



**FINAL DRAFT
ANNEXATION STUDY
BOLSA CHICA LOWLANDS**

City of Huntington Beach

August 12, 2009

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EXECUTIVE SUMMARY

This Annexation Study (“Study”) was prepared for the City of Huntington Beach (“City”) to address the impacts that may be associated with the annexation of an unincorporated portion of the Bolsa Chica area called the Lowlands (“Study Area” or “Lowlands”). The Study Area is approximately 1,500 acres in size and is located coastally, generally bordered on three sides by the City limits. The Study Area is comprised largely of a 1,300 acre ecological reserve, about 65 acres of future parkland, and a small amount of privately held land. This Study has been performed to assist the Huntington Beach City Council as it deliberates the issue of annexing the Lowlands.

To develop the annexation analysis, this Study provides:

- A fiscal impact study for annexation of the Lowlands,
- A description of each entity’s activities as they relate to the Lowlands, and
- A discussion on implementation of annexation including steps to be taken.

Annexation of the Lowlands is accompanied by a series of unpredictable circumstances, primarily related to levee breaches in either the Reserve or the flood control channel that traverses through the Study Area. Though neither facility is owned or operated by the City, and current case law indicates the State of California bears ultimate responsibility for levee breach in the flood control channel, it is possible the City could find itself involved in legal proceedings in the future should disaster occur within the City boundaries.

Exhibit 1 below summarizes the various roles of each entity currently involved in the Lowlands.

Summary of Agency Activities and Annexation Impact on Service Provisions

Exhibit 1

Agency	Activities	Annexation Impact
State Lands Commission	<ul style="list-style-type: none"> ▪ Surface rights land owner of Bolsa Chica Reserve ▪ Oversees restoration project ▪ Contracts with Dept. of Fish and Game for project implementation ▪ Provides funding for two full time equivalent positions and basic operations ▪ Obtains contracts for capital projects 	<ul style="list-style-type: none"> ▪ No change to service provider
CA Department of Fish and Game	<ul style="list-style-type: none"> ▪ Has staff on site ▪ Manages day to day operations of the Reserve ▪ Holds two land leases for the Reserve ▪ Land owner of the Lower Mesa Bench ▪ Performs basic maintenance ▪ Reacts to trespassers and public not obeying restrictions on property 	<ul style="list-style-type: none"> ▪ No change to service provider

Agency	Activities	Annexation Impact
County of Orange	<ul style="list-style-type: none"> ▪ Provides local and regional municipal services ▪ Responsible for NPDES program ▪ Has planned a large regional park, currently operates 4 acres of the park 	<ul style="list-style-type: none"> ▪ Local municipal services to be provided by City ▪ City to share NPDES responsibilities with the County ▪ Regional municipal services and regional park to remain County responsibility
Orange County Flood Control District	<ul style="list-style-type: none"> ▪ Maintains the East Garden Grove-Wintersburg Channel 	<ul style="list-style-type: none"> ▪ No change to service provider for flood control ▪ Possible City to assume trail maintenance after channel repairs
Orange County Fire Authority	<ul style="list-style-type: none"> ▪ Provides fire protection services 	<ul style="list-style-type: none"> ▪ City to provide all fire protection services
California Coastal Commission	<ul style="list-style-type: none"> ▪ Acts as regulatory agency, approving land uses in the Coastal Zone 	<ul style="list-style-type: none"> ▪ No change to service provider¹
U.S. Army Corps of Engineers	<ul style="list-style-type: none"> ▪ Likely to be the regulatory agency to oversee any future bay dredging 	<ul style="list-style-type: none"> ▪ No change to service provider
Federal Emergency Management Agency	<ul style="list-style-type: none"> ▪ Through the Community Ratings System program, reviews communities and establishes flood insurance discounts available to individual property owners 	<ul style="list-style-type: none"> ▪ No change to service provider
Aera Energy, LLC	<ul style="list-style-type: none"> ▪ Primary mineral rights holder in much of the Lowlands for oil production ▪ Works cooperatively with State Lands and Fish and Game ▪ Maintains access roads ▪ Provides some patrol and emergency preparedness support for oil operations 	<ul style="list-style-type: none"> ▪ No change to service provider
Local Non-Profits	<ul style="list-style-type: none"> ▪ Organize tours and educational programs ▪ Raise funds for projects ▪ Coordinate volunteers for clean ups and other maintenance in the public access area of Reserve ▪ Bolsa Chica Conservancy operates interpretive center 	<ul style="list-style-type: none"> ▪ No change to service provider

Despite the many players, most service providers would remain unchanged and operations within the Lowlands would generally continue on without impact. However, annexation is likely to benefit the Lowlands in the following ways:

- Quicker public safety response due to the close proximity of City police, fire, and emergency services;

¹ The City will update its Local Coastal Program in compliance with Section 30519.5 of the California Coastal Act.

- Better protection of the surrounding property owners' interests through congruency of service; and
- Better response to public concerns or comments as most people think the Lowlands are within City boundaries and therefore direct communications to City staff instead of the County of Orange.

Should the City proceed, the annexation process is expected to be a relatively smooth procedure. Based on conversations with respective staff members from the State Lands Commission, the California Department of Fish and Game, the Coastal Commission, and the Orange County Local Agency Formation Commission, all believe the Lowlands can today transition from the County's jurisdiction to the City's without issue provided all necessary planning documents are completed in a timely and accurate manner. The City would first need to pre-zone the Lowlands, and complete any associated environmental documents. Once the planning documentation is in order, the City can submit an annexation application to the Local Agency Formation Commission; this process should take four to six months. Finally, either concurrently or shortly following the annexation process, the City would need to amend (a) the General Plan, (b) the Local Coastal Program for submittal to the Coastal Commission, and (c) the Local Implementation Plan to remain in compliance with current stormwater permits.

Should the City annex the Study Area, only municipal activities of the City, the County of Orange, and Orange County Fire Authority are expected to be impacted. It is not expected that the City will incur a material amount of additional recurring costs as a result of the annexation, but will receive a small amount of recurring revenues. Revenues are almost entirely dependent upon oil extraction taxes. At this time, the City could expect to incur a net positive fiscal impact of about \$119,000 for 2009-10 if the area were annexed, exclusive of one-time costs for amendments to the City's General Plan and Local Coastal Program. If performed by City staff, the Planning Department could face costs of approximately \$129,259 (though costs could differ if outsourced), thereby eliminating the first year's positive fiscal impact.

Though the annexation will offer a small amount of net revenue initially, this will diminish over time as oil production slows, lowering extraction tax revenue. By 2030 or sooner, it is unlikely this area would provide any appreciable revenue, making the annexation essentially revenue neutral.

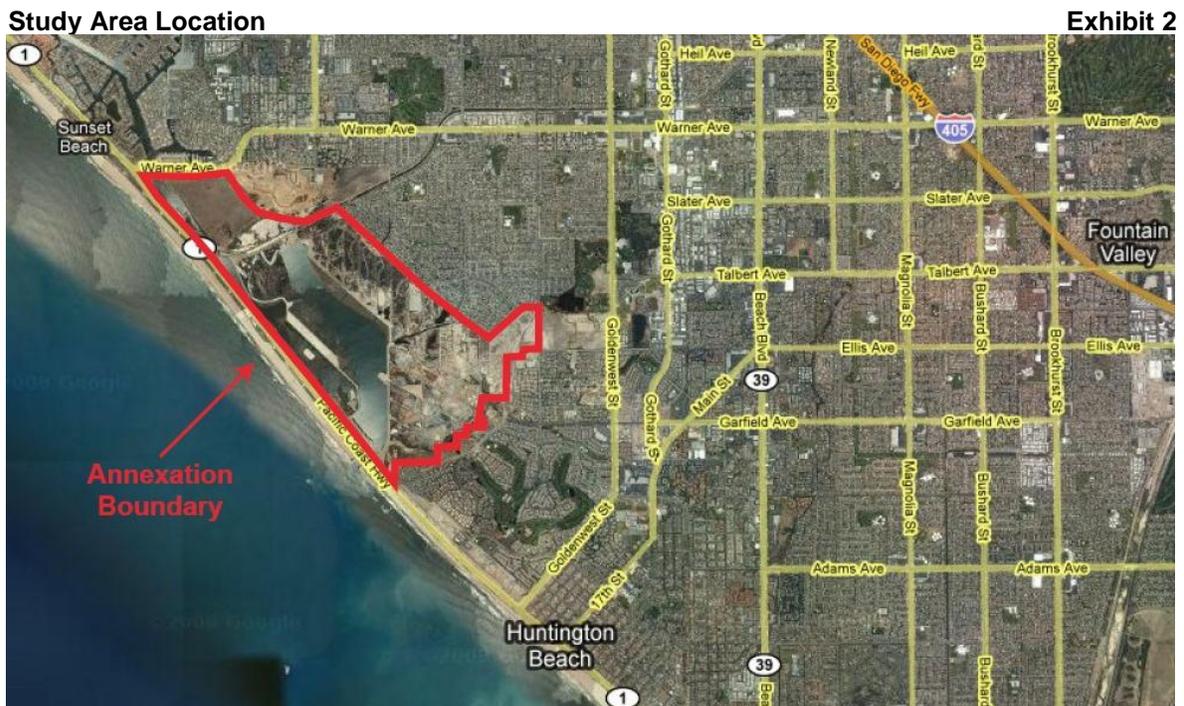
In summary, annexation is likely to result in a minor amount of net revenue to the City, which would diminish over time, making the transaction fiscally neutral on an ongoing basis. Despite the lack of financial incentive, it is likely that the Lowlands would benefit from having the City as a local service provider; and in fact the City may enjoy a certain amount of pride from having such a unique ecological area within its boundaries.

INTRODUCTION

This Study has been commissioned by the City and written for the purpose of presenting the fiscal and operational impacts that may be associated if the Lowlands are annexed. The Lowlands are a unique and beautiful coastal area, and currently an unincorporated “island” surrounded by the City of Huntington Beach to the north, east, and south, with the western edge bound by the Pacific Coast Highway and the Bolsa Chica State Beach as shown in Exhibit 2 below.

Generally speaking, most of the Lowlands are now protected by the Reserve, which cannot be developed in the future for urban uses. About 65 acres of the southernmost area of the Lowlands are expected to become part of the planned Wieder Park². Ownership of much of the Study Area is split between surface and mineral rights to facilitate oil production. Thus, due to lack of urban development, the need for municipal services is minimal.

The City has previously considered annexing the Lowlands because of the proximity to the City boundary and the City’s ability to efficiently deliver service to the area. However, a history of contentious legal battles over the best use of the greater Bolsa Chica area has delayed the City’s desire to annex the Study Area. Many of the controversies surrounding the Study Area have come to a close, as much of the land is now held in a public land trust.



² Wieder Park is intended to be 114 acres in total, about 65 acres are within the Study Area, the remaining acres are already within City boundaries.

With the exception of fire protection, local governmental services are provided by the County of Orange ("County"). Unlike a typical annexation, the interaction of multiple agencies including the State Lands Commission, California Department of Fish and Game, the California Coastal Commission, and the Orange County Flood Control District among others all play a role in the Study Area in addition to the County. No material changes to land uses are expected to be associated with this annexation; and most involved agencies will maintain their existing role. As City staff has confirmed that the Study Area would be intended to remain as open space, many of the typical revenues and expenditures considered in an annexation analysis for an urbanized area are not applicable to the Study Area. Therefore, this Study first examines the roles and functions of the respective entities involved in the Lowlands. This discussion is followed by a fiscal model that analyzes the impacts that may be expected by the City as a result of annexing the Lowlands. Finally, this Study provides a discussion of the annexation process as it relates to the Lowlands.

BACKGROUND

The Study Area is a part of the greater Bolsa Chica area, divided functionally into the uplands of the Bolsa Chica Mesa to the north, the Huntington Mesa to the south, and the centrally located Lowlands. The Bolsa Chica is known to have been hunting grounds for Native Americans, and was later owned by various families through land grants from the Mexican government and the State of California. Originally about 2,700 acres of wetlands and brackish marsh, the Bolsa Chica was long considered unsuitable to development, leaving it relatively untouched until the late 1800's when most of the area was purchased by a hunting club. In 1899, the Lowlands were cut off from ocean water and divided into several ponds to facilitate bird hunting, which continued until 1950 when oil was discovered.

Oil extraction became the major activity at the Bolsa Chica in the 1950's and 1960's, with production in both the lowlands and offshore, but Orange County was growing rapidly and the area provided highly desirable beachfront property. Thus, in 1971, the property was divided between surface and mineral rights, allowing oil production to continue while much of the land could be developed into homes. Oil production continues today with 112 active well sites throughout the Lowlands, according to the California Department of Conservation's Division of Oil, Gas, and Geothermal Resources.

With urban development beginning in the early 1970's, several local conservationists and activists began to argue the need to preserve open space at the Bolsa Chica. As a result, the Reserve was created over time and in a couple of different pieces. The first portion of the Reserve was obtained in 1973 by the State Lands Commission ("SLC"), and was comprised of about 320 acres which runs along the Pacific Coast Highway. This section is considered "Part 1" by the SLC. Located in Part 1 of the Reserve is a public trail that loops through the western portion, allowing pedestrians access to view and photograph wildlife and scenery. Two parking lots, one at the Bolsa Chica Conservancy modular building near Warner and Pacific Coast Highway and the second about a mile south on the Pacific Coast Highway, provide pedestrians easy access to the trails. One footbridge is currently a part of the trail extending from the southern parking lot, and a second is planned near the Warner bridge at the northern end of the Study Area.

In 1996, following a series of lengthy and difficult legal battles, several state and federal agencies agreed that new development at the ports of Long Beach and Los Angeles could be mitigated by restoration of the wetlands at Bolsa Chica. With new funding available for restoration through the port funds and state bonds, the second portion, or "Part 2" of the Reserve was acquired in 1997 (880 acres) and 2005 (103 acres). Part 2 does not offer public access, and is a protected natural environment in the northern section, while in the southern section, oil production continues, interspersed with some habitat restoration work. This section is surrounded by fencing.

The \$147 million (and counting) restoration project included design of one Full Tidal Area, as well as three Muted Tidal Areas. Three nesting areas were designated for birds, including the endangered western snowy plover and California least tern. Additionally, through agreements with the primary owner of the mineral rights, Aera Energy LLC, 62 oil well sites were closed, significant clean-up efforts were undertaken, and some pipelines and other oil infrastructure were relocated as a part of the restoration project. In August 2006, the berm separating the Reserve from the Pacific Ocean was removed, and the Full Tidal Area was opened to ocean tides. As a result, several diverse habitats have been created and restored to the Bolsa Chica including

wetlands, coastal bluff scrub, and grasslands. The Bolsa Chica is now home to a wide variety of waterfowl and marine species, over 30 of which are on state or federal sensitive species lists, and it has been designated as an area of national significance.

The restoration continues, with the third and final Muted Tidal Area expected to be opened in the near future. Additionally, once the oil supply is exhausted and extraction ceases, Aera Energy will be responsible for the complete closure of their extraction and injection sites and any associated environmental remediation required. As many factors influence the timing of the final closures, it is difficult to predict when that will occur though it is not expected to be in the foreseeable future. Upon the closure, the surface areas currently used for Aera's oil operations in the southeastern end of the Lowlands will be enhanced to a second full tidal basin with money that has been set aside from the port mitigation funds in addition to Aera Energy expenditures.

AGENCY ROLES

Though the County is the agency currently responsible for local municipal services, a variety of other entities are also involved in the Lowlands from an operational standpoint. The following section outlines the roles currently played in the Study Area. Exhibit 3 below illustrates some of the important features of the Study Area for reference.

Study Area Features

Exhibit 3



State Lands Commission

The SLC is responsible for upholding the Public Trust Doctrine, including the preservation of lands in their natural state. The SLC's primary function has been to facilitate the restoration project and provide ongoing maintenance for the Reserve, though no standardized maintenance plan exists.

The SLC contracts with the California Department of Fish and Game ("CDFG") for much of the restoration and maintenance work; however, the SLC also continues to facilitate other project contracts associated with the restoration, such as the Full Tidal Area dredging³. The SLC has given CDFG a 33 year land lease for Part 2 of the Reserve, which will expire in August 2039. The SLC currently maintains shorter contracts for service with CDFG for Part 1. The active three year contract will expire in August 2009.

The SLC generally does not provide funding for ongoing maintenance of either area, including the trail and parking lots. Maintenance, such as keeping the trail cleared or trash bins emptied, is performed by CDFG staff or volunteers. The SLC maintains two modular buildings used as offices at the end of Edwards Street towards the northeastern border of the Reserve, and funds for water supply and septic tank maintenance are a part of a small operational budget the Bolsa Chica Steering Committee⁴ oversees each year. The SLC does occasionally provide funding for other projects, for example the SLC intends to raise one of the main access roads in the Reserve by several inches to make sure it does not flood over during a storm. Aera Energy would then continue to maintain the road after the improvement. Additionally, tidal dredging is expected to be necessary approximately every 2 years, and the SLC will continue to obtain contracts for the project.

The SLC has taken steps to protect the public's financial investment in the Reserve. The SLC has obtained an emergency services contract in the case of a levee breach in the event of an earthquake or other earth movement. Additionally, a 10-year, \$10 million insurance policy was put into effect on September 2, 2008 to cover any unexpected damage to the Reserve. The policy covers 1,280 acres of the Reserve, including the levees and Aera Energy equipment. Essentially, the SLC is prepared to implement emergency services and restoration as needed in the Reserve. However, all surrounding property owners that may be affected by an emergency will be responsible for their own properties. This is true regardless of annexation.

California Department of Fish and Game

The SLC contracts with the CDFG to perform most oversight, monitoring, and maintenance of the Reserve. A large portion of the contract between SLC and CDFG is funded by the mitigation fees from the port expansion project. Through the contract, the CDFG's primary roles are to continue restoration activities, perform biological monitoring of the Reserve, and basic facilities maintenance. Staff also provides basic maintenance to the trails, which is minimal and performed by hand.

The SLC provides funding for one full time position and two part time positions on site. All positions are filled by employees of the CDFG. The full time position is a biologist, who oversees the restoration project in Part 2 of the Reserve. Two part time positions provide staff support for maintenance and upkeep. One of the part time positions focuses primarily on upkeep and/or general inspection of the infrastructure including the tidal gates and levees. The second part time position focuses on monitoring endangered species and is more active during the breeding season than other times of the year. Additionally, one other biologist monitors Part 1 of the Reserve, though that position is not funded by SLC. This other position manages three other properties as well, so at this time, this employee is not in the Study Area on a daily basis. CDFG staff states that this level of staffing is high compared to other reserves in the state.

CDFG employees respond to trespassers in the Reserve. Since the opening of the Lowlands to the ocean, trespassers in Part 2 are unusual and generally consist of people interested in getting a better view of the

³ The Steering Committee (see footnote 3) established an endowment fund to pay for future dredging at Bolsa Chica, although it is unclear how long this fund will provide for this maintenance. Grant money from the Montrose Settlement Restoration Program will be used for the 2009 dredging.

⁴ The Bolsa Chica Steering Committee is composed of four Federal and four State agencies: the SLC, California Resources Agency, CDFG, California Coastal Conservancy, Environmental Protection Agency, Army Corps of Engineers, National Marine Fisheries Service, and Fish and Wildlife Service. The Committee was originally formed over ten years ago to oversee implementation of the restoration project.

wildlife according to SLC staff. Most incidents are handled through a conversation with the trespasser. However, CDFG staff has to respond almost daily to members of the public that disobey the rules in the areas of the Reserve with public access. Issues are typically pedestrians with dogs, bicycles on the trail, and illegal fishing. According to CDFG staff, the preferred method of handling these types of problems would be for staff to call the CDFG Warden assigned to the area, however, the nearest Warden is often a half-hour to an hour away due to statewide understaffing issues. On-site staff has the ability to evict the offender from the property but not to issue a citation, which staff believes leads to repeat offenders. Staff also states that though local police could issue a citation, the matter is generally considered a Warden's responsibility and not a good use of police department resources. For this reason, CDFG staff generally "overlooks" pedestrians and bicyclists using the East Garden Grove-Wintersburg ("EGGW") Flood Control Channel as an access route as long as they are just passing through, and instead focuses on members of the public on the trails in the Reserve.

The CDFG has some assets as well. It owns about 103 acres in the Study Area called the Lower Mesa Bench. The CDFG has a Memorandum of Understanding with the Bolsa Chica Land Trust to restore habitat on the Lower Mesa Bench over a ten year period. The CDFG also oversees the expenditure of money from the Coastal Wetlands Fund, established by Assembly Bill 1801 in the 2006-07 fiscal year. The CDFG is allocated 60 percent of the interest earned on a principal of \$5 million, roughly \$135,000 per year according to the legislative analyst. Though this funding is limited, the Bolsa Chica Reserve is one of only nine ecological reserves that can benefit from this funding each year.

Orange County Flood Control District

The Orange County Flood Control District ("District") is a special district that manages flood control and drainage county-wide, and is also a co-permittee for the County's National Pollutant Discharge Elimination System ("NPDES") permit. The District itself is an independent political entity, governed by the Orange County Board of Supervisors, but has no employees of its own. The District's activities are administered and performed by the County's Public Works Department. The District maintains the EGGW Flood Control Channel that runs through the Study Area, conveying runoff and stormwater from inland areas. Flap gates at the terminus of the EGGW Channel allow the water to drain to the Outer Bolsa Bay. The District has minor fee ownership in the EGGW Channel and has an easement from SLC at the flap gates.

According to County Public Works staff, the EGGW Channel is not yet constructed to convey a 100 year flood. Currently the flap gates are only at one-third the capacity needed to convey a 100 year flood. Additionally, the stability of the levees on either side of the EGGW Channel has concerned the District for many years. A fault line runs underneath the Bolsa Chica, and in the event of an earthquake, the ocean could surge and cause flooding. The Coastal Commission has already granted the District a permit for emergency repairs to improve the levee on the northern side with steel sheet piles for reinforcement. The District intends to improve the southern side in the future with cement posts. Improvements will extend from Graham Street to the Oil Road Bridge. Further improvements are planned, but aren't likely to begin until 2016 at the earliest and are subject to change based on available capital improvement funding. These improvements are aimed at improving earthquake safety however, and not 100 year flood capacity.

With the improvements, the District plans to formalize a public access trail along the levee. Access currently exists, and although intended for maintenance only, pedestrians and bicyclists have used the trail for many years. The District has proposed potentially enhancing about 3,000 feet of an access trail with benches and signs, and would potentially like the City to manage the trail when it is constructed if the Study Area is annexed.

Given the sensitive nature of the Bolsa Chica, there have been conflicting opinions over the years on how flood control should be dealt with in the Study Area. It has been suggested that the levees should be removed entirely from the muted tidal basin, but there is some argument as to whether this would cause too much urban runoff to be released in sensitive areas, so the project has not been pursued. It has also been suggested that the levees may collapse due to the restoration project allowing erosion of the back side of the levy by the tidal pockets, though this does not appear to be the case yet and the planned improvements for the EGGW Channel should eliminate this concern.

Orange County Fire Authority

The Orange County Fire Authority (“OCFA”) is currently responsible for providing fire protection, rescue, and emergency paramedic services to all properties within the Bolsa Chica. The OCFA receives a share of the 1 percent general tax levy to provide this service. Upon annexation, the Study Area would be detached from the OCFA and the City would become responsible for this service, and likely receive the 11.6 percent share of the property tax levy within the Study Area to do so.

California Coastal Commission

The California Coastal Commission (“Coastal Commission”) is a quasi-judicial state agency that plans and regulates land and water uses in the coastal zone in conjunction with the coastal communities. The Coastal Commission has regulatory authority over federal agency activities that impact the coastal zone as well. Much of the Coastal Commission’s work is carried out through the certification of Local Coastal Programs (“LCPs”), which must adhere to the regulations required by the California Coastal Act. Each local government in the coastal zone must maintain an LCP that is certified by the Coastal Commission, which details land and water uses including proposed development, public access, and habitat protection among other things⁵. Upon certification of an LCP, the local government has the authority to issue approved development permits in the coastal zone. However, in certain cases, including public trust lands such as the Reserve, the Coastal Commission retains development permit jurisdiction. The Coastal Commission has therefore been deeply involved in activities within the greater Bolsa Chica area for decades, including the permitting of contentious developments as well as the restoration project in the Reserve.

A key component in an LCP is the land use plan (“LUP”). The County’s LUP for the Bolsa Chica area was first certified by the Coastal Commission in 1986, contingent upon review by the Commission once an Army Corps of Engineers study was completed. The review was never done. In 1995, the County submitted an LUP Amendment which the Coastal Commission approved with suggested modifications. However, several organizations filed a lawsuit against the Coastal Commission for this approval. Following yet another lengthy battle in the courts over land uses in the Bolsa Chica area, an LUP was approved with modifications in 2000, but the County declined to accept the modifications so the certification expired in 2001. Thus, the Lowlands do not currently have a certified LCP. Coastal Commission staff does not see the lack of a current LCP to be an issue for annexation.

Army Corps of Engineers

Now that the major portion of the restoration project is completed, the Army Corps of Engineers (“Corps”) play a relatively minor role in activities at the Study Area. The Corps will continue to act as a regulatory agency in certain activities, including the upcoming dredging of the Full Tidal Area. According to Corps employees, no other projects are planned by them at this time. It is possible that the Corps would be involved in any future restoration work done by Orange County Flood Control District to the EGGW Channel in the future.

Federal Emergency Management Agency, Flood Insurance, and Liability

The City and County both participate in the Community Ratings System (“CRS”), developed and implemented by the Federal Emergency Management Agency (“FEMA”). The CRS was developed as a way to reduce the risk of flood losses, and is a voluntary program that communities can participate in to decrease the flood insurance premiums paid by property owners in flood zones. The CRS is essentially a point system, and communities can receive points for a wide variety of activities, generally grouped in the following four categories.

- Public information activities (elevation certificates, public outreach, hazard disclosure)

⁵ An LCP is defined by Coastal Act §30108.6 as follows: Local coastal program means a local government's (a) land use plans, (b) zoning ordinances, (c) zoning district maps, and (d) within sensitive coastal resources areas, other implementing actions, which, when taken together, meet the requirements of, and implement the provisions and policies of, this division at the local level.

- Mapping and regulatory activities (flood data maintenance, open space preservation, higher regulatory standards, stormwater management)
- Flood damage reduction activities (floodplain management planning, drainage system maintenance, acquisition and relocation)
- Flood preparedness activities (flood warning program, levee safety, dam safety)

Based on the amount of cumulative points received, a community is assigned a classification of 1 through 10, with 1 representing communities that have received the highest number of points, and 10 representing communities that do not participate or have not received a minimum number of points. Flood insurance premiums are discounted incrementally by 5 percent, commensurate with the point level. For example, communities with a Class 9 rating receive a 5 percent discount, while communities with a Class 5 rating receive a 25 percent discount. It should be noted that points are cumulative for activities performed, communities are not penalized for activities not achieved, they simply do not receive the points available for those activities.

The City is currently ranked as a Class 7 community, as is the County. The County completed their most recent FEMA audit, determining their classification, in May 2008. The City's last renewal was completed in March 2004, and was reevaluated in February 2009 with CRS class rank pending.

Based on conversations with FEMA staff, certification of levees is extremely difficult and rare. Only 1 percent of communities that participate in the CRS receive points for levee safety. As the levees in the Lowlands are not FEMA certified, the City will not receive points for them. However, as discussed above, there is no penalty per se. The City may, however, receive points for open space preservation within a floodplain, as the Lowlands are. Land use planning documents, such as the City's General Plan and Local Coastal Plan, are reviewed to establish open space preservation points.

Thus it is not anticipated that annexation of the Lowlands will negatively impact the City's CRS classification. As long as the City continues to achieve points in other categories and subcategories as it has before, it can maintain its current classification, or even potentially improve it by increasing the amount of open space preservation within floodplain areas such as the Lowlands.

Liability

Due to the unique ownership of the Reserve, the lack of FEMA-certified levees, and the flood control channel structural issues described earlier, understanding the liability issues in an emergency situation is a daunting task. There is no true precedent for comparison, and it is unclear what cumulative events may amount to in a disaster. Some of the following information is discussed earlier, but summarized here for the convenience of the reader.

- As a state agency, the SLC is self insured. They have taken additional steps to provide for emergency situations which provide for quick response and repairs to the Reserve.
- FEMA certification of levees is rare. The lack of certification in the Reserve is not unusual according to FEMA, and there is no reason to expect certification would be sought in the future. Further, FEMA does not certify roads or similar improvements.
- FEMA, through their National Flood Insurance Program, does not offer insurance to public agencies to cover losses to privately held property. That is to say that the SLC could not obtain insurance to cover damage to properties outside the Reserve.
- Neighboring property owners are within a floodplain and therefore encouraged (if not required by a mortgage lender) to maintain their own flood insurance.
- The City's insurance provider has been contacted and has stated that liability premiums will not increase due to annexation of this area.
- The closest precedent in case law for levee breach is called the "Paterno Decision", a court case stemming from a 1986 levee break in Yuba County. The Paterno Decision holds the State of California liable for flood damage to property resulting from levee damage to flood control channels, not the local

governments that approved the development. There have been efforts to alter legislation, but none have been successful thus far.

Essentially, there is no immediate and direct nexus identifying the City as a responsible party in the event of a flood emergency should annexation proceed. It is, however, possible that the City could be named in a lawsuit should disaster occur. Regardless of the outcome, a court case would likely be a lengthy and expensive battle.

Aera Energy, LLC

Aera Energy owns the mineral rights for much of the Bolsa Chica, allowing the extraction of oil from two main fields, the North Bolsa and South Bolsa. Aera Energy is responsible for maintaining the wells and injection sites, ensuring the oil does not contaminate the site, and maintaining their own access roads in the Lowlands. Access roads are generally compacted rock material, and Aera incorporates dust control measures in their access road maintenance. Aera Energy employs a well inspector, and also patrols the Lowlands every three to four hours, 24 hours a day. Both the SLC and the City have oil field inspectors that also perform inspections in the Study Area.

Aera Energy is responsible for maintaining an emergency plan in case of an oil spill. Some methods for containing a spill were built into the design of the restoration project. A storage/launch site was designed to provide for the deployment of a containment boom and clean up material and sited adjacent to the inlet channel. Gates were installed on all culverts leading to the Muted Tidal Area that could be shut if a spill potential existed. Aera Energy staff members also practice drills twice a year responding to various scenarios, and these drills are observed by the CDFG and the Coast Guard among others to assess the response. Oil booms and absorbent materials are kept on site to minimize the impact if a spill should occur, and an oil sheen detection system is in place, though such emergencies are not anticipated. Aera Energy has also taken further initiative to prevent oil contamination in the Lowlands by using updated technology and new equipment, as well as removing any inactive infrastructure.

It should be noted that other oil production is ongoing in the Lowlands, primarily operated by John A. Thomas, who holds mineral rights on the property, according to the State Division of Oil, Gas, and Geothermal Resources.

Bolsa Chica Land Trust, Bolsa Chica Conservancy, and Amigos De Bolsa Chica

These three non-profit groups play an ongoing role in the Lowlands. Activities include organization of volunteers for a variety of activities including clean ups, planting of native vegetation, educational tours, and fundraising. Members of these organizations have recently helped raise funds to design and build a new footbridge for pedestrians near the Warner bridge, connecting the interpretive center across Outer Bolsa Bay to the northern end of the mesa. The bridge is expected to cost about \$400,000, paid for in part by fundraising with additional funds provided by the State and County. The bridge is proposed to be 145 feet long, 8 feet wide, and will be constructed primarily out of concrete and reinforced steel. Biological resource mitigation measures must be performed according to the Mitigated Negative Declaration dated November 20, 2007. The structure must also be finished with colors that are compatible with the surrounding area. The Coastal Commission has found the bridge is consistent with Chapter 3 of the Coastal Act, specifically upholding Section 30210 of the Coastal Act by improving access to recreational opportunities and protecting public safety. The Coastal Commission has approved the footbridge, and the project is expected to be completed sometime between October and December of 2009. The footbridge will be the property of CDFG, with any needed ongoing maintenance expected to be performed by that agency.

The Bolsa Chica Conservancy operates an interpretive center near the intersection of the Pacific Coast Highway and Warner Avenue. The Conservancy maintains their own facilities, including the modular building and associated parking lot. The parking lot at the Conservancy is currently unpaved, while the south lot on the Pacific Coast Highway is paved. The Conservancy raises funds for all of its operations as well as for minor improvements to the Reserve, including parking lot maintenance, and volunteer coordination for monthly clean ups and trash receptacle disposal. Maintenance of the existing and planned bridges are not included in

the budget for the Conservancy nor the CDFG, thus any future maintenance would also need to be performed through fundraising and volunteers.

County of Orange

As an unincorporated island, the Study Area receives local and regional municipal services from the County of Orange. The County is responsible for policy making and administration, law enforcement, animal control, planning and land use regulation, building inspection, parks and recreation, and library services for all unincorporated areas. Upon annexation, the City would become the primary provider of these services.⁶

Planning and Building and Safety

In the County's General Plan, the Lowlands are currently designated as Open Space and Suburban Residential. However, the map associated with the General Plan acknowledges that the designation has not been reconciled with the 1999 Appeals Court decision on allowable development in the Lowlands. However, as the Study Area is currently open space, no regular or ongoing planning or building inspection services are required at this time.

Law Enforcement

The need for law enforcement in the Reserve is fortunately minimal and typically limited to parking problems, particularly at the south lot on Pacific Coast Highway. Parking at both Reserve lots is free, while parking at the State Beach across the street is \$10 per vehicle, thus people attempt to park at the Reserve and walk over to the beach. The Bolsa Chica Conservancy usually makes the calls for parking enforcement; CDFG rarely calls the Sheriff's Department. As most parking issues arise on weekends during the summer, in the summer of 2008, the Conservancy staff noted that the Sheriff was regularly checking on the parking lots, which noticeably decreased the problem. It has been suggested that the two free parking lots be converted to pay lots. The revenue would go to maintain the parking lots themselves as well as to deter people from using the lots for beach parking. However, such action requires a regulation change and the involvement of the Fish and Game Commission and the Coastal Commission, which could be a lengthy process.

The Bolsa Chica Conservancy staff members also report that they occasionally have to call the Sheriff to remove transients and that the Conservancy building itself has had two burglaries over the years, but these type of problems are rare. Huntington Beach residents also call the City Police Department when they see suspicious activity or violations such as off-road vehicles being driven in the area, vandalism, use of paint balls and BB guns, and dogs off leash. The Police Department generally responds to these resident calls out of courtesy.

Regional Parks

The County's parks and recreation department, OC Parks, is responsible for planning and managing of regional parks including Wieder Park. As a regional park, there will be no change in service based upon annexation alone. According to documents provided by OC Parks, Wieder Park is planned to be 114 acres upon completion. About 65 acres are within the unincorporated area. Currently, about 4 acres of the park are operational and function more like a neighborhood park with some turf areas and play equipment, plus a small parking lot. As shown in Exhibit 4, of the anticipated total of 114 acres, 34 acres are fee-owned parcels and the remaining 80 acres are "IOD" parcels⁷ according to a 2007 inventory assessment performed for the County. However, it is unknown when the remaining IOD parcels will be available as these parcels are currently affected by oil operations, though the County intends to pursue the parcels regardless of annexation. The next phase of acquisition is planned to be for 24 acres once some above ground pipes are removed. The timing for the final 56 acres is entirely unknown as the current leases allow oil activities to continue until they are no longer financially viable. Based on conversations with Aera Energy, it is unlikely oil activities would

⁶ If annexation occurs, the City will provide animal services through its existing contract for service with the County of Orange Animal Care.

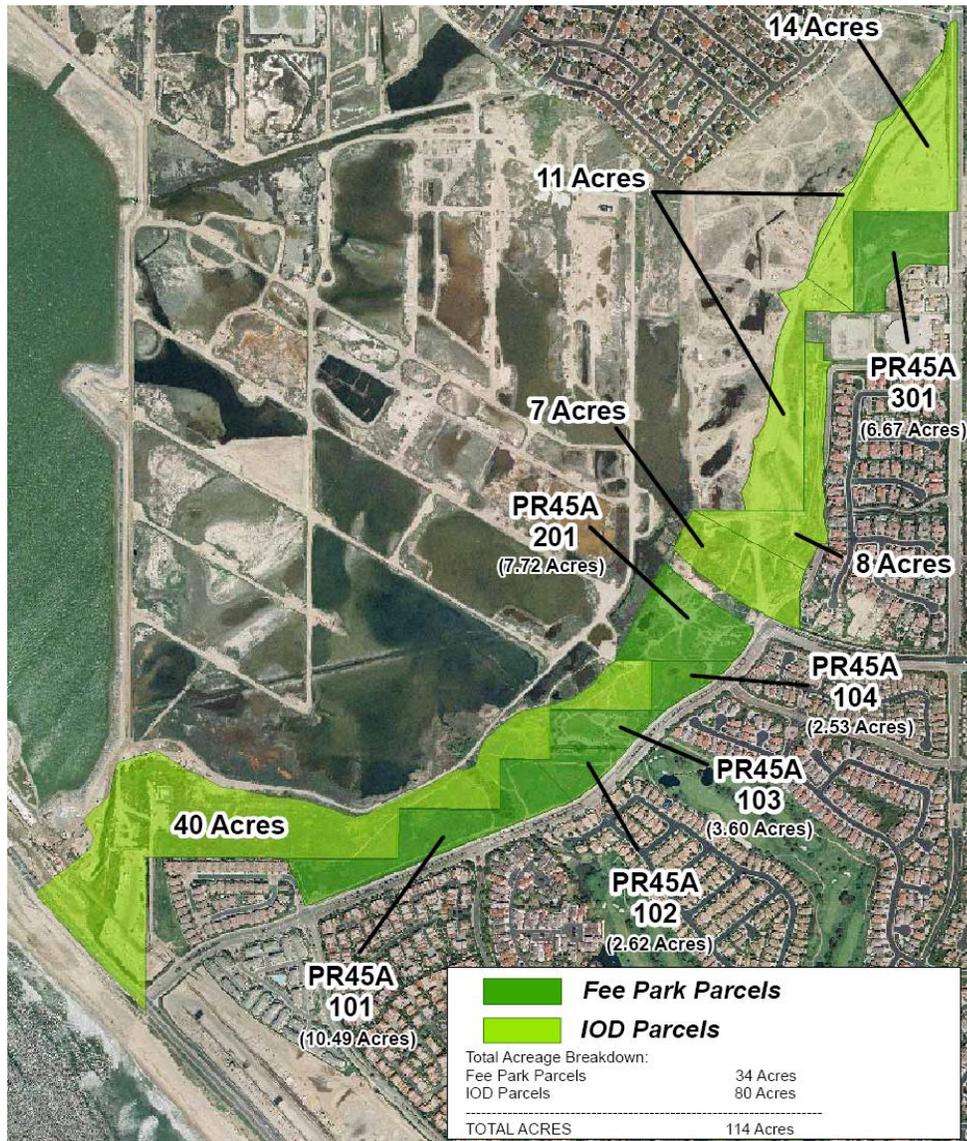
⁷ Parcels were required to be dedicated by a developer to the County for parks or other purposes, thus the property is irrevocably offered for dedication (IOD) to the County; the County can then accept it at any time.

cease in the next ten years. Although Aera Energy is not the company extracting oil from the IOD parcels, it is likely the extraction will remain profitable for the current owner as it is for Aera Energy. Further, OC Parks does not, at present, have the funding to complete Wieder Park as intended. It is unknown when these funds will become available. The unknown dedication schedule and lack of funds makes projecting any development schedule virtually impossible at this time.

The development plan for the park was documented in the 1997 Wieder Park General Development Plan and Resource Management Plan by the County. Though this plan is now 12 years old, it is still the intended development scheme according to OC Parks representatives. Once all the parcels are acquired, Wieder Park will be developed with a second tot lot area, an 8,000 square foot interpretive center⁸ that overlooks the Lowlands, and both a pedestrian/bike path (hard materials) and an equestrian trail (soft materials) that connect Huntington Beach Central Park all the way to the Pacific Coast Highway. The park will feature native landscaping of coastal scrub, native grassland, and mixed woodland.

Wieder Regional Park Parcels

Exhibit 4



Source: OC Parks and County GIS Department

⁸ In March 2009, the Bolsa Chica Conservancy entered into an option/lease with OC Parks for 5.3 acres in the park for the purpose of building the permanent interpretive center.

NPDES Permittees – County of Orange

The City has partnered with the County to cooperatively improve urban runoff and water quality conditions by operating municipal storm drain systems and discharging stormwater and urban runoff pursuant to NPDES permits. As authorized by the Clean Water Act, the NPDES permit program controls water pollution by regulating point sources that discharge pollutants into waters of the United States. The Santa Ana Regional Water Quality Control Board oversees the NPDES permits in this area. The County, District, and City are all considered co-permittees on the current NPDES permits. NPDES permits require that the co-permittees work together to:

- Effectively prohibit non-stormwater discharges to the storm drain system, and
- Implement controls to reduce the discharge of pollutants in stormwater.

Program and implementation elements of the County NPDES program are documented in the comprehensive 2003 Drainage Area Management Plan and related Local Implementation Plans (“LIP”), which serve as the Permittees' primary policy and implementation documents for compliance with the NPDES permits. Each co-permittee, including the City, has an LIP.

Privately Owned Parcels

About ten parcels included in this analysis are privately owned⁹. They are generally used for oil production, and several of them are identified as parcels for future dedication to Wieder Park. Land uses identified by County Assessor data are either rural uses or industrial uses (consistent with oil production); one parcel currently shows a residential land use, but it is vacant and an IOD park parcel. As City staff has indicated that the Study Area will be maintained as open space, early outreach to these property owners is recommended should the City decide to pursue annexation.

⁹ This does not include those parcels in the Reserve with privately owned mineral rights.

STUDY APPROACH AND ASSUMPTIONS

The assumptions used in this analysis were based on documentation and data provided by the City, the SLC, the CDFG, the County Auditor, OC Parks, Aera Energy, and the State-mandated Local Agency Formation Commission (“LAFCo”), and checked against known costs and expenditures for similar activities.

The following section addresses three fiscal scenarios:

1. Annexation (change of local service provider),
2. Annexation and Management of the Reserve, and
3. Annexation and Management of Wieder Park.

It should also be noted that the projections presented in this Study do not represent exact future sums. All projections are illustrative in nature and are based on assumptions and methodologies that could alter forecasted estimates if changed. This Study makes every attempt, however, to ensure that all assumptions are sound and conservative. In instances where precise figures were not available, RSG employed the best available methodologies to extrapolate estimates. Appendix C contains tables that illustrate the anticipated recurring revenues and expenditures over a 10 year forecast period.

ANNEXATION

From the perspective of LAFCo, the County’s role in government services should be to provide regional services such as courts, social services, and housing. Cities should provide local services, such as police and fire protection, street maintenance, and code enforcement. Thus, based on LAFCo’s policy encouraging the elimination of unincorporated islands to facilitate the best possible local service delivery, the annexation is a natural step for the City to undertake.

The baseline analysis in this document considers only the transfer of applicable local services from the County to the City and the exchange of property tax based upon the Master Property Tax Agreement. Given that the Study Area is not developed and most of the land is held by the SLC and maintained by CDFG, the effective recurring impacts of annexation alone are expected to be negligible. Appendix C at the end of this Study presents the fiscal tables associated with this projection.

It is important to note that though the annexation alone will have virtually no appreciable direct recurring fiscal impact on City services, the cumulative impacts of this annexation should be considered on a conceptual level as a few other pockets of unincorporated land may eventually be annexed to the City as well. As discussed in the following pages, this particular annexation does not result in the need to hire new staff or to increase any service contracts. The proposed annexation may result in an increase in workloads for certain staff members at certain periods of time. However, as it remains within their respective capacities to take on the additional tasks, there is no direct correlation with an increase in municipal costs.

Revenues

The following revenue section analyzes new, recurring revenues from various state and local sources that will be received by the City as a result of annexation.

Property Taxes

The LAFCo reports that the property tax ratio contained in the Master Property Tax Agreement between the City and the County, as set forth in a City Council resolution adopted on October 28, 1980, is current, though all property tax exchanges must be agreed upon during each individual annexation process. This analysis assumes the Master Property Tax Agreement will be observed. The division of the property tax proscribed by the agreement, which is based on historical tax ratios prior to the passage of Proposition 13, splits the County’s share of the general tax levy as 56 percent to the City and 44 percent to the County. Thus, upon annexation the City would receive 56 percent (or 3.6 percent of the 1 percent tax levy) of the total current

County General Fund property tax revenue, and the County would retain the remaining 44 percent (2.8 percent) of their current General Fund property tax revenue share. These values are net of the County's contribution to the Educational Revenue Augmentation Fund.

In addition to the split of the County base property tax, the City would receive the tax override of 0.9 percent for the City's Employee Retirement System. City staff members have stated that the City is also likely to receive 100 percent of the total current Orange County Fire Authority property tax revenue for services provided by the City fire department. Fire protection service is currently provided by OCFA, funded through its share of the 1 percent general tax levy (about 11.6 percent). This service would transfer to the Huntington Beach Fire Department upon annexation. In other annexations, the City has been able to obtain a portion of the County Library's tax levy, detaching such territory from the County Library District as the City provides library services. As the Study Area is uninhabited, it is unclear if this portion of the general levy will necessarily be transferred to the City. To be conservative, this report assumes that it is not, thus the City's share of the general tax levy projected for this Report is 16.078 percent. It should be noted that most of the parcels in the Lowlands are exempted from property tax due to their inclusion in the Reserve as publicly owned land. In the future, even more property would become exempt as privately held land becomes a part of Wieder Park. Based on 2008-09 assessed values received from the County Assessor and assuming an annual inflationary increase of 2 percent for secured value and no inflation for unsecured value, 2009-10 property tax revenues are expected to be approximately \$4,500.

Property Transfer Taxes

Property transfer taxes are generated at the time a new property is sold or 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 and is divided evenly between the County of Orange and the City, each receiving \$0.55. The amount of property tax received typically depends upon the sale of land and the level of resale activity within the project. However, it is not expected that the City will receive an appreciable amount of transfer tax revenues in the forecast period as most of the land is held in the Reserve, and another 65 acres will be dedicated to Wieder Park in the future, leaving very few parcels privately owned.

Sales Tax

The Study Area does not contain any appreciable commercial uses that would contribute to sales tax revenues. The Bolsa Chica Conservancy's interpretive center does make books and similar materials related to the Reserve available for purchase, but the anticipated revenues are negligible.

Oil Extraction Tax

If annexed, the City could receive revenue from an oil extraction tax per Huntington Beach Municipal Code Section 5.32.030. It is unclear if this revenue will be introduced and is currently under legal review.¹⁰ The City has two rates of oil tax, those for stripper wells which produce an average of 10 barrels of oil per day or less, and those for non-stripper wells producing more than 10 barrels per day. Based on extraction data from the State Division of Oil, Gas, and Geothermal Resources, there are three oil-producing fields in the Lowlands. Two of the three fields produce under 10 barrels per day per well on average (a total of 57 wells), while the third field produces more than 10 barrels per day on average (55 wells). In 2008-09, the stripper wells require a tax of \$0.2705 per barrel extracted with an annual \$25 credit per well. The non-stripper wells require a tax of \$0.3384 per barrel. The tax rate is evaluated annually and adjusted by the Consumer Price Index¹¹ rate. In

¹⁰ When the oil-producing land was split between mineral rights and surface rights in 1971, an agreement between the respective owners was constructed. The SLC believes the agreement reads such that the owner of the surface rights would be responsible for any payment of oil extraction or other taxes that resulted from annexation. The SLC has indicated they will not be willing to make this payment, which would essentially eliminate extraction tax revenue from the Aera Energy operations. It is expected that extraction tax would be paid for those wells operated by Mr. John Thomas. About \$19,000 in revenue would be projected for his 44 wells in 2008 if they were within city limits.

¹¹ This projection utilizes 3.1 percent for Consumer Price Index inflationary rates, which is the ten year historical average for the Los Angeles-Orange County-Riverside metropolitan area according to the Bureau of Labor Statistics.

addition to the barrel tax rate, an annual tax of \$100 per producing well is charged, regardless of production. Tax revenue is received quarterly.

Annual production has been declining. According to the State Division of Oil, Gas, and Geothermal Resources, production in the Lowlands has dropped an average of 8 percent annually over the last five years. This trend is projected to continue for purposes of this Report, though actual production is subject to fluctuations to meet market demand. Revenue for fiscal year 2009-10 is estimated to be \$114,000 if City extraction taxes are applicable to the 112 operating oil wells.

Property Tax in Lieu of Vehicle License Fee

Vehicle license Fee ("VLF") revenue is a subvention collected by the state and allocated to cities and counties based on a statutory formula. With the VLF for Property Tax Swap of 2004, more than 90% of city VLF (and VLF backfill) revenue was replaced with property tax revenue. Under the new law, effective FY 2004-05, most of the VLF revenue allocated to cities and all of the revenue allocated to counties increases based on assessed value growth instead of population growth in a jurisdiction. Revenue is distributed as property tax in lieu of VLF. Again, due to the nature of the Study Area as an undeveloped and largely tax exempt area, the City would not incur an appreciable amount of revenue from property tax in lieu of VLF.

Franchise Fees and Utility User Fees

Franchise fees have been established for utilities, transfer stations, pipeline franchises, cable television franchises, and bus bench franchises. The applicable franchise fees for electricity and telephone service is 5 percent. Utility User Fees have also been established by the City for telephone, gas, electricity, and cable services at a rate of 5 percent. As there is very limited use of utilities at the Interpretive Center and the CDFG offices, only a small amount of franchise fee revenue has been projected for the Study Area based on known and estimated costs for electrical and telephone service. Estimates are based on case studies, the Institute of Real Estate Management, and the known electrical expenditures of the CDFG office. All potable water available in the Study Area is already provided through the City's water division, therefore no change is anticipated. In 2009-10, franchise fees and utility user fees are expected to total \$260.

Expenditures

The following provides an analysis of the potential recurring cost impacts associated with annexation (or lack thereof), which have been categorized by departments within the City's organizational structure.

Administration

No new positions, equipment, or major operating costs are expected to be incurred strictly as a result of the annexation. Some additional public support may be required in order to handle basic inquiries and assistance early in the annexation process; however, it is assumed current staffing levels can absorb these tasks. Further, the City's Risk Management Division has confirmed with the insurance vendor that the City's current insurance premiums for liability will not change based on annexation.

County Property Tax Collection Charges

Beginning in the 1992-1993 fiscal year, the County Auditor-Controller's Office charged cities and local districts receiving property tax revenue for incidental administrative costs. These charges are estimated at 0.001% of all property tax revenues based on the published 2006-07 amount collected in 2008 from the City. Revenues from Property Tax are shown net of this fee.

Planning and Building and Safety

Upon the annexation of the Lowlands, the City Planning Department and the Building and Safety Department will assume the processing of all land use related services as well as construction inspections. As the Study Area is intended to be maintained as open space and not developed, minimal recurring impacts to the Planning and Building and Safety Departments are expected. However, the Planning Department will

experience a one-time increase in activity due to the need to update the General Plan and Local Coastal Program, and other planning documents related to the annexation as discussed in the Implementation portion of this document. These activities, though only occurring once, will require significant work and could total \$129,259 as detailed in the table here.

The current cost for a General Plan Amendment, Local Coastal Program Amendment, Annexation fee, Zoning Map Amendment and Environmental Assessment are all based upon the current City’s fee structure. These fees generally reflect the cost for staff to perform the tasks; however the City may outsource these activities to a consultant, which could result in a different cost. Additionally, should changes be proposed to the modular buildings, there may be a need for minimal inspection services by the Building and Safety Department.

POTENTIAL ONE TIME COSTS	
Planning and Building & Safety Departments	
General Plan Amendment	\$37,299
Feasibility Study (RSG)	33,983
LCP Amendment.....	11,212
Annexation Fee.....	10,410
Zoning Map Amendment	9,733
Environmental Assessment	8,522
Map/Legal Description	8,500
LAFCO Application	4,600
State Board of Equalization Fee	3,000
County Surveyor fee	2,000
Total	\$129,259

Other costs include the \$33,983 budget to prepare this Study, as well as consultant costs to prepare a map and legal description pursuant to State Board of Equalization guidelines (\$8,500), a LAFCO application fee (\$4,600), the State Board of Equalization filing fee (\$3,000) and a fee for the County surveyor (\$2,000). These costs are subject to change based on the fee structures of these other agencies and consultants.

The potential of \$129,259 in one-time costs would more than offset the \$119,000 of net revenue that could be realized in the first year following annexation.

Community Services

The Community Services Department is responsible for parks, recreation, marine safety, and social programs in the City. Annexation alone is not expected to result in any expenditures to the Community Services Department. No additional City parks are planned for the Lowlands that will require maintenance or programming. Should the City take over management of Wieder Park upon development, some additional costs will be incurred as described later. The Marine Safety Division currently maintains 3.5 miles of city-owned beaches, maintaining equipment, vehicles, and vessels for beach and ocean safety. The Marine Safety Division can also be a first responder to emergencies at State beaches as well. The Marine Safety Division has confirmed that annexation will not impact operations as the need for service is driven by attraction to city beaches and no new development is planned. The beach to the west of the Study Area is a State Beach and monitored by the State, which will not change due to annexation of the Lowlands.

Police Department

The Sheriff’s Department and the City’s Police Department have had a mutual aid agreement in place for many years to respond to emergencies and other calls for service. Additionally, a Memorandum of Understanding (“MOU”) was adopted by the City Council in August 2008 allowing the City Police Department to exercise police powers in the Bolsa Chica, enforcing the County Code and providing a more efficient level of service when required as the City’s police officers patrol in the surrounding areas and are sometimes closer to the Lowlands than a Sheriff’s deputy. Fortunately, the Lowlands are a low crime area. The CDFG staff reports that most calls for service are to deal with illegal parking problems.

The primary concern of the Police Department is access in an emergency situation. Much of the Reserve lacks direct vehicle access and certain weather conditions could cause the tidal basin and pockets to flood over the access roads used by Aera Energy staff. Fortunately, very few serious incidents have occurred historically. The Huntington Beach Police Department does not anticipate that annexation will require additional resources to provide service, and the on-site staff at the Study Area concurs that little law enforcement is needed. No public roads are located in the Lowlands, so traffic enforcement will not be required. The Police Department would initiate regular patrol of the area, but maintains that as open space, it



should require minimal attention. Further, the Police Department reported they were able to provide law enforcement service to the Study Area without additional expenditures or resources when the MOU was created. When Wieder Park is fully developed, it is likely there will be an increase in service calls. Even without annexation, about half of the future parkland is already within the City, so it is likely the Police Department will respond to most of these calls. However, the Police Department reports that while these calls may result in a higher workload for officers, existing staff should be able to handle the workload. Thus, based on the input of the Police Department and the CDFG staff, no additional expenditures are projected for law enforcement.

Fire Protection

Fire protection would become the responsibility of the Huntington Beach Fire Department upon annexation. Like the Police Department, access to the Study Area is a concern in emergency situations, particularly as fire engines are heavy and cumbersome, and what service roads exist are designed for lighter vehicles. However, calls for service are expected to be minimal, and the Fire Department has stated they will be able to provide service without additional expenditures or staffing. As with any annexation, the cumulative effects of multiple annexations and/or new development does impact the Fire Department's ability to provide emergency services, though no direct costs are associated with the Lowlands in particular.

The Fire Department also has a full time oil field inspector on staff currently that provides inspections to the Lowlands as well as all other oil wells in the City, though the annexation may result in an increased workload for this individual. It should be noted that Aera Energy maintains some equipment onsite to deal with emergencies associated with the oil fields, including fire.

Code Enforcement

Based on conversations with the City's Code Enforcement Division, no additional resources are needed to enforce the Lowlands. Though there were some highly publicized violations in the year 2000, these issues have been resolved. City code enforcement staff is familiar with the area, and believes citations will be infrequent.

Public Works

The effect of annexation alone is not expected to impact the Public Works department at this time as no City parks, public roads, street lights, traffic signals, or stormwater facilities are located in the Lowlands. County staff has indicated they may ask the City to take over maintenance of a public trail along the EGGW Channel, which may be implemented as a result of repairs and upgrades planned by the District. The lack of more specific data on the proposed trail makes it difficult to project potential costs, however, some amount of City funding may be required to maintain the trail at a later date. A further discussion of expenses is included later in this Study should the City assume maintenance responsibility for the Reserve and Wieder Park.

Water quality monitoring is also performed in the Study Area by the Orange County Flood Control District to ensure compliance with the NPDES permit. Should a test show elevated levels of a contaminate, the City would be accountable for getting levels back to an acceptable point if the Study Area is annexed. The City currently performs this function at other areas within the City and no additional staffing will be needed at this time. Though it is not anticipated, should significant issues arise in the future, the City may need to invest resources to resolve the problem.

The Public Works department is also responsible for updating the Local Implementation Plan to remain in compliance with the City's stormwater permit, which will result in a one-time increase in staff workload.

Road Funds

Gas Tax, Highway User's Tax, and Measure M Funds

Gas tax revenues are apportioned according to the Streets and Highways Code, per Section 2105, 2106, 2107, and 2107.5. Disbursement equations generally consider population, registered vehicles, and road miles

to determine revenues received by the local jurisdiction. However, as no residents currently reside in the Study Area and no public road miles will be added, no gas tax revenues or highway user subventions are anticipated.

The City also receives funding for roads through Measure M, a half-cent sales tax that is collected and allocated by the Orange County Transportation Authority. Again, due to the lack of population and road miles, no additional allocation is expected to result from annexation.

IMPLEMENTATION DISCUSSION

The applicable law governing city annexation proceedings is found in the California Government Code, Sections 56000 et. seq., also known as the Cortese-Knox-Hertzberg Local Government Reorganization Act. An uninhabited annexation may be initiated by resolution of any affected city, county, district, or by petition of the landowner. As the Study Area is already within the City's Sphere of Influence, once a complete application for annexation has been received by LAFCo, the staff will prepare an analysis of the proposal for annexation and make recommendations to the Commission. The Commission has the authority to amend the annexation area as it sees fit.

As a part of annexation, the City will need to revise a series of planning-related documents to include the Study Area. Specifically, these activities include:

- A General Plan amendment,
- Extension/amendment of zoning designation,
- A Local Coastal Program amendment,
- A Local Implementation Plan amendment, and
- Associated California Environmental Quality Act ("CEQA") documentation

Prior to submitting the application for annexation to LAFCo, the City must complete the pre-zoning, as well as related CEQA documents. The General Plan, LIP, and LCP amendments do not need to be completed prior to submission, however, the City should plan to complete the amendments as soon as possible. The State Water Boards have indicated the LIP should be amended immediately after annexation, preferably before the next annual Performance Evaluation Assessment report is due if feasible.

Though the Study Area does not have a certified LCP, Coastal Commission staff has indicated they do not foresee any issues with amending the City's LCP to include the Lowlands. As the area will be dedicated open space, the focus points of the amendment will be public access, trails, and habitat restoration. While public access to coastal areas is a primary goal of the Coastal Act, staff states that the Coastal Commission understands the need to close off some areas from the public due to sensitive habitats. Some areas can also be restricted to minimal passive uses including bird watching and trails.

Completion of the LCP amendment can be a lengthy process. The City must prepare the amendment, hold public hearings, and then take it to the Coastal Commission. There, staff has 10 days to review the document and the Coastal Commission has 90 days to take action. Staff can ask for an extension of up to 1 year which would significantly extend the process.

RESOURCES

Grace Adams	Bolsa Chica Conservancy
Bob Aldrich	Orange County LAFCo
George Basye	Aera Energy
Mary Beth Broeren	City of Huntington Beach
Joshua Brooks	City of Huntington Beach
Judy Brown	State Lands Commission
Marc Brown	Santa Ana Regional Water Quality Control Board
Luanne Brunson	City of Huntington Beach
Alicia Campbell	County of Orange
Chris Davis	City of Huntington Beach
Terri Elliott	City of Huntington Beach
Carolyn Emory	Orange County LAFCo
Eric Engberg	City of Huntington Beach
Pamela Griggs	State Lands Commission
Theresa Henry	California Coastal Commission
Harry Huggins	OC Parks
Phil Jones	County of Orange
Jim Jones	City of Huntington Beach
Craig Junginger	City of Huntington Beach
Kyle Lindo	City of Huntington Beach
Geraldine Lucas	City of Huntington Beach
Kelly O'Reilly	Department of Fish and Game
Randy Ponder	Aera Energy
Leslie Ray	OC Parks
Bill Reardon	City of Huntington Beach
Sherilyn Sarb	California Coastal Commission
Mary Anne Scorpanich	County of Orange
Michael Solorza	City of Huntington Beach
James Trout	State Lands Commission
Jonathan Vivante	Army Corps of Engineers
Patti Williams	City of Huntington Beach
Bill Zylla	City of Huntington Beach
Federal Emergency Resources Agency	
State Division of Oil, Gas, and Geothermal Resources	
County of Orange Assessor	

APPENDIX A – MANAGEMENT OF THE BOLSA CHICA RESERVE

In the interest of providing more information on expenditures, this Study has reviewed the costs associated with maintenance of the Reserve. As minimal maintenance is performed in the Reserve, current expenditures by the SLC are generally associated with labor. This Study assumes the Bolsa Chica Conservancy and other active non-profit organizations will continue to organize volunteer labor as they do now for clean-ups, native planting activities, etc.

As a part of this effort, RSG has discussed the potential of this scenario with the SLC. The SLC reports they have no intention of asking the City to take over management of the Reserve. SLC staff member Jim Trout has the longest institutional memory of operations at the Reserve and believes that at one point several years ago the SLC may have asked if the City was interested in turning about five acres along the back berm¹² that abuts residential development in Huntington Beach into a city park, which could have led the City to believe that it might be asked to become further involved with the Reserve. However, Mr. Trout and other SLC staff have provided assurances this is not the case. In addition to the 33 year land lease between the SLC and the CDFG for the majority of the Reserve, many complex funding arrangements for the Reserve are already in place through the work of the Steering Committee, and particularly the SLC and the CDFG. As land held by the State of California (and therefore all Californians), it is not anticipated that a single jurisdiction would need to assume responsibility for the Reserve, even less so without funding arrangements from the SLC.

That said, the following Exhibit A-1 provides an estimate for what annual recurring expenditures the City would incur to continue to maintain the Reserve at a level commensurate with current maintenance and staffing provided through the SLC and the CDFG. It is anticipated that should this scenario come to fruition, the offices at the Reserve would be retained on site. Costs below are presented in 2008-09 dollars.

¹² The back berm is located along the northeastern section of the Reserve, and is generally a linear dirt path that provides a buffer between the residential areas and the restored section of the Reserve.

Ecological Reserve Expenditures	Exhibit A-1
Reserve Staffing	
Full Time Wildlife Biologist ¹	123,200
1.5 Full Time Equivalent Maintenance Service Worker ²	99,000
Subtotal Staffing	\$ 222,200
Facilities Maintenance ³	
Parking Lot ⁴	3,200
Modular Buildings ⁵	3,200
Subtotal Facilities	\$ 3,200
Total 2008-09 Costs	\$ 225,400

¹ City does not currently have an established salary for a wildlife biologist, comparable salaried positions were reviewed with other California agencies for an average salary of \$88,000 plus the City's 40 percent benefits burden.

² Assumes 1.5 FTE maintenance service workers will replace the two part time maintenance positions plus the additional work carried out by the part time staff member in Part 1 of the Reserve. Costs based on current City salary schedule at a mid-step pay grade with a 40 percent burden rate for benefits.

³ Public Works staff has indicated the preferred option would be for the City to maintain the parking lots as a part of any future agreement for maintenance of the Reserve. The Conservancy currently raises funds to maintain the lots.

⁴ Based on \$0.05 per square foot for annual cracks and potholes, plus \$0.03 per square foot annual set aside for repaving assumed to happen every 7 years. Total of 40,000 square feet estimated.

⁵ Assumes annual expenditures of \$1,200 electricity, \$840 trash, and \$800 water, all of which are based upon actual average expenditures according to the CDFG. An additional \$360 for telephone service was estimated by RSG.

APPENDIX B - MANAGEMENT OF WIEDER PARK

Similar to the previous discussion, Appendix B offers further information on potential costs associated with the maintenance and upkeep of Wieder Park, were the City to assume these responsibilities for any reason. OC Parks staff indicated that this possibility has not been recently discussed. This scenario is particularly difficult to quantify as only 4 of the 114 acres have been developed to date, and no time frame has been established for the build out and completion of the park. What is known is presented in the 1997 Wieder Park General Development Plan and Resource Management Plan. That document has laid out the following information for the park's development.

- Landscaping will be comprised of native habitat with mixed woodland, coastal scrub, and native grassland, with minimal turf areas located near playgrounds.
- Two trails, one for bikes and pedestrians and one for horse riding will be developed. The bike/pedestrian trail will be hard surface and 10 feet wide. The horse trail will also be 10 feet wide and have a soft surface. Both will wind through the length of the park providing connectivity between Central Park and Bolsa Chica State Beach.
- An 8,000 square foot interpretive center will be developed overlooking the Reserve with a parking lot for about 100 cars.
- A second children's playground similar to the existing one will be created, with approximately 1.2 acres of turf.
- Benches and trash receptacles will be located in the play areas and potentially along the trails as well.

There are a number of potential concerns associated with the development and maintenance of Wieder Park, specifically the following.

- Exact development of the park is yet unknown, making actual cost projections very difficult to forecast. In particular, the number of lights, the exact type of landscaping, and the number of anticipated visitors to the interpretive center could have a significant impact on maintenance costs.
- Stabilization of the bluffs is of serious concern. The bluffs that lie between the planned park parcels and the Lowlands below may become a safety hazard if not properly stabilized.
- Typical park operations and maintenance standards may require modification at this location due to the proximity of the Reserve. These standards include vertebrate control, fertilizers, and lighting in particular. Conversations with the CDFG confirm that these standards would need to be developed with the input of the SLC and the CDFG.

Another challenge with Wieder Park is the parcels yet to be dedicated, the IOD parcels. As discussed previously, these parcels are currently used for oil production. As such, not only will oil production need to cease prior to the dedication, but environmental remediation could be necessary. As contamination levels are unknown, it is difficult to quantify what this process will entail. It is clear in state legislation that the party responsible for the contamination is responsible for the remediation. This situation could become highly problematic as the parcels must be dedicated, but the surface and/or mineral rights owners may or may not be responsive to environmental remediation needs. Needless to say, this leaves the County in the difficult predicament of waiting or aggressively enforcing any clean up activities.

As so many variables are involved in the development of Wieder Park, ongoing maintenance costs can only be as accurate as the assumptions made, based on the General Development Plan. With the assistance of the Public Works Department and Community Services Department, the following operational assumptions are applied.

- The Interpretive Center would operate 5 days per week and be staffed by one Park Naturalist with intern assistance.
- The Interpretive Center would be the only programming at the park.

- No expenditures for lights beyond the Interpretive Center have been included due to the proximity of the Reserve, though this may need to be reconsidered in the future.

The costs presented in Exhibit B-1 assume full development of the park is complete, and are shown in 2008-09 dollars. It should be noted that if the park is not developed, the costs to serve the undeveloped area are difficult to estimate, but would likely include some basic habitat maintenance. Community Services indicates there is no available City funding for park development at this time, so the area would likely stay relatively untouched, though ideally a walking trail would be created to ease public access and improve public safety.

Wieder Park Maintenance Costs	Exhibit B-1
Interpretive Center Costs	
Building Service and Maintenance ¹	
Mechanical, Electrical, Plumbing	28,000
Building Structure	26,000
Utilities	16,000
Custodial Supplies	2,800
Subtotal Service and Maintenance	\$ 72,800
Staffing ²	
4 Full Time Maintenance Workers	232,000
Full Time Park Naturalist	88,600
Part Time Intern	15,000
Subtotal Staffing	\$ 335,600
Park Maintenance	
Park Maintenance Including Trails ³	505,600
Parking Lot ⁴	5,100
Subtotal Park Maintenance	\$ 510,700
Total 2008-09 Costs	\$ 919,100

¹ Based on square foot costs: \$3.50 mechanical, electrical and plumbing; \$3.25 structure; \$2.00 utilities; and \$235 custodial supplies per month.

² Maintenance staffing levels based on those estimated by County in General Plan for the park and concurred with by City public works staff. Interpretive Center staffing based on City Community Services staff recommendations. Maintenance worker and park naturalist based on current City salary schedule at a mid-step pay grade with a 40 percent burden rate for benefits. Intern based upon \$20 per hour for 15 hours per week, 50 weeks per year.

³ Based on \$4,500 per acre, estimated at 112.35 acres (114 less Interpretive Center and 68,000 square foot parking lot)

⁴ Based on \$0.05 per square foot for annual cracks and potholes, plus \$0.03 per square foot annual set aside for repaving assumed to happen every 7 years.

APPENDIX C – RECURRING REVENUES AND EXPENDITURES

GENERAL FUND SUMMARY

EXHIBIT C-1

	Transition	Annual City Operating Budget								
	7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016	7/1/2017
Revenues by Source										
Property Taxes	4,400	4,500	4,600	4,700	4,800	4,900	5,000	5,100	5,200	5,300
Franchise Fees & Utility User Fees	260	260	280	280	300	300	320	320	340	340
Oil Revenues (Potential)	119,600	114,000	108,600	103,500	98,700	94,100	89,800	85,700	81,800	78,000
Total	124,260	118,760	113,480	108,480	103,800	99,300	95,120	91,120	87,340	83,640

ASSESSED VALUE FORECAST

EXHIBIT C-2

	12 Month Period Beginning									
	7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016	7/1/2017
Prior Year AV Plus 2.00%	2,750,861	2,805,900	2,862,000	2,919,200	2,977,600	3,037,200	3,097,900	3,159,900	3,223,100	3,287,600
Unsecured Assessed Value (no change)	7,600	7,600	7,600	7,600	7,600	7,600	7,600	7,600	7,600	7,600
Total Assessed Value	2,758,461	2,813,500	2,869,600	2,926,800	2,985,200	3,044,800	3,105,500	3,167,500	3,230,700	3,295,200

PROPERTY TAXES

EXHIBIT C-3

Item Detail and Assumptions	Annual City Operating Budget									
	7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016	7/1/2017
Property Taxes	16.078%: \$ 4,400	\$ 4,500	\$ 4,600	\$ 4,700	\$ 4,800	\$ 4,900	\$ 5,000	\$ 5,100	\$ 5,200	\$ 5,300
Less: County Admin. Fee	-0.001%: -	-	-	-	-	-	-	-	-	-
Net Property Tax	4,400	4,500	4,600	4,700	4,800	4,900	5,000	5,100	5,200	5,300
Total Property Tax	\$ 4,400	\$ 4,500	\$ 4,600	\$ 4,700	\$ 4,800	\$ 4,900	\$ 5,000	\$ 5,100	\$ 5,200	\$ 5,300



FRANCHISE FEES AND UTILITY USER FEES

EXHIBIT C-4

Item Detail and Assumptions	Transition:	Annual City Operating Budget									
		7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016	7/1/2017
Franchise Fees (Electricity/Telephone)		130	130	140	140	150	150	160	160	170	170
Base Year Utility Costs (07-08) \$	2,520										
Franchise Fee Rate	5.0%										
Inflation	3.1%										
Utility User Fees (Electricity/Telephone)		130	130	140	140	150	150	160	160	170	170
Base Year Utility Costs (07-08) \$	2,520										
UUT Rate	5.0%										
Inflation	3.1%										
Total		260	260	280	280	300	300	320	320	340	340

OIL REVENUES

EXHIBIT C-5

Item Detail and Assumptions	Transition:	Annual City Operating Budget									
		7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016	7/1/2017
Potential Oil Tax Revenues											
Stripper Wells	57										
2007 Production	104,008	95,687	88,032	80,990	74,511	68,550	63,066	58,021	53,379	49,109	45,180
Growth Rate (Decreasing)	-8.0%										
Per Barrel Rate	0.271	0.279	0.288	0.296	0.306	0.315	0.325	0.335	0.345	0.356	0.367
Barrel Rate Increase (CPI)	3.1%										
Revenue		26,686	25,312	24,009	22,773	21,601	20,489	19,434	18,433	17,484	16,584
Per Well Credit	(25)	(1,425)	(1,425)	(1,425)	(1,425)	(1,425)	(1,425)	(1,425)	(1,425)	(1,425)	(1,425)
Subtotal Stripper Wells		25,261	23,887	22,584	21,348	20,176	19,064	18,009	17,008	16,059	15,159
Non-Stripper Wells	55										
2007 Production	259,125	238,395	219,323	201,778	185,635	170,784	157,122	144,552	132,988	122,349	112,561
Growth Rate (Decreasing)	-8.0%										
Per Barrel Rate	0.338	0.349	0.360	0.371	0.382	0.394	0.406	0.419	0.432	0.445	0.459
Barrel Rate Increase (CPI)	3.1%										
Subtotal Non-Stripper Wells		83,174	78,892	74,831	70,978	67,324	63,858	60,571	57,453	54,495	51,690
Annual Fee	\$ 100	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200
TOTAL		\$119,600	\$114,000	\$108,600	\$103,500	\$ 98,700	\$ 94,100	\$ 89,800	\$ 85,700	\$ 81,800	\$ 78,000

