



*Final Report
Sunset Beach
Annexation Study*

for the

City of Huntington Beach

April 27, 2010

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Executive Summary

The focus of this report is to present fiscal, operational and procedural information to the City of Huntington Beach to assist its City Council in deciding whether or not to initiate the annexation of the unincorporated community of Sunset Beach. Physically, this is a linear community consisting of 84 acres and an estimated 1,227 residents. It is an unincorporated island mostly surrounded by Huntington Beach and the Pacific Ocean. It was recently placed into the Huntington Beach Sphere of Influence by the Orange County Local Agency Formation Commission (LAFCO). This means that this area can only be annexed into Huntington Beach, if annexation occurs at all. This report addresses the fiscal and operational impacts of this potential annexation in accordance with Objective LU 3.1 of the City's General Plan.

Fiscal Analysis

Revenues

The study projected the identifiable "General Fund revenues" associated with this annexation including income from the property tax, property transfer tax, sales tax, property tax in lieu of sales tax, motor vehicle license fees, property tax in lieu of motor vehicle license fees, transient occupancy tax, franchise fees, business license fees, animal license/shelter fees, and fines and forfeitures. Since this annexation would occur without a vote of the Sunset Beach electorate, the City's Utility Users Tax would not be levied in this community.

Also "other municipal revenues" were identified related to the structural fire fund property tax, FireMed, special assessments, water and wastewater fees, library property tax, and recreation program income. There are also "restricted road revenues" related to gas tax and Measure M income. General Fund estimated revenue is \$795,510. By adding projected "other municipal revenue" of \$439,855 there will be \$1,235,365 available for various City operating expenses. By adding "restricted road revenues" of \$176,555, total revenue from this potential annexation is estimated at \$1,411,920.

Expenditures

Two approaches were taken to project the estimated additional expenditures that would occur if Huntington Beach annexed Sunset Beach. One methodology is to project the City's General Fund expenditures on a per capita basis. A per capita expense is determined by dividing each department's budget by the City's estimated population, and projecting the increase in that department's budget by the increase in the population (1,227) that would be served. Using this methodology, the City's added expense is projected to be \$1,092,871.

The other approach is to project the actual expected additional expense for each department. This recognizes that many city operations will not require additional staffing or budget increases including, for example, police, fire, library, and administrative and staff support offices. In fact, this result emphasizes the efficiency of changing the way public services could be provided to the Sunset Beach community because of the economy of scale provided by the City.

The functions which will require additional funding in order to provide service to Sunset Beach include Animal Control, City Clerk, Community Services, FireMed, and Park Maintenance. Using this methodology, the City's added expense is projected to be \$664,140.

Estimated street and road maintenance and improvement expense needed to maintain 3.98 centerline miles of streets in this community, including street sweeping and 102 street lights, is \$123,521. It is assumed that the five traffic signals along Pacific Coast Highway will be maintained in a cost sharing arrangement between Caltrans and the City.

There are also one-time, likely discretionary, capital and equipment expenses which may be required in Sunset Beach. One is a projected \$800,000 in repairs to the Broadway Bridge, with a \$96,000 local match, which can come from gas tax funds. There is also an estimated \$1,500,000 worth of drainage improvements being initiated by County Parks, a portion of which would be the responsibility of the City. It is unknown what the additional cost would be to Huntington Beach with or without the annexation, but there would be an additional expense to the City in either case. Finally, to address beach maintenance the City will need to purchase a tractor (\$148,000) and a rake (\$32,000).

Other possible unknown one-time expenses associated with this potential annexation include providing engineering support to a property owner initiated underground utility project along with a Rule 20A undergrounding project being pursued by Southern California Edison. Also, planning studies related to this potential annexation, such as a General Plan Amendment, Zoning Text Amendment, Local Coastal Plan review, and environmental review that are not performed by City staff could entail a one-time consultant cost estimated at \$96,894.

Based on the projected all-fund revenues and expenditures presented in more detail on Table IX on page 23, it shows that the estimated fiscal impact of the Sunset Beach annexation on the City of Huntington Beach could range from an annual surplus of \$195,528 to \$624,259. It should be noted that these figures are only estimates based on the methodologies described in this study and do not guarantee the exact future numbers in case the annexation occurs. It should also be noted that the comparison of "actual" projected revenues and expenditures underscores the efficiency and cost effectiveness of the City serving this unincorporated area since the City would be able to extend many of its services to this area without increasing the operating budgets for these services.

Regarding restricted road revenue, there would be an estimated surplus of gas tax and Measure M income accruing to the City for day-to-day street maintenance expense. This may be necessary, however, since there may be one-time capital expenses that would be required from this source.

Operation Impacts

This portion of the report evaluates the public service and infrastructure impacts of this potential annexation on the City of Huntington Beach.

Public Service Impacts

In terms of public service impacts there would only be slight workload increases for administrative and support services such as Administration, City Attorney, City Clerk, Economic Development, Finance, Human Services and Information Services. Also, there would be some, but not significant, workload increases in regulatory services such as Building and Safety, and Plan-

ning. While there will be some minor increase in the Police Department workload, there should be none in Fire since they are already serving this area through automatic aid and through a paramedic contract with the Orange County Fire Authority. Also, additional workload is not expected in the Library Department.

The City's Water and Wastewater operations are not expected to be impacted. Water is already provided by the City to this area, and the Sunset Beach Sanitary District will retain its independence and continue to provide wastewater service to this community.

There will be workload increases in the Community Services Department to provide lifeguard and beach maintenance services to this area, plus administering a Junior Lifeguard Program which County Parks plans to extend for two-years. It is assumed that the Sheriff's Harbor Patrol would remain in place in Huntington Harbour and that County Parks would retain oversight of the Sunset Aquatic Park.

Parks Maintenance would pick up increased workload by assuming maintenance responsibilities for a 13 acre linear park, which includes a tot lot and five recently renovated restrooms.

Infrastructure Impacts

There does not appear to be any major infrastructure problems or issues with this potential annexation. The only potential projects with one-time cost impacts are the repairing the Broadway Bridge (\$96,000 local match), and assisting in funding a County-initiated drainage project (City share unknown).

There will be a need to discuss with the OCFA the future of Fire Station #3 since it is rarely used now, and this community will be easily served by the Huntington Beach Fire Department. (In fact, it already serves this area.) The linear park would be added to the City's parks inventory and appears to be in satisfactory condition. The same could be said of the streets that the City would be inheriting. The City's Water and Wastewater infrastructure would not be impacted by this potential annexation.

Other Issues

The Sunset Beach Community Association has developed a 13-point list of issues to discuss with Huntington Beach in the event the annexation materializes. This does not mean that the Association supports the annexation since they would prefer to remain independent.

Some of the Association's issues have been addressed such as maintaining Sunset Beach Sanitary as an independent District (LAFCO has already approved this) and obtaining assurance that the Rule 20A underground project will be continued. The City taking over maintenance of the beach and linear park is a given.

Other issues evolve around the community's desire to keep its identity, recognition of the Association as liaison with the City Council, land use issues, discuss the future of Fire Station No. 3, impose a business license fee to limit undesirable commercial uses, and obtain contract details of the County's Junior Lifeguard Program. It would appear that most of these issues can be discussed with the Association's representatives and are capable of being resolved.

Annexation Process

After review with LAFCO staff, this report outlines in detail the steps to be taken if the City Council decides to proceed with this annexation. State law, Orange County and LAFCO encourage the elimination of unincorporated “islands” like Sunset Beach with the result that this area was recently placed into Huntington Beach’s Sphere of Influence by LAFCO.

Now with this community in Huntington Beach’s Sphere, it can now be annexed by the City. This means that if the area is annexed, it can only be annexed by the City.

Since Sunset Beach has less than 150 acres, it is an unincorporated “island.” This means that under the provisions of Government Code Section 56375.3, LAFCO must approve the annexation if initiated by the City without resident protest. The only discretionary action that can be taken by LAFCO is to apply “terms and conditions” or to “make modifications with terms and conditions” to the annexation.

Part of the application process requires the City to “prezone” the area prior to consideration of the annexation. This would mean that the City would need to initiate and complete a Zoning Map Amendment to include Sunset Beach in its General Plan. At some point the City would need to also process a General Plan Amendment and a Local Coastal Program Amendment thru the Coastal Commission. Other related planning documents would need to be prepared including a Zoning Text Amendment and an environmental review.

There are certain application fees normally associated with an annexation application. However, LAFCO may waive these fees. Minor fees related to certification and recordation fees will need to be paid before an annexation is finalized.

Sunset Beach Annexation Study

Fiscal/Operational Analysis

Purpose

The purpose of this report is to present fiscal, operational, and procedural issues related to the possible annexation to the City of Huntington Beach of the unincorporated community of Sunset Beach. This is in concert with the City’s General Plan, and Objective LU 3.1, which states:

“Ensure that any proposed annexation is consistent with the overall objectives and does not adversely impact fiscal or environmental resources, and public services and infrastructure of the City of Huntington Beach.”

This report, then, will assess the fiscal impact of the possible annexation of Sunset Beach as well as operational issues regarding public services and infrastructure of the City. The goal of this study is to provide the necessary data, information and analysis to assist the Huntington Beach City Council in determining if the Council desires to take action to annex Sunset Beach. The procedural steps to be followed if the City Council decides to pursue annexation will also be presented.

Background

Sunset Beach is a small, unincorporated beachfront community, adjacent to and northwest of the City of Huntington Beach. Fronting 48-acres of white sand beach, Sunset Beach has an estimated 1,227 residents and 685 dwelling units. Containing 85 acres it is surrounded by Huntington Beach on the south and east, the City of Seal Beach on the north and the Pacific Ocean on the west.

The community is long (a little over one mile) and narrow, with a combination of residential, commercial and public land uses. Besides the beautiful white sand beach, a predominant feature of this community is a long greenbelt, or linear park which once served as the Pacific Electric Red Car right-of-way. This 13-acre park appears to front most of the homes in this community, provides free parking for beach users, contains five remodeled restrooms and a tot lot.

This older beachfront community has maintained its old time charm, with a quaint post office, a volunteer fire station (Orange County Fire Authority Station No. 3), and a women’s club. They have a number of community events, including a Mile Long Garage Sale, sponsored by the Sunset Beach Community Association. This Association is active, meeting monthly, and maintaining its own website at sunsetbeachca.org.

Sunset Beach is also served by the Sunset Beach Sanitary District which was formed in 1930 to provide sewage and trash collection to the Sunset Beach/Surfside Colony communities. This District has an elected Board of Directors representing the local electorate.

Why Change the Status Quo?

Why change the status quo? Or put another way: how did the City of Huntington Beach get to the point of considering the annexation of the Sunset Beach community?

The process of cities annexing small unincorporated “islands” like Sunset Beach started several years ago with a change in state annexation law. Recently, several local government actions, particularly by the Orange County Local Agency Formation Commission (LAFCO) have raised this specific annexation issue. These actions are described in this section.

The Sunset Beach community is considered a small unincorporated “island.” For some time the State of California has recognized the inefficiency of large counties providing municipal services to these small “islands.” State law was changed to permit small unincorporated “islands” of 150 acres or less to be located in a City’s sphere of influence allowing these areas to be annexed without resident protest (Government Code Section 56375.3). Sunset Beach falls into this category since it is an area of 85 acres and is substantially surrounded by the City of Huntington Beach and the Pacific Ocean, with only its short northern boundary bordering the City of Seal Beach.

In addition to this change in state law, according to LAFCO, about 15 years ago the County started to focus more on the provision of regional, countywide services, and pulling back from the provision of municipal-type services. With the more recent and ongoing fiscal problems faced by governments at all levels, it is clear that it is inefficient for counties to provide services to such relatively small “islands,” unconnected to other unincorporated areas.

An example cited by LAFCO staff of one such inefficiency is in the area of fire and emergency medical service. OCFA Engine #3 (volunteer) located at the Sunset Beach fire station and staffed by Reserve Fire Fighters, received 51 calls in 2008, but was only able to respond with qualified reserves in two of those cases. The bulk of the fire and emergency medical responses to this area come under an automatic aid agreement with OCFA from the City’s Warner Avenue Fire Station which is located only 800 feet from the City’s boundary with this community. Also, on July 1, 2004, the OCFA began contracting with the City to provide paramedic emergency medical services to this area since, according to the contract, “...such emergency services can more promptly and more efficiently be provided to the SERVICE AREA (Sunset Beach) by the CITY.” Further, OCFA almost closed the Sunset Beach fire station, but kept it open in response to community support of this station. So, while Sunset Beach is formally served by the OCFA, it is more promptly and efficiently served by the City of Huntington Beach Fire Department.

A Sphere of Influence (SOI) according to state law (Government Code Section 56425) must be established by LAFCO for all cities and special districts. This is a state mandated planning tool designed to identify logical municipal service providers for unincorporated areas throughout the County.

Huntington Beach’s Sphere of Influence was adopted in 1973, and updated in 1989 and 2006. During the 2006 update, while LAFCO staff urged that Sunset Beach be included in the City’s SOI, that recommended action was not taken by the LAFCO Commission. However, over three years later during a subsequent SOI review on July 8, 2009, the Commission placed Sunset Beach in the City’s Sphere. This does not mean that Sunset Beach would automatically be annexed by Huntington Beach, but if it were annexed, it could only be annexed by the City.

On July 31, 2009, the Huntington Beach City Council conducted a special meeting to review and update the strategic goals of the City. At this meeting the possible Sunset Beach annexation was discussed by residents of Sunset Beach addressing the Council under “public comments.” No formal action by the City Council, however, was taken or reported.

On August 10, 2009, the Seal Beach City Council reviewed a staff report and heard from Sunset Beach residents regarding possible annexation by that City of this unincorporated community. While those from Sunset Beach speaking at the meeting urged the Council to pursue annexation of their community, no action was taken by the City Council to pursue such an annexation.

It is clear that state law, Orange County and LAFCO are encouraging the elimination of unincorporated islands, that the City of Seal Beach is not interested in annexing Sunset Beach, and that this community has been placed into Huntington Beach’s Sphere of Influence. The question now is whether or not the City is interested in annexing Sunset Beach and whether the City should take steps to initiate this annexation. If the City does pursue this annexation as an unincorporated “island,” and assuming proper procedural steps are taken by the City including those related to rezoning and environmental review, the LAFCO Commission must approve the annexation. This approval would be subject to terms and conditions or with modifications subject to terms and conditions which would be determined by the Commission. This report will review fiscal, operational and procedural issues to assist the City in answering the question of whether or not the annexation of the Sunset Beach community should be pursued.

Methodology

The methodology of this study included reviewing documents and data supplied by City and LAFCO staff. This included financial, operational, and procedural information. Review of documents prepared by the Seal Beach staff as well as material written by the Sunset Beach Community Association was completed. Pertinent sections of state law along with an Attorney General’s Opinion were also read. Also, interviews and email inquiries were conducted with the staff of the City, LAFCO, and the Orange County Parks Department.

The estimated revenues and expenditures in this report are just that: estimates. They are calculated based on information supplied by either City staff or from the LAFCO Sphere of Influence report prepared last summer. These are not precise figures that guarantee actual revenues or expenditures which will be received or expended should the potential annexation occur.

It should be noted that in very limited portions of this report some general conclusions are offered regarding the reading of the City Charter, the General Plan and state law. These conclusions are based solely on the “plain reading” of these documents, and should not be considered a legal interpretation of this material. Any legal opinions of these documents are the province of the City Attorney, and should be referred to that office for further comment, if needed.

Fiscal Analysis

This fiscal analysis presents the projected revenues that would accrue to the City of Huntington Beach if the Sunset Beach community were annexed to the City as well as the estimated City expenditures for serving this area. The projected revenues are categorized in three categories:

- Income that would accrue to the City’s General Fund;

- Other municipal revenue; and
- Restricted street and road revenue.

These revenues not only include the reallocation of property taxes per the Master Property Tax Agreement between the City and Orange County, a shift of sales tax revenue to the City, but City fees and taxes that would be applied to this area as well.

It should be noted that there are certain revenues that are not currently collected in Sunset Beach by the County. Taxes that are collected in the City, but not in the County, such as the Utility Users Tax cannot be collected in Sunset Beach without a vote of that community's electorate. This report provides estimated General Fund revenue projections for the Utility Users Tax for information purposes only.

This report contains two different approaches in projecting expenditures. One is an estimate using a per capita cost projection, assuming that there will be an incremental increase in expense as the City population increases, both through annexation and normal population growth. The other is a projection of the actual expenditures expected to be spent to provide services to this community. In terms of methodology, the first estimate is based on per capita cost projections and the second is based on current actual estimated expenditures. The latter estimate assumes that per capita cost increases projected for certain City functions will not occur as will be explained in more detail in the "expenditure" section, and that actual expenditures will more accurately describe the "real" fiscal impact the proposed annexation will have on the City.

Revenues

This section presents revenues which will be received by the City as a result of the possible annexation of Sunset Beach. As mentioned previously, these revenues are presented in the following categories:

- General Fund Revenues, which is income which can be used for any municipal purpose;
- Other Municipal Revenues, which is income that normally can be used for general city operations, but limited to a specific city function such as the Structural Fire Fund Property Tax which can only be used to support fire services; and
- Restricted Road Revenues which can only be used for road maintenance and street projects.

General Fund Revenues

Property Taxes

The Master Property Tax Agreement governing the sharing of property tax revenue between the City and Orange County was approved by the City on October 28, 1980. While adopted a number of years ago this resolution is current and provides by its terms that the tax split specified in the Agreement "shall...be used for all annexations...without regard to the year they take place." The Agreement provides that the general tax levy will be allocated as follows: 56 percent (rounded) to the City and 44 percent (rounded) to the County. This division is net of the

County's contribution to the Educational Revenue Augmentation Fund. Also, this revenue is separate from the Structural Fire Fund Property Tax (OCFA) which is discussed later under the "Other Municipal Revenues" section.

The estimated property tax revenue for municipal services and redevelopment is estimated at **\$145,306**.

Property Transfer Tax

When new property is sold or more likely in Sunset Beach when an existing property is resold, a property transfer tax of \$1.10 per \$1,000 of transferred value is levied on the sale of real property. The resulting revenue is then split between the City and Orange County, with each obtaining \$.55 of the transferred value. While neither the County nor LAFCO could provide actual last fiscal year transfer tax revenue for this area, and no revenue estimate was provided in the LAFCO Sphere of Influence report prepared last summer, it is estimated for the purposes of this report that **\$4,268** would be produced based on the property transfer tax income realized in Huntington Beach. This estimate is calculated using the proportion of dwelling units in Sunset Beach compared to the City ($685 \text{ DUs} / 77,962 \text{ DUs} = .88\% \times \$485,000 = \$4,268$).

Sales Tax

While Sunset Beach is mostly residential, it has commercial development along Pacific Coast Highway. Using actual sales tax from the accounts within the unincorporated island, sales tax revenue that would accrue to Huntington Beach is estimated at **\$186,857** (Source: HDL companies).

Property Tax In Lieu of Sales Tax

It is estimated by LAFCO, based on the accounts within Sunset Beach, that property tax in lieu of sales tax revenue amounts to **\$19,738** annually.

Motor Vehicle License Fees (MVLFF)

If the annexation occurs, the City will receive MVLFF subvention revenue in accordance with the AB 1602 formula. It is estimated that Huntington Beach would receive **\$61,350** from this revenue source ($1,227 \times \$50$).

Property Tax In Lieu of Motor Vehicle License Fees

It is estimated by LAFCO that the property tax in lieu of motor vehicle license fees accruing to Huntington Beach would be **\$184,521**.

Transient Occupancy Tax

The County charges a 10 percent Transient Occupancy Tax (bed tax), the same as the City of Huntington Beach. Last year, the County rate produced \$151,356 in revenue. There may be a potential land use and/or business license issue with weekly rentals occurring in Sunset Beach, which are not permitted by Huntington Beach. However, they apparently are not subject to the

County bed tax. Based on the County charging the same rate as the City, it is projected that the City would receive **\$151,356** annually from the Transient Occupancy Tax.

Transient Occupancy Tax (Business Improvement District)

The City also has a Business Improvement District which is supported by an additional one percent Transient Occupancy Tax. Since this one percent TOT is 10 percent of the regular tax rate, the estimated revenue from this income source is **\$15,136** ($\$151,356 \times 10\%$)¹.

Franchise Fees

It is estimated, based on the amount received countywide in the unincorporated areas, applying the amount per capita from the Sunset Beach population, that the franchise fees for electricity, natural gas, and broadband/cable television/telecommunications would produce \$10,660. These are franchise fees applied to each of these services and are separate from the Utility Users Tax. This would provide total franchise fee revenue of **\$10,660**.

Utility Users Tax

The Utility Users Tax is a five (5) percent tax imposed on the users of certain utilities in the City including water, telephone, gas, electric, and cable television services. Projecting an increase in these revenues based the proportionate increase in dwelling units projected by this potential annexation, it is estimated that Utility Users Tax revenue would increase by **\$191,119** ($685/77,962 = .88\% \times \$21,726,000$).

It should be noted, however, that in the view of LAFCO legal staff the Utility Users Tax could be imposed only if the annexation were processed as a normal inhabited unincorporated area requiring a vote of the Sunset Beach electorate. Since it is being pursued as an “island” annexation, not involving a vote of those being annexed, Proposition 218 would bar the imposition of this tax to this area according to LAFCO. As a result, this estimate is provided for information only and is not included in the overall General Fund revenue projection.

Business License Tax

In the City’s license and permits revenue category, the largest revenue source is the business license fee. LAFCO in preparing its revenue estimates as part of the SOI study did not include any income from this source since apparently the County does not have a business license fee. Therefore, there was no available data from which to produce a revenue estimate. There obviously are businesses located in Sunset Beach, and with a minimum business license fee of \$75 per business, some revenue should be produced from this source. Since there was not an available count of the number of businesses in Sunset Beach, a per capita revenue projection for Huntington Beach was developed ($\$2,200,000/202,480 = \10.87) and applied to this unincorporated island. Using that formula, projected business license revenue is **\$13,337** ($1,227 \times \10.87).

¹ Technically, this is not a General Fund revenue and normally would be placed in the “Other Municipal Revenue” category. However, it is presented here since it is normally associated with the Transient Occupancy Tax described above.

As a further note, feedback has been received that some in Sunset Beach would look forward to implementing a business license tax in their community. Some view this as a way to discourage undesirable businesses locating there. Whether or not the tax charged for a business license would have this effect is debatable. The business license should not be considered by Sunset Beach residents as a regulatory tool.

Animal License/Shelter Fees

Based on actual fees collected from this unincorporated island, the LAFCO study indicated estimated revenue from this source at **\$1,745**.

Permit and Regulatory Fees

Planning and Zoning Fees

Based on the per capita revenue received in Huntington Beach for planning and zoning fees as applied to Sunset Beach, it is estimated that the City will receive revenue in the amount of **\$8,503** ($\$1,403,000/202,480 = \$6.93 \times 1,227$). This estimate is provided for information purposes and not included in the total General Fund revenue projections since these are fees which basically cover staff expenses required to provide planning and zoning services to the Sunset Beach community.

Building Permit Fees

While Sunset Beach is basically “built out,” remodeling often occurs requiring building, plumbing, electrical, mechanical and/or other permits. Using a per capita projection, it is estimated that the City will receive **\$13,387** from this revenue source ($\$2,210,000/202,480 = \$10.91 \times 1,227$). Similar to the planning and zoning fees, this estimate is provided for information purposes and is not included in the overall General Fund revenue projections.

Code Enforcement Fees

Again, the LAFCO SOI study attributed zero revenue from Code Enforcement fees. This is because no such fees were collected by the County. However, last July when City staff conducted an informal windshield survey of the Sunset Beach area, 129 violations were identified. While 40% of the violations were related to trash, debris and landscaping, the remaining were structural such as faulty weather protection, signs, garage conversions, and dilapidated roofs and garages. This number of violations as a percentage of total housing units is 18.8 percent, compared to 13.0 percent in the rest of the City. Using a per capita projection along with determining the proportionate increase in violations (18.8% vs. 13.0%) compared to the remainder of the City ($1,227/202,480 = .61\% \times \$29,100 \times 1.45$), the revenue from this source is estimated to be **\$257**. Similar to the planning, zoning and building permit fees, this estimate is provided for information purposes only.

It should be noted that since code enforcement will assume an additional service area, there will be an impact on the City in providing these services to the Sunset Beach area. This impact is reflected in whatever time is spent away from existing areas of responsibility by staff.

In summary, it appears that the Permit and Regulatory Fees from Planning and Zoning, Building Permit, and Code Enforcement will generate **\$22,147** in revenue which will offset the expenses

in processing permits and enforcing the City's codes. Because of this offset, neither the revenues nor expenditures for these functions are included in the revenue and expenditure projections of this report.

Fines/Forfeitures

Fines and forfeitures reflect income generated by Motor Vehicle and Municipal Code fines and other miscellaneous fines and forfeitures. Based on the LAFCO SOI study, using a projection based on the unincorporated county area per capita revenue as applied to Sunset Beach, the estimated fines and forfeiture revenue which would accrue to Huntington Beach is **\$1,236**.

Total General Fund Revenues

Based on the individual revenues identified in the preceding paragraphs, the total General Fund revenue that this potential annexation could produce for the City of Huntington Beach, excluding the Utility Users' Tax is **\$795,510**. This General Fund revenue data is summarized in Table I, entitled, "Projected Annual General Fund Revenue, Sunset Beach Annexation, 2009 – 10."

Table I	
Projected Annual General Fund Revenue	
Sunset Beach Annexation, 2009 – 10	
Revenue	Est. Amount⁽¹⁾
Property Tax	\$145,306
Property Transfer Tax	4,268
Sales Tax	186,857
Property Tax in lieu of Sales Tax	19,738
Motor Vehicle License Fee	61,350
Motor Vehicle in lieu of Vehicle License Fee	184,521
Transient Occupancy Tax	151,356
Transient Occupancy Tax, Bus. Improvement Dist.	15,136
Franchise Fees	10,660
Business License Fee	13,337
Animal License/Shelter Fees	1,745
Fines and Forfeitures	1,236
TOTAL GENERAL FUND REVENUE	\$795,510
⁽¹⁾ Planning, building and code enforcement fees estimated at \$22,147 are excluded from this estimate since these are basically revenues which are offset by expenditures therefore producing a "wash" in projecting the budget needed to serve the Sunset Beach community.	

Other Municipal Revenues

Structural Fire Fund Property Tax

Currently, fire service is provided to Sunset Beach by the Orange County Fire Authority. To support that service, OCFA benefits from a Structural Fire Fund Property Tax. In the case of this unincorporated “island,” this tax produces \$350,731 which would shift to Huntington Beach upon annexation of this area.

It should be noted, however, that currently OCFA contracts with the City for Advanced Life Support (Paramedic) service from the City Fire Department to the Sunset Beach community. It is presumed, upon annexation, that the contract in the amount of \$8,000 would discontinue. The net revenue to the City fire service would be **\$342,731** (\$350,731 - \$8,000).

FireMed

FireMed is a voluntary membership program allowing residents to receive City paramedic and ambulance services for no additional out-of-pocket expenses. The cost to join the programs is \$60 per year, per household. With an estimated 33% participation rate per household based on the city-wide membership average, there would be an estimated participation of 405 households from Sunset Beach that would join this program. The estimated revenue from this membership is **\$24,300** (405 x \$60).

Special Assessments

According to the LAFCO SOI report, there are special assessments totaling **\$3,946** which would be passed on to Huntington Beach if this annexation occurred.

Water/Wastewater Fees

Based on actual revenues, LAFCO estimates that there is \$322,364 in water and wastewater fees produced in Sunset Beach. However, this does not mean that this is additional revenue that would accrue to Huntington Beach if this area were annexed. First, at the July 8, 2009, LAFCO meeting, the Commission decided that the Sunset Beach Sanitary District would maintain its independent status with its own sphere of influence. Second, the City already receives payment for water service from this community. Further, there is a 10 percent surcharge on the water bill that would evaporate upon annexation. So, instead of \$322,364 accruing to the Huntington Beach, there would be a loss to the water fund of **\$23,151**.

Library Property Tax

Currently, there is property tax revenue supporting the County Library System that would shift to Huntington Beach upon annexation. The LAFCO estimated revenue for City library service which would shift to the City upon the annexation of Sunset Beach is estimated at **\$52,029**.

Recreation Programs

There has been a Junior Lifeguard Program conducted in Sunset Beach, generating approximately \$40,000 in revenue to the County. The current contract ended with the summer 2009 session. However, the County Parks Department intends to extend the contract through 2011. It is expected that this contract extension would occur before Sunset Beach could be annexed into Huntington Beach. At some time in the future, if the annexation occurs, the City may want to consider folding this program into their Junior Lifeguard program. In the meantime, the revenue produced from this program is estimated at **\$40,000**.

Parking Fees

While Sunset Beach does not have any parking meters, they apparently developed some form of parking permit system. The consultant was informed that since residents were being ticketed along with visitors for parking in front of garages, this system involved permits which allowed residents to park in these spaces. Neither the County nor LAFCO had any information on this permitting system, the fee structure, or the revenue that was produced. The amount of revenue likely would be minimal in any event. As a result, no additional revenue from parking fees is projected in this report.

Total Other Municipal Revenues

It is estimated that if Sunset Beach were annexed into Huntington Beach, there would be Other Municipal Revenues available to support City fire, library and miscellaneous services in the amount of **\$439,853**. This data is summarized in Table II, entitled, "Projected Annual Other Municipal Revenues, Sunset Beach Annexation, 2009 – 10."

Revenue	Amount	
Structural Fire Fund Property Tax	\$350,731	
Loss of Emergency Medical Contract Revenue	(8,000)	
FireMed	24,300	
Total Fire Department Revenue		\$367,031
Special Assessments		3,946
Loss of Water Surcharge		(23,151)
Library Property Tax		52,029
Recreation Program (Jr. Lifeguard contract)		40,000
TOTAL OTHER MUNICIPAL REVENUE		\$439,855

Restricted Road Revenues

Gas Tax Funds

If Sunset Beach were annexed by the City, state gas tax funds now collected by the County for this area would shift to the City. According to the LAFCO SOI financial report, and in applying the countywide per capita factor for this “island” an additional \$190,480 would be produced for street maintenance and other road projects. However, this estimate included \$127,462 in Section 2104 gas tax funds which only accrues to the County, and did not include an estimate of Section 2107 gas tax funds which would be allocated only to the City. By making these adjustments, it is estimated that the state gas tax funds that would be received by the City (from Sections 2105, 2106, 2107, and 2107.5 gas tax funds) if this annexation occurred is an estimated **\$148,381**. These revenues, as well as those received through Measure M, are restricted only to the use of street maintenance and improvements.

Measure M

Measure M is an initiative passed by the voters in Orange County to finance transportation improvements using revenue produced from a countywide sales tax. Based on the actual sales tax revenue produced in Sunset Beach, it is estimated that Huntington Beach would receive **\$28,174** from this source if they annexed this “island.”

Total Restricted Road Revenues

The estimated amount of restricted road revenues which would switch from the County to the City if Sunset Beach were annexed is an estimated **\$176,555**. This data is summarized in Table III, entitled, “Projected Restricted Road Revenues.”

Table III Projected Restricted Road Revenues	
Revenue	Est. Amount
Gas Tax	\$148,381
Measure M	28,174
Total Restricted Road Revenues	\$176,555

Revenue Summary

The total General Fund, other municipal revenues and restricted road revenues are summarized in Table IV, entitled, “Projected General Fund, Other Municipal and Restricted Road Revenues.”

Table IV
Projected General Fund
Other Municipal and Restricted Road Revenues
Sunset Beach, 2009 – 10

Revenue	Est. Amount
General Fund	\$795,510
Other Municipal	439,855
Total Available for City Operations	\$1,235,365
Restricted Road Revenue	176,555
Total Revenue Produced from Sunset Beach	\$1,411,920

Expenditures

Per Capita Projection of General Fund Expenditures

As mentioned earlier, there are two expenditure projections provided in this report. One is based upon a methodology of projecting the City's General Fund expenditures on a per capita basis. A per capita expense for each department is determined by dividing each department's budget by the City's estimated population (202,480), and then projecting a number to reflect the additional population that would be served (1,227) if Sunset Beach were annexed. As presented in Table V entitled, "Per Capita General Fund Expenditures with Sunset Beach Population," this projection developed by City staff would mean an increase in City operating expenditures of \$1,092,871. Compared to the General Fund revenue projections presented in Table I, this would mean a deficit of \$291,361 (\$795,510 - \$1,092,871). However, by adding the General Fund and Other Municipal Revenues together, there would be a surplus of \$142,494 (\$795,510 + \$439,855 = \$1,235,365 - \$1,092,871).

Table V
Per Capita General Fund Expenditures with Sunset Beach Population

Department	Proposed FY09/10 Budget (1)	Current		Sunset Beach Cost Using Per Capita Basis		
		Population (2)	Budget Per Capita	Budget Per Capita	Population	Budget Per Capita
City Administrator	\$1,773,821	202,480	\$9	\$9	1,227	\$10,749
City Treasurer	\$1,492,949	202,480	\$7	\$7	1,227	\$9,047
City Council	\$307,910	202,480	\$2	\$2	1,227	\$1,866
City Attorney	\$2,635,911	202,480	\$13	\$13	1,227	\$15,973
City Clerk	\$956,065	202,480	\$5	\$5	1,227	\$5,794
Building & Safety	\$3,696,183	202,480	\$18	\$18	1,227	\$22,398
Community Services	\$13,408,349	202,480	\$66	\$66	1,227	\$81,253
Economic Development	\$1,583,820	202,480	\$8	\$8	1,227	\$9,598
Human Resources	\$6,469,696	202,480	\$32	\$32	1,227	\$39,205

Table V
Per Capita General Fund Expenditures with Sunset Beach Population

Department	Proposed FY09/10 Budget (1)	Current		Sunset Beach Cost Using Per Capita Basis		
		Population (2)	Budget Per Capita	Budget Per Capita	Population	Budget Per Capita
Finance	\$10,857,094	202,480	\$54	\$54	1,227	\$65,792
Fire	\$32,240,905	202,480	\$159	\$159	1,227	\$195,375
Information Services	\$7,028,601	202,480	\$35	\$35	1,227	\$42,592
Library Services	\$4,650,003	202,480	\$23	\$23	1,227	\$28,178
Planning	\$3,334,001	202,480	\$16	\$16	1,227	\$20,204
Police	\$60,015,155	202,480	\$296	\$296	1,227	\$363,683
Public Works	\$19,362,379	202,480	\$96	\$96	1,227	\$117,333
Non-Departmental	\$10,533,100	202,480	\$52	\$52	1,227	\$63,829
Total General Fund Expenditures	\$180,345,942		\$891	\$891		\$1,092,871

(1) Does not include capital expenses.

(2) Population based on 2009 estimate provided by Economic Development.

The problem with this analysis is that for many departments there likely would be no additional budget costs. For example, there might be additional, but likely minimal additional work generated by this annexation in City Administration. There probably would not be enough additional workload to generate an increase in this Department's budget. This extra work would be absorbed and prioritized within Administration's normal workload.

Even a direct service Department such as Fire will not have nor need a budget increase of \$195,375 shown in Table V now or over the next several years. This is because Fire already serves this community through an automatic aid agreement and provides paramedic service through an ALS contract with OCFA. It not only has the nearest "career" fire station, but Sunset Beach falls within the normal 1 ½ mile radius of the Warner Avenue Fire Station which is the desired response distance for a suburban fire station.

It can be argued that with incremental growth such as this annexation, increase in average family size, or new development, over time there could be an eventual increase in city expense when a certain "critical mass" of additional population to be served has been obtained. However, over time with the possibility of an aging population, average family size may actually decline. The only major additional costs are likely to be in the areas of lifeguard services, beach and park maintenance, road, traffic signal and street light maintenance. Even a slight increase in calls for law enforcement service likely will be absorbed within existing police staffing. Also City staff indicates that the "potential impact on current code enforcement operations is believed to be minor" even though, as described earlier, a July windshield survey indicated approximately 129 code violations. A large portion of those code violations, however, were for property maintenance issues.

There probably will be some additional permit and entitlement processing in Building, Public Works and Planning, but this work should be offset by fees and absorbed by existing staff given the overall decline in building and development activity in Southern California. As explained

above, additional potential income from planning and building fees from this potential annexation were not included in the projected revenues because of the expenditure offset.

The next section provides an estimate of the “real” or expected “actual” additional expenses expected if Sunset Beach were annexed into Huntington Beach.

General Fund Expenditure Projections (Actual)

This section presents the estimated potential real recurring cost impacts that would occur with the possible annexation of Sunset Beach to Huntington Beach. These costs are estimates, and have been prepared in conjunction with City staff. The cost estimates are for operating expenses for those Departments likely to have an increase in their budget in order to serve this unincorporated “island.” Included in this discussion will be some one-time costs and unknown future capital obligations that would be assumed by the City if this annexation occurred. Also, even though no additional expenses are expected in some major City departments such as Police and Fire, they are briefly discussed in this section since they are a major part of the City’s budget.

Fire

As indicated earlier no additional Fire Department expense is expected if Sunset Beach is annexed since the Department is already serving this area. With the Structural Fire Fund Property Tax, less the elimination of the ALS contract with the OCFA, there will be a net revenue/expenditure benefit to the City of \$342,731. The Fire service is mentioned in this section since it is a major cost center of the City, and there is a significant revenue offset for this service in the annexation scenario.

Police

The LAFCO Sphere study estimated \$1,237,023 in total County General Fund expenditures to serve Sunset Beach. Of that amount, \$1,198,524 was allocated for Sheriff services. This estimate was based on calls for service as a ratio to the total calls in the County’s unincorporated territory compared to Sunset Beach. The Sheriff’s Department reports that there are six deputies assigned to this unincorporated area, working three shifts, providing 24 hours per day coverage.

In the power point presentation to the Seal Beach City Council that City’s staff concluded that this level of expenditure “is overstated, and not an accurate reflection of costs for the currently provided level of services to the Sunset Beach Community.” The consultant would agree with that conclusion.

In its analysis of required service, the Huntington Beach Police Department looked at the Part I Crime Statistics for Sunset Beach. While they found it was difficult to obtain exact numbers for this area, crime data was obtained from the Sheriff’s Records Management System for 2007 and 2008. As shown in “Table VI – Sunset Beach Part I Crime Statistics – 2007 & 2008,” there were 39 Part I, or major, crimes in 2007 and 44 in 2008. In addition, there were 59 traffic collisions in 2007 and 53 in 2008.

Table VI
Sunset Beach Park I Crime Statistics – 2007 & 2008

Crime	2007	2008
Homicides	0	0
Rape	0	1
Robbery	4	2
Felony Assault	5	5
Burglary	13	15
Larceny	12	15
Motor Vehicle Theft	5	6
Total Part I Crimes	39	44

After reviewing this data, police staff concluded, “it appears the Police Department could provide law enforcement services to Sunset Beach while maintaining current staffing levels.” As a result, no additional expenditures are added to this Department’s budget in evaluating the fiscal impact of the potential Sunset Beach annexation.

Animal Control

Using a two year average for 2007 and 2008, there appears to be 309 annual calls for service. This average may be inflated since there were a reported 37 calls for service in 2007, but 545 in 2008. Since Orange County Animal Care charges approximately \$100 per call, using the 309 figure, there would be added cost to the City for this annexation in the estimated amount of **\$31,000**. While this figure may be inflated, it is used in this analysis due to the lack any other available data.

City Clerk

Sunset Beach has two precincts with 797 registered voters. In November 2008, these two precincts were consolidated into one polling place with five election workers. It is generously estimated that the City Clerk’s Office would experience additional election costs in the amount of \$2,500 every two years. Averaging this expense on an annual basis it is estimated that there would be additional expense in this office of **\$1,250**.

Community Services

Beach Maintenance

To maintain the same level of service in maintaining 48-acres of beach as currently being provided would cost an estimated **\$61,880**. This includes, according to the Community Services Department:

“...periodic hand picking of litter, contractually provided trash removal daily, graffiti removal, ice plant trimming, the raking and sanitizing of the sand four times per month, and the construction and removal of street end sand berms as needed seasonally.”

However, there will be an estimated additional expense for supervision and travel time. This is because this stretch of beach is not contiguous with other City beaches, and because there will be a need to operate a day-time beach cleaning crew since Sunset Beach is adjacent to a residential area. Currently, the City does not provide day-time crews. It is estimated that \$80,000 will be needed in the beach maintenance budget to cover the extra expense of supervision and travel time to this beach. This will mean an estimated beach maintenance budget of \$141,880.

Another issue with an undetermined cost is where to store maintenance equipment and the need to obtain an additional tractor and rake. Currently, the County's equipment is used at several locations. Their equipment is either stored at the Talbert Nature Preserve or the Upper Newport Beach Nature Preserve. The exception is a large sand sifter, or sanitizer, which is devoted exclusively to Sunset Beach and is stored at Sunset Marina. If Huntington Beach could obtain the sanitizer from the County, it would need to determine if it could continue to be stored at the Marina. There could be a rental expense associated with this storage. Also, there likely would be the cost of purchasing a tractor.

In addition, Sunset Beach through the County participates with other beach cities in a **Sand Replenishment Program**. There are 12 stages of the program, each stage four or five years apart, with payment based on the linear feet of coast line. In 2001 the County's share for this section of the beach was \$46,356, and in 2008 it was \$5,600. There is no explanation for this difference in amounts. Staff speculates that there may be an error in how the data was distributed among the agencies. In comparing the dollars charged Huntington Beach in 2001 and 2008, and given its much longer shoreline, it would appear that the \$5,600 is probably the more accurate cost for this work along Sunset Beach. Therefore, it is estimated the next stage of this Federal Erosion Control program would cost the City about **\$6,000**, possibly as soon as 2013. In order to annualize the cost of this work in order to assess the impact of this potential annexation, it is recommended that **\$1,250** be included in the expenditure estimates (\$6,000/5).

Marine Safety

Staff indicates that the County currently contracts for Marine Safety Services (Lifeguard) in the amount of \$333,000. They recommend that, if this annexation occurs, this contract be maintained. Also, the City would need to negotiate the retention of the lifeguard towers and equipment that currently serve beach activities. The estimated cost of assuming marine safety for Sunset Beach is **\$333,000**.

A question was raised regarding the City being responsible for ultimately replacing the lifeguard towers which serve Sunset Beach. However, these lifeguard towers are owned by US Ocean Safety which provides marine safety to the beach. If the contract for this service is maintained as proposed by staff, then lifeguard tower replacement should not be an issue for the City. As a result, this report does not project any expense for lifeguard tower replacement in the immediate future.

It should be noted that there are no special events planned for this section of beach. Therefore, no funds are projected to be added for this purpose.

FireMed

This voluntary program allows members to receive paramedic and ambulance services without out-of-pocket expense. By applying the City's percentage participation in the program to Sunset Beach, it is estimated that people from 405 residences would belong (1,227 x 33%). With a

yearly expense to the City of \$51.26 per household, it is estimated that this program would cost **\$20,760** (405 x \$51.26) to administer.

Public Works

Park Maintenance

There is a 13-acre linear park or greenbelt maintained by a combination of contractual services and County staff. The janitorial contract costs \$21,000, the landscape contract totals \$76,000, and it is projected that City staff can complete the work performed by County personnel at a cost of \$38,000. This would mean an annual additional cost to this Department for park maintenance service of an estimated **\$135,000** if this annexation occurred.

Projected Actual Operating Expense Summary

In reviewing the projected actual operating expense that would be incurred by Huntington Beach if they annexed the Sunset Beach community, it is estimated that this additional cost would be \$664,140. This estimate is summarized in Table VII, entitled, “Annual Actual Operating Expense Projection Summary, Sunset Beach, 2009 – 10.”

Table VII Annual Actual Operating Expense Project Summary Sunset Beach, 2009 – 10		
Expense	Amount	
Animal Control		\$31,000
City Clerk		1,250
Community Services		
Beach Maintenance	\$141,880	
Sand Replenishment	1,250	
Marine Safety	333,000	
		476,130
FireMed		20,760
Public Works – Park Maintenance		135,000
Total Estimated Operating Expense		\$664,140

Based on this analysis, comparing the estimated General Fund revenue projections to the estimated “actual” expenditures, the City would obtain an annual revenue surplus of \$131,370 (\$795,510 - \$664,140) if Sunset Beach were annexed by Huntington Beach. This surplus would grow to \$571,225 (\$1,235,365 - \$664,140) in comparing both General Fund and Other Municipal Revenues to the total estimated “actual” operating expense.

One Time Capital/Other Expenses

These projected revenue surpluses for the potential annexation of the Sunset Beach community may be needed since there are several one-time capital expenses on the horizon for Sunset

Beach. In terms of **bridge maintenance**, the Broadway Bridge would be part of the annexation. Public Works has reviewed a Caltrans bridge report indicating that the cost for bridge repair is an estimated \$800,000. If grant funding from the Bridge Preventative Maintenance Program can be obtained, and the annexation occurred, the City's one-time matching funds would be an estimated **\$96,000**. The source of these funds would either be from City gas tax funds or Measure M.

The Orange County Parks Department has allocated \$150,000 in 2009-10 to initiate planning for **Sunset Harbor dredging**. Since this annexation would not likely be completed this fiscal year, even if initiated by the City, the Department will proceed with the initial planning for this project. The overall dredging work includes areas outside of Sunset Beach and will be paid for under a cost sharing arrangement with all impacted agencies including the City of Huntington Beach. The City, by the way, would be a participant in this project with or without the annexation. Huntington Beach would have a larger financial responsibility for their share of the project, however, if the annexation occurred.

The total estimated cost of this shared-cost dredging work is \$1,500,000. The City's share of this cost, with or without the annexation, is not known at this time.

While there is the prospect of the City inheriting the County Parks beach sanitizing machine, it is expected that the City would need to purchase two pieces of equipment for beach maintenance. One is a tractor (\$148,000) and the other is rake (\$32,000). This will be a one-time expense with this equipment being folded into the City's equipment replacement program.

According to the Public Works Department, there are **two undergrounding projects** proposed in the Sunset Beach area. One is a Rule 20A project initiated by Southern California Edison for which funding is available and permits are being issued. Staff indicates that this project will begin and subsequently completed regardless of any annexation issues.

The other project is homeowner initiated and may or may not proceed depending upon whether the proper percentage of property owner signatures representing property owners is obtained. If this project proceeds, the County has agreed to provide an assessment engineer and provide support for any coordination issues. This commitment would probably become the responsibility of the City should annexation be successful. The estimated cost of this commitment could not be determined.

Other one-time costs would be the preparation of planning and related studies which may be necessary to complete this annexation. There will be a need for a Zoning Map Amendment, General Plan Amendment and Local Coastal Plan Amendment to include the Sunset Beach area into the City's Zoning Map, General Plan and Local Coastal Plan. In addition there will eventually be a need for a Zoning Text Amendment to formally adopt the existing 1990 Sunset Beach Specific Plan. The Coastal Commission staff may also request an update of this Specific Plan because it is almost twenty years old. Finally, there will be a need for an environmental assessment for this annexation. If they are conducted by a consultant, rather than "in-house", staff estimates that there will be a one-time expense of approximately \$96,894.

The estimated costs of these planning studies are contained in Table VIII entitled, "Potential One-Time Planning Costs." To the extent there is a need for community meetings as part of this process, this estimate could be higher.

Planning Document To Be Prepared	Est. Expense
General Plan Amendment	\$37,299
Feasibility Study (RAA)	14,950
LCP Amendment	11,212
Zoning Map Amendment	9,733
Environmental Assessment	8,522
Zoning Text Amendment	15,178
Total	\$96,894
<i>Note: These estimated costs assume use of a consultant rather than staff.</i>	

Restricted Road Fund Expenditures

As mentioned earlier, between gas tax funds and Measure M revenues, the City of Huntington Beach would receive \$176,555 which is restricted for street maintenance and other transportation improvements. This will be the funding source for maintaining 3.98 centerline road miles and 102 street lights. It is expected that the streetlights will likely be funded by the County, even the ones on Pacific Coast Highway. Regarding the five traffic signals, four of the traffic signals would require the City to pay 25% of the annual maintenance cost and the remaining traffic signal would require a 50/50 split with Caltrans.

Using the countywide per capita projections to Sunset Beach population, it is estimated that the County spends \$118,501 on general right-of-way and street light maintenance for this community. It is assumed that City street maintenance expense will be similar to that spent by the County with the exception of a small additional expense for street sweeping which is performed twice a month throughout the City. With 3.98 centerline miles (7.96 curb miles) the additional cost for this service is estimated at \$5,020 (7.96 x \$26.28 x 24). This will increase street maintenance expense to \$123,521. This means that there would be an approximate surplus restricted road revenue of \$53,034 (\$176,555 - \$123,521) which can be used for other street maintenance functions that might be provided to this area, for one time capital road and bridge expenses for this area, or for other street maintenance costs throughout the City.

Summary of Fiscal Impact

It would appear that the annexation of the Sunset Beach community into Huntington Beach would have a generally beneficial financial impact on the City in terms of day-to-day operations. Except for a projected deficit in comparing only General Fund revenue to the estimated operating expenditures based upon per capita projections, all other comparisons demonstrate an estimated surplus of revenues over expenses. This may be necessary since there are unknown capital and one-time study expense that may be associated with this potential annexation.

A summary of this information from the tables presented earlier in this section is summarized in Table IX, entitled, "Summary of Annual Revenues/Expenditures, Sunset Beach Annexation, 2009 – 10."

Table IX
Summary of Annual Revenues/Expenditures
Sunset Beach Annexation, 2009 – 10

Methodology	Revenues	Expenditures	Surplus (Deficit)
General Fund Rev. minus Per Capita Exp.	\$795,510	\$1,092,871	(\$297,361)
Gen.Fd. + Other Rev minus Per Capita Exp.	1,235,365	1,092,871	142,494
General Fund Rev minus Actual Expense	795,510	664,140	131,370
Gen.Fd. + Other Rev minus Actual Expense	1,235,365	664,140	571,225
Gen.Fd., + Other Rev., + Road Rev minus Per Capita Exp and Street Maint. Exp.	1,411,920	1,216,392	195,528
Gen.Fd., + Other Rev. + Road Rev. minus Actual Expense and Street Main. Exp.	1,411,920	787,661	624,259

Future Financial Impacts

Normally in this type of report, revenue and expenditure projections over a five, seven or ten year period would be provided. This would assist the policy-makers in determining the mid-term fiscal impact of the potential Sunset Beach annexation.

In the annexation study for the Bolsa Chica Lowlands, for example, an annual inflation rate for franchise and utility user fees of 3.1 percent was used. It was also assumed that the assessed value upon which the property tax is based would increase the minimum of two percent per year. Given the current and near term economic climate, it would be difficult to apply these standard inflationary factors to this study. When reviewing the Property Transfer Tax revenue, for instance, the projected income from that source declined several hundred thousand dollars from one year to the next. As a result, this report presents to the City a “snapshot” of the Sunset Beach fiscal impact, not a mid- or long-term forecast.

Public Service and Infrastructure Impacts

To further meet the requirements of General Plan objective LU 3.1, this section addresses the potential public service and infrastructure impacts the annexation of Sunset Beach may have on the City of Huntington Beach. First will be a discussion of the public service implications of this potential annexation followed by its infrastructure impacts.

Public Service Impacts

As implied in much of the fiscal analysis, the impact of this potential annexation on the City's ability to provide public services to Sunset Beach as well as the City as a whole appears very limited. In terms of major direct service departments, and administrative management and support offices, the proposed annexation should have little impact on the ability of these departments and offices to provide adequate service to this small community while maintaining existing service levels to the remainder of the City. These impacts are discussed in the following paragraphs.

Administration, City Attorney, City Treasurer, City Clerk, Economic Development, Finance, Human Resources, Information Services

While there may be a slight increase in workload for each of these offices due to this potential annexation, these increases should be able to be absorbed in each office and not cause a need for any staff or budget increases. The only minor exception is the City Clerk's office where an additional polling place will be required every other year at an estimated average annual cost of \$1,250 annually.

Building & Safety and Planning

The ongoing operating expense for Building & Safety and Planning should be minimal, with any increases in workload covered by the fees charged by these departments. For example, it is expected that building permit applications for building modifications from the 685 dwelling units, businesses and other structures in this built-out community would pay for staff time spent reviewing and inspecting these applications. Many of the Code Enforcement violations were property maintenance issues based on a windshield survey conducted by staff in July. Staff felt that the "potential impact on current code enforcement operations is believed to be minor."

Planning and zoning permits also should require a minor amount of staff time, with that time covered by processing fees. There will be, however, one-time expenses involved in bringing Sunset Beach into the City in terms of studies required to update the City's General Plan, Local Coastal Program, amend the City's Zoning Map for the existing County Specific Plan, conduct an environmental assessment of the annexation, and prepare a Zoning Text Amendment. Based on staff input, the cost of these one-time studies and projects, if prepared by a consultant and not staff, is estimated at \$96,894.

Community Services

More of an impact on the provision of services will be on the Community Services Department. Among City Departments, it will experience the largest cost increase. This Department will be responsible for maintaining and providing marine services to 48 acres of beach. City staff suggests that the \$333,000 contract for marine safety service be continued as well as the contract for the junior lifeguard program which County Parks plans to continue for another two years before any annexation process can be completed. It is estimated that each maintenance will require daytime operations and will cost an estimated \$141,880.

Staff assumes that the Orange County Sheriff's Harbor Patrol would remain in place in Huntington Harbour, and that County Parks would retain control and oversight of the Sunset Aquatic Park.

It is pointed out by staff that Sunset Beach participates with Huntington Beach and other beach cities in a sand replenishment program. There are 12 stages of the program, four or five years apart, with the County paying the Sunset Beach share. If annexation occurs, the City would assume this cost, which is estimated at \$1,250 annually as presented in the fiscal section of this report.

Library

Currently, Sunset Beach is served by the County Library System the revenue for which (\$52,029) would transfer to the City upon annexation of this community. It is doubtful that the library habits of Sunset Beach residents would change upon annexation. Their library use patterns would probably remain the same, such as using the County system, the City's libraries or other public libraries in the region. Thus, the service level impact on the City Library should be minimal.

Public Safety

Neither the Police nor Fire Departments expect that an increase in staffing will be required as a result of this potential annexation. It appears that the number of additional Part I Crimes which would be added to the Police Department's workload are minor compared to its overall workload. The Department's patrol beats can be adjusted to patrol this area. The Department will, however, need to conduct traffic accident investigations along Pacific Coast Highway, a function currently being performed by the California Highway Patrol.

There will be some additional animal care and control activity generated by this annexation. Since this service is already provided under contract with the County, there will not be any additional workload on City staff, only an additional expense.

The Fire Department already serves this area, either through automatic aid for fire and non-medical emergency calls, or under contract with the Orange County Fire Authority for medical emergency response (paramedics). This service is provided primarily from the Warner Avenue Fire Station, which is within 800 feet of the boundary with Sunset Beach. All of Sunset Beach is within the desired 1 ½ mile response radius of that station.

Public Works

There will be some impacts on services provided by the Public Works Department. A 13-acre linear park will become the responsibility of the Department. The maintenance of this park would be addressed by retaining existing contracts for landscape and janitorial maintenance, plus additional staff cost of \$38,000 annually. Apparently, County Parks has just completed the rehabilitation of five public restrooms in the park. As an aside, this community will exceed the City's General Plan's parks standard of five acres per 1,000 population. Sunset Beach has 10.6 parks acres per 1,000 population (13 acres / 1,227).

There is 3.98 centerline road miles for which the Department would assume maintenance responsibility along with 102 street lights. The cost of maintaining the five traffic signals along Pacific Coast Highway will be shared between Caltrans and the City on either a 75/25% or a 50/50% split. The additional annual maintenance expense should be covered by the additional gas tax and Measure M funds which will be received by the City.

There are other responsibilities which would be absorbed by the Department that will be discussed in the following infrastructure section. These responsibilities involve a multi-agency dredging project initiated by the County Parks Department which involves Sunset Beach and surrounding areas including the City of Huntington Beach. Other infrastructure projections include repair of the Broadway Bridge, a Rule 20A undergrounding of utilities project, and a property owner initiated undergrounding project requiring an assessment engineer. This latter project likely will require the City to assume a commitment made by the County to pay for the engineer's expense. The amount of this one-time cost is unknown.

Water/Wastewater

The City already provides water service to Sunset Beach, and currently applies a ten percent surcharge to the users in this community. If the area is annexed, then the water surcharge would evaporate. This would amount to a reduction in revenue to the Water Department of \$23,151.

At the July LAFCO meeting, the Commission decided that the Sunset Beach Sanitary District would continue to have its own Sphere of Influence, and would not be included in the City's Sphere. As a result direct wastewater service would still be provided by the District and not become an obligation of the City.

Summary

Except for one-time studies by Planning, additional marine services provided by the Community Services Department and maintenance services provided by that Department and Public Works, it would appear that there would be very little impact on services provided by the City's other departments and offices. In fact, this conclusion points to the efficiency that would be created by this potential annexation. Service can be extended to this small community without adding staff to major service components of the City, particularly Police and Fire. This result is aided by the fact that Sunset Beach is immediately adjacent to Huntington Beach and can easily be served by the City's two public safety departments.

Infrastructure Impacts

This section describes the impacts on infrastructure of the City, or infrastructure that the City would assume if Huntington Beach annexed Sunset Beach. Generally, there do not appear to be any immediate major infrastructure problems or issues. However, there are certain potential future unknown costs in replacing or repairing these facilities. These infrastructure facilities are discussed below.

Broadway Bridge

Caltrans prepared a report, reviewed by Public Works, indicating that it would cost \$800,000 to repair the Broadway Bridge in Sunset Beach. It is intended that the bulk of this repair cost would be through a grant from the State Bridge Preventative Maintenance Program (BPMP) with a required local government match of \$96,000. If the annexation occurred, this match would shift from the County to the City. The source of funds for the City's match would either be from Gas Tax or Measure M funds.

Drainage

The Orange County Parks Department has budgeted \$150,000 in 2009-10 to plan a dredging project for the Sunset Harbor. The dredging work includes not only the Sunset Beach area but adjoining areas as well. County Parks is taking the lead in this project that is initially estimated to cost \$1,500,000. It will be funded through a cost-sharing arrangement among the affected jurisdictions. There will be an expense on the part of the City either with or without this annexation. The amount of the City's share, however, could not be determined because the project is only approaching the initial planning stages.

Fire Station

Located in Sunset Beach, Orange County Fire Station #3 is a volunteer station owned by the Orange County Fire Authority. Staffed by Reserve Fire Fighters, Engine #3 received 51 calls in 2008, but only responded with qualified reserves twice during that year. At one point OCFA almost closed the station.

It has been suggested by the Community Association that the Fire Station be used either as a police substation or for lifeguards. However, since the station is owned by OCFA, discussions with that agency as well as an assessment of its potential best use would be necessary to gauge its future potential.

Park Facilities

The 13-acre linear park has one tot-lot and five restrooms. The tot-lot appears to be in suitable repair and the restrooms have just been restored by the County Parks Department.

Streets and Roads

There are 3.98 centerline miles of roads in Sunset Beach. Most of the traffic is on PCH which is the maintenance responsibility of Caltrans. The remainder of the Sunset Beach road system is

residential, and appears to be in satisfactory condition. It does not appear that the City would be inheriting any major street reconstruction projects if this annexation occurred.

Underground Utilities

A Rule 20A underground utility project along PCH is being pursued by Southern California Edison. This project is funded and permits are being issued. City staff expects that this project will begin and will be finished regardless of any annexation issues.

There is also a property owner initiated undergrounding project along Park Avenue and Bayview which is in the process of collecting signatures so that the preliminary design phase can begin. As mentioned previously, the County made a commitment to provide an assessment engineer and staff support for the coordination of this project. The City would undoubtedly assume this responsibility if the annexation occurs.

Water

There is no known infrastructure issues related to the continued provision of water to this community, or to the surrounding areas of the City if annexation were to occur.

Wastewater

Wastewater service will continue to be provided by Sunset Beach Sanitary District.

Summary

It appears that the annexation of Sunset Beach would have little impact on the City's basic infrastructure such as water, wastewater, and streets. In many respects the City already provides services to the area (water, fire, library).

Other Issues

With the advent of the LAFCO Sphere of Influence study and LAFCO's subsequent action placing the community into Huntington Beach's Sphere, the Sunset Beach Community Association developed a 13 point program, initially for discussion with the City of Seal Beach for the possible annexation by that City. These 13 points have now become talking points with the City of Huntington Beach. This does not mean that the Association supports this annexation. To the contrary, the Association seems to prefer retaining its unincorporated status, or incorporating as a city, rather than annexing to Huntington Beach. In any event, the Association has retained a law firm to make sure they "would be treated fairly" according to a letter sent to those living in Sunset Beach, dated November 1, 2009. The Association also has raised money to study the fiscal impact of incorporation.

Nonetheless, if annexation took place, the Association would likely ask the City to support their "list of 13 key transfer items" which is viewed as a way to help Sunset Beach continue as a semi-independent beach community. A summary of these 13 key items include:

1. Maintain Sunset Beach's separate identity, including signage;

2. Recognize the Sunset Beach Community Association as liaison with the City Council;
3. (a) Keep the Sunset Beach LCP with revisions to reflect the change from the County to the City, and (b) Submit new pertinent plans and information to the Sunset Beach local advisory board for review and comment;
4. Keep parking permits at the same price;
5. (a) Continue all encroachment programs for beach and waterways permitted by the LCP and (b) Transfer current files, permits and computer records from the County to the City;
6. Support use of the Fire Station by local police;
7. Maintain the Sunset Beach Sanitary District as an independent district;
8. Support the current Sunset Beach postal delivery system;
9. Have the City take over ownership and maintenance of the beach and greenbelt from the County;
10. Create a business license fee plan that would serve to limit the opening of future undesirable businesses such as medical marijuana dispensaries, tattoo parlors, etc.
11. Confirm the County contract details for the contract Junior Lifeguard Program (including class size limits);
12. Gain assurance that the Rule 20A undergrounding project will be continued and completed in a timely manner; and
13. Obtain funds from the County to repave the numbered streets between North and South Pacific, and to finish the five restrooms in the greenbelt.

These items were discussed with the Mayor and City Manager at the September Association meeting. Obviously, there are some of these issues like another public use of the OCFA fire station that would require additional homework to determine the possible best use of this facility. The perspective of the OCFA regarding this property would need to be obtained. Whether or not a business license fee would limit “undesirable” firms desiring to open in Sunset Beach may be more appropriately a land use issue than a business license fee issue.

Some of the items on the list have already been completed such as the park restroom renovation and what appears to be the funding and permitting of the Rule 20A underground utility project along PCH. The Sunset Beach Sanitary District will remain as an independent district based on last summer’s LAFCO action.

Nevertheless, unofficial discussions with the Association by the Mayor and executive staff have indicated an interest in recognizing the Association as a liaison with the City Council. Also, there was a willingness expressed to create a MOU with the Association to memorialize their 13 points or issues.

There may be a concern by the Association about losing community identity by becoming part of the City.. However, if this identity can be retained through an MOU, there are many benefits

Huntington Beach can bring to the community. These include well established municipal services, such as police, fire, public works, and community services, with the government offices providing service located nearby. The City may be able to provide what would be perceived by the community as a more desirable regulatory environment when it comes to controlling undesirable uses. There would be some cost savings to the community as well since the ten percent water surcharge would be eliminated if Sunset Beach annexed to the City.

In any event, the Association in their November 1st letter expressed the hope that the City would “wait until we complete our citizen-funded incorporation feasibility study before taking an annexation vote.” Actually, if the Association is able to promptly engage a firm to examine the numbers in this report and in the LAFCO SOI financial analysis, they should be able to assess the prospects of incorporation in roughly the same time frame as the City’s consideration of annexing Sunset Beach.

Annexation Process

The third feature of this report is to outline the procedures related to the possible annexation of Sunset Beach to Huntington Beach. Annexations, detachments, consolidations and other forms of governmental reorganization are overseen by the Local Agency Formation Commission (LAFCO) of each county. Established in 1963, LAFCOs have the authority to approve annexations per Sections 560000 et. seq. of the California Government Code.

As mentioned at the beginning of this report, state law, Orange County and the local LAFCO encourage the elimination of unincorporated “islands” due to the inefficiency and cost of large counties providing municipal services to these small areas. Additionally, pursuant to Government Code Section 56425, LAFCO is required, as a planning tool to identify logical municipal service providers for areas throughout the County and to establish Spheres of Influence for all cities and special districts. As part of this mandate, the LAFCO Commission recently included the Sunset Beach community into Huntington Beach’s Sphere of Influence (SOI). Because of the size of the Sunset Beach community (under 150 acres), the area may be annexed into the City of Huntington Beach under the streamlined process provided for small island annexations. Further, because Sunset Beach is within the Huntington Beach SOI, it may only be annexed to the City of Huntington Beach, not to any other city. Alternative options for the area include incorporation or remaining incorporated, although the feasibility of these options would need to be explored further.

Since Sunset Beach is an unincorporated “island” (less than 150 acres), its annexation can occur under the provisions of Government Code Section 56375.3. This means that LAFCO shall approve the annexation if initiated by the City without resident protest.

Within this context, this section outlines the steps required for this annexation to occur, along with possible land use planning actions that the City may want to pursue.

Steps Toward Annexation

If the City of Huntington Beach determines that it would be advantageous to annex Sunset Beach, the steps summarized in the following paragraphs would need to be followed.

1. The City of Huntington Beach would submit an application to the Orange County LAFCO which should contain the following information and related materials:
 - LAFCO processing fees (may be waived for island annexations);
 - Justification of Proposal Questionnaire;
 - A Plan for Services;
 - CEQA documents (this may involve a Negative Declaration or less);

- Resolutions by the affected agencies agreeing to a transfer/split of the ad valorem property tax revenues generated in the subject territory²;
 - Rezoning³; and
 - Indemnification agreement signed by the applicant.
2. Within 30 days of the application LAFCO sends a status letter notifying the City that the application is either complete or incomplete.
 3. Approximately 30 days after the submission of the application:
 - LAFCO notices the County Assessor of the proposal;
 - The Assessor determines which Tax Rate Areas (TRA) are involved and calculates the total assessed valuation (AV) of the affected territory;
 - The Assessor issues a report of the TRAs and AV to the County Auditor;
 - The Auditor determines the total property tax revenues for the area proposed for annexation and issues a report to the City and the County of the total revenues involved⁴; and
 - The City and County are notified that they have 60 days to reach an agreement on the transfer of property tax revenue from the County to the City, although the Master Property Tax Agreement can be used for this purpose.
 4. Upon determination by the LAFCO Executive Officer that the application is complete, the Executive Officer issues a Certificate of Filing and sets a hearing date for the proposal.
 5. LAFCO notices and holds a public hearing on the proposed annexation and its Commission takes one of the following actions:
 - Approves the application subject to terms and conditions; or

² This is already addressed in the Master Property Tax Agreement between the City and the County, although both agencies could negotiate a different property tax exchange for this area if this were their intent.

³ A resolution is required that specifies the planned land use for this area prior to a hearing on this annexation by the LAFCO Commission. While the existing zoning and Specific Plan could be used for this requirement, the City would need to first modify its Zoning Map as part of this Rezoning requirement.

⁴ These revenues have already been estimated as part of the LAFCO Sphere of Influence report and are used in this fiscal analysis. The Auditor-Controller, however, will still complete the precise and official final amount as part of the formal annexation process.

- Approves the application with modifications and subject to terms and conditions⁵.
6. Within 35 days of the hearing, LAFCO adopts a resolution making determinations and approving the application and sends a copy of the resolution to the applicant.
 7. Normally, at this point, if the application is approved, LAFCO sets a protest hearing for the annexation. However, for small island annexations state law requires that the LAFCO Commission approve the annexation and waive the protest proceedings.
 8. If the annexation is ordered. LAFCO sends a Certificate of Completion to the County Recorder's Office, following a 30-day reconsideration period, and upon satisfaction of all terms and conditions in the resolution ordering the annexation.
 9. Upon recordation, LAFCO sends documents and fees, which are paid by the applicant, to the State Board of Equalization for the purpose of alternating their TRAs to reflect the change of organization.

One requirement of the initial LAFCO application is to “prezone” the area prior to consideration of the annexation application by the LAFCO Commission. Probably the most expeditious method to accomplish a rezoning is to use the existing County zoning. Possibly useful to this process is an already adopted County Specific Plan for Sunset Beach. Still, the City Zoning Map would need to be revised to be extended to the Sunset Beach community as part of the rezoning process before this possible annexation could be considered by the LAFCO Commission. It should be noted that state law requires that zoning designated during the rezoning process remain in place for two years.

The area also has a Local Coastal Plan (LCP), albeit one that was adopted some years ago. While the annexation is proceeding and subsequently after the annexation is accomplished, various studies can be completed to accomplish, if needed, a more conforming zoning pattern for the area.

From the City's perspective, the only requirement for this annexation prior to any action by the City Council is an annexation feasibility study required by the City's General Plan, including a fiscal and operational analysis. This requirement of the General Plan is met by this study and report.

Although not required prior to annexation, there are other planning entitlements that should be considered. These include:

1. General Plan Amendment to establish land use.
2. A Local Coastal Program Amendment which was adopted in 1990. The City would need to amend its LCP to include this new area which will then become the City's zoning for Sunset Beach. Also a Zoning Text Amendment to formally adopt the Specific Plan would be required.

⁵ The LAFCO Commission does not have the discretion to deny an application for an island annexation initiated by the City.

Coastal staff informed the City that, other than normal coastal resource issues, “one recurring issue (in Sunset Beach) ...has been ...requests from property owners to convert visitor serving commercial sites to residential,” according to City staff notes. Apparently neither Coastal nor County staff have supported these requests.

One of the concerns of the Sunset Beach Community Association is what they view as undesirable land uses such as medical marijuana dispensaries, tattoo parlors, etc. While their concerns have been expressed in the context of desiring regulation through the business license tax, such uses can be controlled through land use regulations. Addressing these and other land use issues, plus the apparent desire of the Association to otherwise maintain their LCP and Specific Plans is an important dialogue that should occur with residents of the Sunset Beach community. This would suggest conducting community meetings, possibly with a facilitator, in reviewing the community’s plans and planning for the future of the City if the annexation is pursued.