



BOARD OF SUPERVISORS  
AGENDA LETTER


Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

Department Name: CEO  
Department No.: 012  
For Agenda Of: 5/20/2014  
Placement: Departmental  
Estimated Time:  
Continued Item: 30 minutes  
If Yes, date from:  
Vote Required: Majority

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**TO:** Board of Supervisors

**FROM:** Department                      Mona Miyasato, County Executive Officer, 568-3400   
Director(s):  
Contact Info:                      Dennis Bozanich, Assistant to the CEO, 568-3400

**SUBJECT:** Summit View Reorganization (LAFCO # 14-1) Tax Exchange Options

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**County Counsel Concurrence**

As to form: Yes

Other Concurrence: NA

**Auditor-Controller Concurrence**

As to form: Yes

**Recommended Actions:**

That the Board of Supervisors:

- A. Receive and file a report on the status of negotiations on a tax exchange agreement between the County of Santa Barbara (COUNTY) and the City of Lompoc (CITY) as required by the Summit View Homes Reorganization (LAFCO File #14-1); AND
- B. Provide staff with further direction on one of the following options:
  1. **Option # 1 –**  
Return with a tax exchange agreement that provides the CITY with approximately 14.05% of property taxes collected that is comparable to nearby parcels and the COUNTY with approximately 23.47%; OR
  2. **Option #2 –**  
Continue negotiating a tax exchange agreement that will be closer to revenue and expense neutral for the COUNTY and the CITY for Board consideration on or before June 17, 2014; OR
  3. **Option #3 –**  
As permitted by Revenue and Taxation Code sections 99(b)(8) and 99(e)(2), authorize the County Executive Officer to seek an extension agreement with the CITY to allow the parties

additional time to engage in the third-party consultant process, and if needed, the mediation and arbitration processes required by Revenue and Taxation Code section 99(e).

**Summary Text:**

California Revenue and Taxation Code Section 99 requires that prior to annexations, the city and county involved must agree to a negotiated exchange of property tax revenue. The Summit View Reorganization (LAFCO File 14-1) would annex just over ten acres of residentially zoned property now in the unincorporated area of Santa Barbara County to the City of Lompoc and the Mission Hills Community Services District and detach the property from the Santa Barbara County Fire Protection District and Mosquito and Vector Management District and simultaneously expand the City’s Sphere of Influence to the subject parcel. The property is slated for residential development of 44 single-family homes.

In the past, the County has negotiated these tax exchanges with consideration of the rate of adjoining or nearby Tax Rate Areas that have been annexed. When annexations also involved detachment from the County Fire District (and therefore Fire service to be provided by the city), it was not uncommon for the County to exchange property tax revenue equivalent to the County Fire District share. The proposed Summit View Homes annexation has special circumstances that require greater Board discussion and direction regarding the tax exchange. While the amount of property tax revenue under negotiation is modest, the property is in close proximity of County public safety resources, and the distance of City of Lompoc first responders creates a circumstance that the Summit View Home residents likely will be using County emergency services without contributing a proportional share of property taxes for services provided by the County Fire Protection District.

During previous Board deliberations on tax exchange agreements, members of the Board have expressed a desire to have more input during the negotiation process. The item today is intended to provide the Board of Supervisors with an update on the tax exchange negotiations between the County and the City of Lompoc and provide an opportunity for the Board to provide policy guidance to staff on the terms and conditions they believe are in the best interest of the County and its residents. If the County and City fail to achieve a negotiated tax exchange agreement, then state statute requires a series of action steps which include, up to, the joint selection and funding of fiscal impact consultants, mediators and arbitrators to seek an agreement. If all those action steps do not lead to an agreement, the Board would be required to conduct a public hearing and approval of written findings stating why a tax exchange agreement could not be reached.

**Background: Annexation Overview**

The Cortese-Knox Local Government Reorganization Act of 1985, as amended, states the intent of the California legislature is “to encourage orderly growth and development which are essential to the social, fiscal and economic well-being of the state.”<sup>1</sup> It further notes that the legislature’s concern for the provision of community services be prioritized based on circumstances, conditions and limited financial resources.<sup>2</sup> Additionally, Section 99 of the state’s Revenue and Taxation Code, requires the negotiation and agreement by resolution of a property tax exchange upon annexation to proportionally share limited tax revenues.

The item today is intended to provide the Board of Supervisors with an update on the tax exchange negotiations between the County and the City of Lompoc and provide an opportunity for the Board to

<sup>1</sup> California Government Code Section 56001

<sup>2</sup> Ibid.

provide policy guidance to staff on the terms and conditions they believe are in the best interest of the County and its residents. A final tax exchange agreement would need to be approved by resolutions of the County Board of Supervisors and the Lompoc City Council before the statutory deadline of June 17, 2014.

### **Summit View Homes Proposed Development, Annexation and Sphere Change**

LAFCO Application 14-1 would annex a 10.05 acre parcel at the northeast corner of the intersection of Harris Grade Road and Purisima Road to the City of Lompoc and the Mission Hills Community Services District and detach the property from the Santa Barbara County Fire Protection District and expand the city's Sphere of Influence congruent with the parcel boundaries. The County received LAFCO Application 14-1 on February 6, 2014. The existing City/County boundary is across these roads to the west and to the south. The City of Lompoc has pre-zoned this property for forty-four (44) residential units and three open space lots. This is a density ratio of 4.4 units per acre. The average lot sizes will be 6,785 square feet. The Sphere of Influence and Annexation Applications are Attachment A.

The current County zoning on the 10.05 acre parcel is for 4.6 units per acre, though the County would require four acres of common open space. The proposed development provides less than an acre. Residential vehicle access to the development will be through a single entrance from Garden Gate Lane, an existing private road, which connects to Harris Grade Road.

The existing property tax allocation for the subject parcel includes 23.47% allocated to the County and 14.05% allocated to the County Fire Protection District. The County is responsible for providing Santa Barbara County Water Agency. According to the annexation application, the City of Lompoc will provide solid waste, fire protection, police protection, parks and recreation services. Water and wastewater services are proposed to be provided by the Mission Hills Community Services District. Educational services would be provided by Lompoc Unified School District. The current annexation application would transfer responsibility for maintenance of the right of way from the County to the City from Garden Gate Lane on the north along Harris Grade Road to the eastern parcel boundary line along Purisima Road.

### **Lompoc's Fiscal Impact Analysis Findings**

Lompoc City Council received a report titled *Summit View Homes Fiscal Impact Analysis City of Lompoc*. The report is dated February 1, 2013 and was produced by Stanley R. Hoffman Associates of Los Angeles. The Executive Summary of the report makes note that the City had proposed the adoption of Policy 4.6 which states annexation proposals should not be accepted unless "that the annexation proposal would result in a positive relationship between City facility and service costs and the revenues generated subsequent to annexation." The consultant's report to the City of Lompoc report is Attachment B.

The report details the fiscal impacts on "day one" after annexation and, separately, impacts after buildout. The authors of the report assume that the City and County agree to and approve a tax exchange agreement that provides the City with the full value of the County Fire Protection District's proportional share of the Property Tax Allocation rate of 14.04%. (The report consistently uses the 14.04% figure. Auditor –Controller has reported that the actual tax allocation rate is 14.05672525%) With this tax allocation assumption, the report identifies City of Lompoc receiving annual revenues on "day one" of \$1,990 and \$23,480 after build out of the forty-four homes. In addition to the property tax allocation, the consultant also provided estimates of the City's share of revenue from property taxes in

lieu, off-site sales and use taxes, Proposition 172 sales tax, franchise fees and assorted other revenue sources totaling another \$62,260 annually after buildout. The consultant's total recurring city revenue estimate, upon buildout is \$85,740.<sup>3</sup>

Against these annual revenues, the report provides an analysis of recurring city expenses pro-rated to the potential population residing in the "built-out" development. The recurring annual expenses range from \$76,210 if the City assumes responsibility for all off-site street maintenance costs and \$64,720 if the city and developer split the off-site street maintenance costs. The fiscal analysis report assumes zero expenses on "day one," even in the scenario in which the City assumes full financial responsibility for the off-site street maintenance.<sup>4</sup> Finally, the report states that the City of Lompoc would have a projected net recurring surplus of \$9,530 or \$21,020 after build out depending on their off-site street maintenance expense responsibilities.<sup>5</sup> Given the estimated recurring revenue surplus for the City of Lompoc, a completely revenue-neutral tax exchange agreement between the County and the City would be 1.47% transferred to Lompoc if the developer pays half of the off-site street maintenance and 8.34% if the City assumes full responsibility for off-site road maintenance. These revenue-neutral tax rates of 1.47% or 8.34% would be paid from the County Fire Protection District's 14.05% tax rate allocation and the resulting balance would be added to the percentage going to the general fund. Revenue neutrality is not required for tax exchanges resulting from annexations. All revenue and expense estimates in the report are based on constant 2012 dollars.

### **County LAFCO Reportback Findings**

Between receipt of the annexation application and March 19, 2014, County staff from multiple departments provided analysis of the impacts of the annexation and the development. (See Attachment C) Among the significant findings identified:

- County Fire Station 51 is located one mile away from the subject annexation and proposed residential development. City fire response to the proposed annexed area would be approximately two to three minutes longer than the response from County Fire Station 51.
- Contrary to a statement in the LAFCO Annexation Application, Santa Barbara County Fire Department will continue to provide paramedic ambulance services from County Fire Station 51 to this parcel and all parcels in EMS zone 36, as described and approved in the Emergency Medical Services (EMS) Agency Plan in accordance with state law and local EMS Agency policies. Lompoc City Fire will be providing only Basic Life Support emergency medical services. This will mean that after annexation and buildout, a Lompoc engine would likely arrive at a medical emergency in the development minutes after the SBCFD Ambulance 51, while County Engine 51 remains in quarters.
- If the parcel is annexed, 9-1-1 calls made from the development will be transferred to the County Dispatch Center from Lompoc before County emergency equipment can respond, an additional unnecessary step.
- County Fire Protection District estimates that annexation will result in an approximate \$30,000 annual loss in potential property tax revenue to the County Fire District once build out is

<sup>3</sup> Summit View Homes Fiscal Impact Analysis City of Lompoc, Table 3-1, page 11.

<sup>4</sup> Summit View Homes Fiscal Impact Analysis City of Lompoc, Table 1, page v

<sup>5</sup> Ibid.

complete. (Note: This assumed a different per unit residential valuation (\$400K vs. \$380K) and eventual 17% tax allocation rate than did the report cited above.)

### **Impacts of Nearby Development**

On April 15, 2014, the Lompoc City Council approved the five-year extension (to May 31, 2019) of the Burton Ranch Specific Plan Area Development Agreement on approximately 150 acres directly across Harris Grade Road and to the west of the 10.05 acre parcel considered for annexation. The Burton Ranch Specific Plan allows 476 residential units made up of single and multi-family residential units. Using the *Summit View Homes Fiscal Impact Analysis City of Lompoc* consultant's person per housing unit factor of 2.906 persons per housing unit<sup>6</sup>, the Burton Ranch project would bring an additional 1,383 people to the intersection of Harris Grade and Purisima Roads. The extension of the Development Agreement included \$1,500 per unit of additional fees (in addition to the previously approved Maintenance Annuity Fee per unit assigned in the 2007 Development Agreement. These fees will be collected on each unit as it is built. It will bring in one-time revenue of \$1,428,000 to the City of Lompoc when all 476 units are built.

The land covered by the Burton Ranch Specific Plan was annexed into the City in 2007. The annexation and tax exchange agreements in 2007 specified that the city would receive a Property Tax Allocation rate of 14.04%. There was no assumption by the City of Lompoc for financial responsibility for any portion of the adjoining right of way (Harris Grade Road), nor any consideration of the public safety response time delays with Lompoc city emergency services.

The Summit View Homes Annexation application does not take into account that the City boundary along the west side of Harris Grade Road extends north to near Burton Mesa Blvd. County would continue to be required to maintain the entire right of way along Harris Grade Road from Garden Gate Lane to the city limit line near Burton Mesa Blvd. even though the City has approved plans to build 476 homes in the area immediately west of Harris Grade Road. Public Works staff recommends the annexation of that portion of Harris Grade Road to the City as well.

### **Tax Exchange Negotiations Process**

For the past three years or four years, when negotiating tax exchanges as a result of annexations to a city that also directs the detachment from the County Fire Protect District, the County has typically discussed how the tax allocation portion going to the Fire District might compare to neighboring or nearby Tax Rate Areas. With the large number of Tax Rate Areas already existing in the County and the need for the Auditor-Controller to maintain and update them, the more frequently a parcel can be joined with the same rate as a neighboring Tax Rate Area the better. If the Property Tax Allocation rate of an adjoining city parcel is less than the Property Tax Allocation rate of the detaching County Fire Protection District, then the tax exchange negotiations have typically focused on splitting the difference. Summit View Homes has two nearby Tax Rate Areas that can be considered as "comps." South of Purisima Road, an annexation occurred many years ago and the city is receiving 18.35% of the property taxes collected. Another possible comparable Tax Rate Area is the property that is part of the Burton Ranch Plan area directly to the west. It has a Property Tax Allocation rate to the city of 14.04% as noted above.

The Summit View Homes annexation to the City of Lompoc, detachment from the County Fire Protection District and Sphere of Influence change does have special circumstances. As detailed above, the close proximity of county public safety resources, the Emergency Medical System Plan zone and the

<sup>6</sup> *Summit View Homes Fiscal Impact Analysis City of Lompoc*, Table 4-1, page 15.

distance of City of Lompoc first responders creates a circumstance that the Summit View Home residents will be using County emergency services, perhaps, without contributing a proportional share of property taxes for services provided by the County Fire Protection District.

County Executive Office staff met twice with the Lompoc City Manager. The second meeting included County Fire Chief Michael W. Dyer as a resource to on the impact of delays of emergency response times and the City of Lompoc Economic Development Director/Assistant City Administrator Teresa Gallavan to provide the city's context on the annexation request.

During the first meeting on March 25, 2014, County staff discussed a broad framework for the terms and conditions of a tax exchange agreement. Four main issues were discussed:

- Longer-term need for a discussion about annexations and provision of public services in the developed areas north of Lompoc rather than a parcel by parcel approach to city service expansion;
- Need for a Memorandum of Understanding through which the City would assume all of the Regional Housing Need Assessment affordable housing requirements resulting from the proposed 44 home development;
- Results of the analysis conducted by county departments on the impact of the annexation, particularly the increased emergency response call time for fire and that City won't be able to take over medical response; and
- County proposed a Property Tax Allocation rate of 12% due to the likely continued coverage for fire response and the ongoing requirement to provide ambulance service for eventual City residents.

At the second meeting on April 23, 2014, City staff counter-offered that they wanted the full 14.04% of the property tax allocation currently being directed to the County Fire Protection District. Chief Dyer provided details on the negative impacts to emergency response that are highly likely to occur for the residents of Summit View Homes. No further movement was made in negotiations, and no agreement reached.

### **Options for Consideration**

The deadline for adoption of the tax exchange agreement is June 17, 2014 for the Summit View Home annexation. During previous Board deliberations on tax exchange agreements, members of the Board have expressed a desire to have more input during the negotiation process. Additionally, this annexation, detachment and sphere change presents some rather unique circumstances that have been detailed above.

County staff has identified some possible options for resolving the tax exchange negotiations. This is not an exhaustive list of all possible options for the Board to consider and provide direction to staff, but they can serve as a starting point for discussion.

**1. Option # 1 –**

Return on or before June 17, 2014 with a tax exchange agreement that provides the CITY with approximately 14.05% of property taxes collected that is comparable to nearby parcels and the COUNTY with approximately 23.47%; OR

**2. Option #2 –**

Continue negotiating a tax exchange agreement that will be closer to revenue and expense neutral for the COUNTY and the CITY for Board consideration on or before June 17, 2014; OR

**3. Option #3 –**

As permitted by Revenue and Taxation Code sections 99(b)(8) and 99(e)(2), authorize the County Executive Officer to seek an extension agreement with the CITY to allow the parties additional time to engage in the third-party consultant process, and if needed, the mediation and arbitration processes required by Revenue and Taxation Code section 99(e).

**Performance Measure:** NA

**Fiscal and Facilities Impacts:**

Budgeted: No

**Fiscal Analysis:**

**Narrative:** If approved, a tax exchange agreement with the City of Lompoc will result in approximately \$30,000 (if Option #1 is selected) in lost annual revenue (2012 Dollars) to the County Fire Protection District although medical response and potentially fire protection services will still be provided to the residential area being considered for annexation.

**Key Contract Risks (if applicable):** NA

**Staffing Impacts:**

**Legal Positions:** 0

**FTEs:** 0

**Special Instructions:**

**Attachments:**

Attachment A – LAFCO Application #14-1

Attachment B – *Summit View Homes Fiscal Impact Analysis to the City of Lompoc*

Attachment C – County Staff Annexation Reportbacks

**Authored by:**

Dennis Bozanich, Assistant to the County Executive Officer, 805-568-3400

**cc:**

Fire Chief Michael W. Dyer