairs are completed, continued and future maintenance for the roadway will be the responsibility of the owners of the private street.

- *How is vehicle enforcement handled on private roads?*

The City does not enforce vehicle parking restrictions along private roadways as City parking restrictions only apply to properties along public streets. The Los Angeles County Fire Department has the authority to enforce the State Fire Code that requires Fire Lanes be maintained. The County of Orange enforces parking restrictions on private property regardless of whether the parcel is served by a public street or private roadway. The Orange County Fire Authority enforces Fire Lane requirements on private roadways.

- *If annexation occurs, may we continue to park on private streets?*

The City does not enforce vehicle parking restrictions along private roadways as City parking restrictions only apply to properties along public streets. The Los Angeles County Fire Department has authority to enforce the State Fire Code Fire Lane requirement. The Orange County Fire Authority currently enforces Fire Lane requirements on private roadways.

- *Will parking pads on private property off a private street remain if annexation occurs?*

The City does not enforce vehicle parking restrictions along private roadways as City parking restrictions only apply to properties along public streets. The County of Orange enforces parking restrictions on private property regardless of whether the lot is accessible through a public street or private roadway.

- *We have heard that property addresses will change if annexation occurs. This represents a substantial cost for residents*

The La Habra Community Development and Police Departments, along with the Los Angeles County Fire Department, which contracts with the City of La Habra for fire and paramedic services in the City and in the County islands, collectively recommend that property addresses be changed so that they are consistent with the City's existing street numbering sequence. Time is of the essence in the event of an emergency. Should an out of area emergency responder be tasked to assist in the response to an emergency, it could be a challenge to find the location if the existing street numbering system in the County Islands continues, as there is a break in consecutive address sequencing compared to the City's address sequencing.

In addition, electrical power outages could cause wireless transmission towers to become inoperable during an emergency, which is a situation that has occurred in Northern California due to wildfires. The renumbering of homes to adhere to the City's street numbering sequence assures consistency throughout the community and a potentially quicker response from emergency personnel and other first responders. Furthermore, every annexation processed in the City's history has adhered to the City's numbering system without exception.

In regards to a potential cost to property-owners, staff recognizes property-owners may need to notify their respective billing agencies, friends, and families of the change in address. As to Living Trusts, staff has contacted two Estate Planning attorneys who have indicated the legal description and/or the Assessor's Parcel number of a property governs the trust, not the street address. A "correcting" deed with the new address may be filed by the property-owner, but it is not legally required.

- *Emergency response vehicles are able to find homes now. Why change addresses?*

This contention assumes that every responding emergency provider is familiar with the City's current addressing system and utilizes a GPS mobile device for assistance. As noted above, there may be situations where GPS systems are unavailable to outside emergency responders, which is when a consistent street address system would be the more reliable method of finding a particular location.

- *What agencies does the City contact when addresses are changed?*

The City contacts the following agencies on behalf of property owners when new home address numbers are assigned:

- The United State Post Office
- California Department of Transportation
- La Habra Water Authority
- CR&R (the City's contracted refuse collection company)
- Southern California Edison
- Southern California Gas
- Verizon Telephone
- AT&T Telephone Company
- Time Warner
- Los Angeles County Fire Department,
- California Department of Finance
- State Board of Equalization
- Orange County Voter Register's Office
- All City Departments

- *There is no financial benefit for a County Island resident to be a part of the City.*

How County Islands are serviced is a policy decision by both City and County elected officials and the County has clearly expressed their interest in not continuing to service these small County islands. The subject islands are either bordered or surrounded by the City of La Habra. A resident of a County Island would no longer be required to drive to Santa Ana for services but would instead come to La Habra City Hall. In some cases, the fees to process certain property improvements may be less expensive at the City versus the County. The Property Tax rate remains the same whether in the County or in the City (Attachment 8).

- *The City's annexation effort should have more public outreach.*

While there is no public hearing requirement as part of the annexation process, the City's practice has been to notify property owners and occupants in these County Islands of actions to be taken by the City Council regarding annexation. A community meeting was held in January 2017 to discuss annexation where well over 200 people attended. Subsequently, a Council meeting to consider annexation was held in May 2017, at which time over 100 people attended with almost 30 providing public comment. After that meeting a dedicated annexation web page was established at City Council's direction that contains annexation related materials and data, and to provide a means by which additional questions could be submitted online by residents or other interested parties. Furthermore, agenda reports and attachments have been made available to the public at the public counter and on the City's web site at least 72 hours in advance of any Council meeting.

- *Residents should be permitted to vote on the matter.*

Each of the existing County Islands is less than 150 acres in size and, in total, the area of all six islands combined is less than 131 acres. The State Legislature amended the CKH Act so that annexation of county islands below 150 acres by cities do not require protest proceedings (Attachment 21). Upon submittal of a formal annexation request by the City to OC-LAFCO, the item will be scheduled for consideration by that agency.

- *What is the expected time frame for the annexation process?*

Assuming annexation is approved by the City Council, staff will proceed with completion of pre-zoning for the two commercial properties for commercial consistency between the County and City's General Plan. Staff will also await the County of Orange's approval of the related property tax and revenue sharing agreement, after which, a formal annexation application will be submitted by the City to OC-LAFCO. It is anticipated that OC-LAFCO's approval process would last approximately 3-6 months. The Orange County Board of Supervisors will likely consider the property tax and revenue sharing agreement at a public meeting at some point in the next few months.

**Conclusion**

Annexation of County Islands to the City is exempt from the California Environmental Quality Act by Section 15319, Class 19-Annexations of Existing Facilities and Lots for Exempt Facilities by the California Environmental Quality Act Guidelines. The County Islands are developed to the density allowed by the current zoning of both the County of Orange and the City of La Habra. The annexation of the remaining islands in the City’s sphere of influence is supported by County Supervisor Shawn Nelson’s office, the County of Orange Chief Executive’s Office, and OC-LAFCO. The proposed action would annex all remaining unincorporated Orange County islands located within the City of La Habra’s sphere of influence.

Staff recommends that the City Council approve resolutions requesting that OC-LAFCO approve the annexation of County Islands known as the Macy/Randall Island, Citrus/Idaho Island, Citrus/Entrada Island, Cypress/Terry Island, Hensel/Magda Island and Palm/Shadycrest Island to the City of La Habra (Attachment 23); approve the Property Tax Exchange Agreement and Annexation between the City and the County; approve the Dissolution of County Service Area (Attachment 12); and approve the transfer of Drainage Facilities between the City of La Habra and the County of Orange (Attachment 22).

Should the City Council approve these resolutions, the formal application to OC-LAFCO will be filed upon the completion of a Zone Change for the placement of a Pre-Zone of C-2 (Commercial) onto the properties addressed as 2331 to 2371 and 2601 West Whittier Boulevard for consistency between the County and the City’s General Plan Land Use designations. The Zoning Code pre-zones all properties not containing a zoning designation as residential but for these two commercial parcels, this designation would be inconsistent with the land use designations. The pre-zone would be processed through the Planning Commission in November and the City Council in December. The Orange County Board of Supervisors will likely consider the related property tax and revenue sharing agreement at a public meeting at some point in the coming months after which, if approved by the County, the City will submit the formal annexation application to OC-LAFCO.

**FISCAL IMPACT / SOURCE OF FUNDING:**

The estimated costs to the City related directly to the annexed areas in order to improve the islands to full City Standards over time remains the same as identified in the May 1<sup>st</sup> staff report at \$7.3 million, with total available negotiated one-time resources at \$4.3 million (Attachment 6). In the event Council chooses to designate the area west of Macy Street within the Macy/Randall Island as “Rural”, thereby only completing the sewer line on Russell Street without the construction of other public improvements in that area, such as streetlights, sidewalks, and other sewer mainlines, the cost of public improvements would be reduced by approximately \$2 million (Attachment 24). This would reduce the estimated cost to improve the County Islands to full City Standards to approximately \$5.3 million. The actual expenditure of funds will be determined through the City’s annual budgeting process, which will prioritize projects by need, funding availability and final Council approval. Additionally, if annexation is approved, the City General Fund will receive an estimated \$183,000 per year in ongoing revenue from the property tax sharing agreement and structural fire fund revenues.

Aside from costs and revenues related directly to the islands, there are indirect costs and benefits associated with annexation as it relates to the Authority's implementation of the draft Water Master Plan in the northern portion of the City. If annexation were not to occur, it is estimated that the Authority will have to spend \$9,902,200 to complete necessary improvements to the Authority's existing water system. This does not include an additional estimated cost of \$3 million if the Authority were to consider construction of a two million gallon water reservoir. If annexation is approved and the Authority completes its acquisition of the CDWC water system, it will allow certain efficiencies in the design and construction of improvements to the water system on the north part of the City, which will result in an estimated project cost of \$7,774,540, which would be a savings of \$2,127,660 to the Authority and its water customers. This option would also allow the City access to the CDWC water reservoir, thus avoiding the potential need to construct a separate reservoir in the future.

## **RECOMMENDATION / REQUESTED ACTION:**

It is requested the City Council approve the following actions:

1. County of Orange Agreement

Approve a "RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LA HABRA, CALIFORNIA, APPROVING PROPERTY TAX AGREEMENT AND ANNEXATION, DISSOLUTION OF COUNTY SERVICE AREA, AND TRANSFER OF DRAINAGE FACILITIES BETWEEN THE CITY OF LA HABRA AND THE COUNTY OF ORANGE REGARDING SIX ISLANDS, COUNTY SERVICE AREA #20, AND DRAINAGE FACILITIES FOR LA MIRADA CREEK CHANNEL."

2. LAFCO Annexation request

Approve a "RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LA HABRA, CALIFORNIA, MAKING APPLICATION TO AND REQUESTING THE LOCAL AGENCY FORMATION COMMISSION OF ORANGE COUNTY TAKE PROCEEDINGS PURSUANT TO THE CORTESE-KNOX-HERTZBERG LOCAL GOVERNMENT REORGANIZATION ACT OF 2000 FOR THE CITY OF LA HABRA FOR THE DISSOLUTION OF COUNTY SERVICE AREA #20 AND THE ANNEXATION OF COUNTY ISLANDS DESIGNATED AS THE MACY/RANDALL ISLAND, CITRUS/IDAHO ISLAND, CITRUS/ENTRADA ISLAND, CYPRESS/TERRY ISLAND, HENSEL/MAGDA ISLAND AND PALM/SHADYCREST ISLAND CONSISTING OF APPROXIMATELY 130.7 ACRES OF PROPERTY WITHIN ITS SPHERE OF INFLUENCE, TO BE KNOWN AS ANNEXATION NO 17-01."

### **ATTACHMENTS:**

1. La Habra Utility Authority Staff Report 12/16/13
2. LAFCO Letter
3. County Administrative Office Letter
4. City Council Minutes 12/5/16
5. City Council Minutes 5/1/17
6. City Council Staff Report 5/1/17
7. La Habra General Plan 2030 and County of Orange General Plan
8. Annexation Case Study-Property Tax Charges

9. Cost of Services Resident May Experience Upon Annexation
10. City Fee Schedule and County Fee Schedule
11. Permit Costs for Typical Home Improvement Projects
12. Agreement Between the County of Orange and the City of La Habra
13. Tips for Homeowners-Office of the Assessor
14. Comparison of Development Standards for the City of La Habra versus County of Orange
15. Cost of Septic Tank Abandonment and Connection to Public Sewer Line
16. Septic Tank Service Costs
17. Sewer Plans
18. Private Street Locations
19. Resolution No. 3646
20. Municipal Code Section 10.20.180 Overnight Parking
21. Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000
22. Resolution-Property Tax Exchange Agreement and Annexation, Dissolution of County Service Area and Transfer of Drainage Facilities between the City of La Habra and County of Orange regarding Six Islands, County Service Area #20, and Drainage Facilities for La Mirada Creek Channel
23. Resolution-Application to and requesting the Local Agency Formation Commission of Orange County take proceedings pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 for the City of La Habra to annex county islands designated as the Macy/Randall Island, Citrus/Idaho Island, Citrus/Entrada Island, Cypress/Terry Island, Hensel/Magda Island and Palm/Shadycrest Island consisting of approximately 130.1 acres of property within its Sphere of Influence, to be known as Annexation No 17-01.
24. City of La Habra Orange County Islands Annexation Estimate-Island No. LH-1 dated 10/17/2017
25. Notices
26. Foothill Area Consolidation Map (2017 Water Master Plan)
27. Summary of Recommendations (2017 Water Mater Plan)
28. Utility Authority Staff Report March 16, 2015)