



# CITY COUNCIL AGENDA REPORT

MEETING DATE: SEPTEMBER 2, 2014

ITEM NUMBER:

**SUBJECT:** SECOND READING FOR THE PRE-ZONING AND PROPERTY TAX EXCHANGE AGREEMENT FOR THE SANTA ANA/COLLEEN ISLAND ANNEXATION

**DATE:** AUGUST 15, 2014

**FROM:** CHIEF EXECUTIVE OFFICE

**PRESENTATION BY:** MARGARET CHANG, MANAGEMENT ANALYST

**FOR FURTHER INFORMATION CONTACT:** MARGARET CHANG (714) 754-5618  
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## **RECOMMENDATION:**

Staff recommends that the City Council give second reading to Ordinance 14-\_, regarding pre-zoning of the Santa Ana/Colleen Annexation Area, and adopt the resolution for the Property Tax Exchange Agreement between the City of Costa Mesa and the County of Orange. As an option the Council may want to consider revising the zoning back to R-1 6,000 square feet, rather than the proposed R-1 6,600 square feet. In that case, City Council would give first reading.

## **BACKGROUND:**

Starting in 1996, the City Council has provided direction and support relating to the annexation of County islands located within the City's Sphere of Influence ("SOI") near the City's easterly border with the City of Newport Beach. Seven Eastside County areas were originally identified for annexation into the City at the on-set of the Eastside annexation efforts. In 2003, Annexation Areas 1, 2, 3, 4 & 6 were annexed by OC LAFCO under the Small Island Annexation provisions of Government Code Section 56375.3. Annexation Areas 5A, 5B, and 5C were also proposed for annexation in 2003 under the same small island proviso. Areas 5B and 5C have already been approved by OC LAFCO, however, a legal challenge by a property owner in Area 5A (the subject County island referred to as Santa Ana/Colleen Island) placed the annexation on hold pending resolution of the lawsuit. The annexation of Area 5A may now move forward due to the resolution of the legal challenge by a former property owner in the Santa Ana/Colleen Island.

## **ANALYSIS:**

### ***Annexation Process***

The Unincorporated Islands Program (Government Code Section 56375.3) was established through a joint commitment of LAFCO, the County, and the League of

California Cities with a goal to annex 50 small, unincorporated islands within a three-year period. Government Code Section 56375.3 streamlines the procedural requirements for small island annexations provided that the annexation meets specific criteria such as size (less than 150 acres), availability of public utilities, and presence of public improvements. The annexed area must also be surrounded or substantially surrounded by the City to which annexation is proposed, and further, the annexed area must be found to benefit from annexation to the City.

The Santa Ana/Colleen Island is identified as one of the small islands within the County at approximately 14 acres in an area that already contains public utilities and public improvements. The City of Costa Mesa borders more than 50% of the Santa Ana/Colleen Island's total boundary, with borders on a portion of the northerly border and the entire westerly and southerly borders.

The Santa Ana/Colleen Island is nearly built-out and is primarily developed with single-family residential structures and also currently contains several undeveloped parcels south of Colleen Place, northeast of the intersection of Santa Ana Avenue and 22<sup>nd</sup> Street. Since it is within the City's Sphere of Influence (SOI), the City currently provides emergency response services to the Santa Ana/Colleen Island. In addition to the emergency services already provided by the City, annexation will allow the City to provide more efficient municipal services including building, planning, and community recreational services. The annexation is also anticipated to improve and simplify service delivery and governance. The subject area also shares the same Postal Zip Code as Eastside Costa Mesa.

In order for the City to make an application to OC LAFCO under the small island provisions, the City must provide an approved resolution that requests OC LAFCO initiates proceedings for the annexation of the Island, which was approved by City Council on November 5, 2013 (Attachment 8). On May 12, 2014, the Planning Commission found that the project is exempt from CEQA under Section 15319(a) – Annexation of Existing Facilities, approved GPA-14-02 by adoption of PC Resolution 14-25 (Attachment 7), and recommended that City Council give first reading to the ordinance approving rezone R-14-02. On June 17, 2014, the City Council found that the project is exempt from CEQA under Section 15319(a) – Annexation of Existing Facilities, adopted General Plan Amendment GP-14-02 (Attachment 5) which designates the area as Low Density Residential (LDR), and gave first reading to the ordinance pre-zoning the area to R-1 – 6,600 (Single Family Residential District, 6,600 Square Foot Minimum Lot Size). The next step in the process is for the City Council to give second reading to the ordinance approving Rezone R-14-02 (Attachment 1) and approve the property tax agreement with the County of Orange (Attachment 3). All of these items must be provided to OC LAFCO before the OC LAFCO Commission may approve the annexation.

### ***Rezone R-14-02***

The Santa Ana/Colleen Island is currently zoned by the County as R-1 zone with a minimum lot size of 7,200 Square Feet. On June 17, 2014, the City Council approved Rezone R-14-02, designating the area as R-1 (Single-Family Residential District) and changing only the minimum lot size to 6,600 square feet (Attachment 1). On July 15,

2014, the City Council continued the item for the pre-zoning and property tax exchange agreement regarding the Santa Ana/Colleen Island in order for the developer of the empty lot to meet with the residents of the Island.

### ***Property Tax Exchange Agreement***

California Revenue and Taxation Code Section 99 allows cities and counties to adopt and approve property tax exchange agreements to set forth the exchange of such revenues following a city's annexation of an unincorporated territory. In October 1980, the City and County entered into a Master Property Tax Agreement 80-1969 (Attachment 4) with an allocation of 50.9527% to the City and 49.0473% to the County. This property tax allocation was intended for use in future annexations. During negotiations with the County of Orange, City staff was informed that the Santa Ana/Colleen Island is located within the County's former Neighborhood Development and Preservation Project (NDAPP) redevelopment area. The County had incurred debt regarding the NDAPP area and NDAPP bonds were secured by a pledge of tax increment revenues. An increment of the property tax revenues for properties in the Santa Ana/Colleen Island are pledged to debt repayment, with last payment in FY 23-24.

The property tax subject to negotiation, according to the January 1, 2013 assessed value by the County, is \$45,605.25 for the Santa Ana/Colleen Island. That amount is made up of the redevelopment tax increment and base amount. The base amount remains the same each year, \$3,107.91 for property tax and \$5,668.76 for Structural Fire Fund, for a total of \$8,776.67, excluding the redevelopment increment. The property tax increment is pledged to debt repayment thru FY 23-24. Therefore, in order to compensate the City, the County has agreed to provide the City with annual payments of \$8,776.67 (100% of the base revenue) thru FY 23-24. (Using the old Master Agreement, the City would have been provided only \$7,252.32 annually.) Beginning FY 24-25, upon payment in full of the County's bond indebtedness, the property tax transfer will revert to the ratio specified in Master Property Tax Agreement 80-1969 (Attachment 4) of 50.9527% to the City and 49.0473% to the County. At this time, 100% of the Structural Fire Fund generated from the annexation area will also be transferred to the City, since the City has its own Fire Department. The total is expected to be at least \$37,684.45 per year, including Fire.

### **ALTERNATIVES CONSIDERED:**

The City Council can consider the following alternatives:

1. Choose an alternate zoning and give first reading. If an alternate zoning is chosen, the item will come back to the City Council for second reading at a future date.
2. Continue the item to allow additional time for further analysis or revisions to the project.
3. Choose not to move forward with the annexation of the Santa Ana/Colleen Island at this time.

**FISCAL REVIEW:**

OC LAFCO currently provides a fee waiver for small island annexations, so this project is exempt of both the administrative fee (\$1,600) and the initial deposit (\$3,000).

The Santa Ana/Colleen Island annexation will have minor financial impacts. The Public Services Department estimates that the total first-year expenditures (including start-up and recurring annual costs) would total approximately \$12,895.00 with an annual recurring cost of approximately \$10,181.00 (Attachment 9). The costs are related to items such as parkway and median maintenance, storm drain maintenance, signs and markings, street sweeping (City already provides this service on adjacent streets), and street maintenance costs. Due to the County’s pledge of property tax revenue for NDAPP debt repayment, the City will receive annual payments of \$8,776.67 thru FY 23-24. Beginning FY 24-25, the City will receive 50.9527% of the property tax revenue and 100% of the Structural Fire Fund.

**LEGAL REVIEW:**

The City Attorney has reviewed and approved this report and its attachments.

**CONCLUSION:**

The proposed Rezone and Property Tax Exchange Agreement will support the City’s efforts to annex the Santa Ana/Colleen Island.

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ATTACHMENTS:

- 1 [Rezone Ordinance \(R1 - 6,600\)](#)
- 2 [Rezone Ordinance \(R1 - 6,600\) – Redline](#)
- 3 [Resolution - Property Tax Exchange Agreement](#)
- 4 [Master Property Tax Transfer Agreement Resolution 80-1969](#)
- 5 [General Plan Amendment and Rezone Resolution](#)
- 6 [Minutes of the May 12, 2014 Planning Commission Meeting](#)
- 7 [Planning Commission Resolution](#)
- 8 [Annexation Initiation Resolution](#)
- 9 [Estimate of Fiscal Impact Memo](#)
- 10 [Santa Ana/Colleen Island Detailed Legal Description](#)

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