

**STRIKING A BALANCE II:  
AN IMPLEMENTATION PLAN**

**By**

**Julie M. Howard, Executive Officer  
Local Agency Formation Commission  
County of Shasta**

**June, 1999**

**STRIKING A BALANCE II:  
AN IMPLEMENTATION PLAN**

**TABLE OF CONTENTS**

---

	<u>Page No.</u>
<b>INTRODUCTION.....</b>	<b>1</b>
Expectations and Limitations.....	2
Organization.....	2
<b>PART I - STATUTORY PROVISIONS AND LIMITATIONS.....</b>	<b>3</b>
Out-of Agency Services.....	3
Island Annexations.....	5
<b>PART II - BACKGROUND AND LOCAL CONTEXT.....</b>	<b>8</b>
Churn Creek Bottom.....	8
Knighton Road/I-5 Area.....	9
Unincorporated Islands.....	13
<b>PART III - THE CONCEPT.....</b>	<b>16</b>
City Services to Knighton/I-5 Area.....	17
Formation of a CSA.....	18
Development Agreement and Construction Contract.....	20
Development Standards and Conditions.....	20
Construction Financing.....	20
Operation and Maintenance.....	20
Land-Use Compact.....	21
Island Annexations.....	23
Pre-LAFCO.....	24
Annexation Boundary.....	24
Plan for Providing Services.....	25
Tax Exchange Agreement.....	26
LAFCO Review/Action.....	28
Post-LAFCO.....	29

## **STRIKING A BALANCE II: AN IMPLEMENTATION PLAN**

### **INTRODUCTION**

Statewide, the economy appears to be on the road to recovery, albeit slowly and somewhat regionally. There is evidence of increased building and development activity, combined with the creation of new jobs and employment opportunities. Unfortunately, local agencies are not experiencing an equal rate of recovery of the revenues necessary to sustain current services levels, let alone to extend services to new development. Rather, voter-approved propositions and legislative actions continue to limit the revenues local governments rely on to meet services demands. Given these constraints, cities and counties are forced to make development decisions based much more on fiscal impacts than on long-standing land use principles and practices. The phrase "fiscalization of land use" has been added to the lexicon, and it is often used as city councils and boards of supervisors deliberate the merits of development proposals and the extension of services.

Locally two development projects have been proposed which present a challenge to both the County of Shasta and the City of Redding. The first is a new auto/truck travel plaza at the intersection of Knighton Road and Interstate 5 in Churn Creek Bottom. The second is a retail center in the unincorporated "island" off of Lake Boulevard and Highway 273 at the north end of Redding. Whether or not these projects are actually built will depend on a number of things happening, principal among them financing for land acquisition and project construction, and agreement between the parties with respect to the extension of necessary services. The former is largely the responsibility of the developer; the latter is the challenge presented to Shasta County and Redding.

In 1997 the County and Redding issued Striking A Balance: A Comparative Analysis of Services and Costs, Revenues Retained and Taxes Exchanged, Annexation and Other Alternatives. The *Afterword* in that report is an excellent starting point for this report:

"Both agencies need and want to be forward looking; it is not in the interest of either the County or the City to have the other agency fail; and both agencies must work together to address the impacts of actions of the State, the electorate, and the economy;

"More than ever before, both agencies must work together to manage the fiscal impacts of new development on their respective jurisdictions and on the community as a whole. The agencies must work together if we are to remain healthy, and to the extent the agencies can cooperate, than an improved relationship can occur.

"There is a great deal of interaction between development in the County and development in the City; both the City and the County encourage orderly development, discourage 'shopping' between jurisdictions, and want to avoid major planning and services mistakes which result in expensive costs to cure.

"Land use cannot be looked at in isolation, you need to look at a package or mix of uses to get a full picture. Just as you can't market the City of Redding without also marketing Shasta County, you can't say the world stops at a city boundary line".

The Striking A Balance effort was an excellent *first step* toward achieving local agency consensus as to common services and funding issues. Now this report encourages Shasta County and the City of Redding to take the *next step* toward resolving these issues.

### **Expectations and Limitations**

While this report should be sufficiently comprehensive so as to facilitate a substantive discussion at the legislative body level, it cannot be so detailed as to propose specific contract language, or establish terms and conditions on a development project, or fix a tax sharing formula for a specific annexation. Likewise, this report cannot predict the economic future, developer decisions, or bind future boards or councils.

### **Organization**

To meet the goals and expectations, this report is organized to first review the applicable statutory provisions, followed by a recitation of relevant background and local context, particularly the development and services history in the subject areas. The concept is then presented, first in a summary statement, and then in more detail. Thereafter the report speaks to the policy implications associated with the concept. The report ends with summary findings and conclusions, as well as a recommendation.

## PART I

### STATUTORY PROVISIONS AND LIMITATIONS

The statutory provisions and limitations with respect to "out of agency services" and "island/peninsula" annexations are found in the California Government Code under Division 3, the Cortese-Knox Local Government Organization Act of 1985 (beginning at Section 56000). What follows is a summary of the provisions and limitations with respect to each.

#### Out-of-Agency Services

Cities and special districts must now request and receive LAFCO approval to extend services beyond their jurisdictional boundary. The legislative intent in establishing this requirement was to address a problem with agencies negotiating services contracts without adequate public review. By requiring a LAFCO action, a measure of public scrutiny is assured, and the agency is required to justify why the contract is necessary in lieu of annexation.

LAFCO may approve an out-of-agency service request provided the service area is within the agency's sphere of influence, and it is "in anticipation of a later change of organization". There are three exceptions to the requirement:

1. It does not apply to contracts solely involving two or more public agencies.
2. It does not apply to contracts for non-potable or non-treated water.
3. It does not apply to contracts solely involving the transfer of surplus water to agricultural lands for conservation purposes, or that directly support agricultural industries.

As to the purpose of out-of-agency contracts, the following is taken from an analysis prepared by the Executive Officer of the California Association of LAFCOs:

"The reasons for issuing out-of-agency agreements will vary substantially depending upon the local circumstances and conditions. Territory that is contiguous with a city and in need of city services should, under most circumstances, annex into the city. However, there are instances where services are needed, but annexation is not immediately possible. The area may

not be contiguous with the city and the city may be the only agency with a sewer or water line in close proximity to the property. If intervening property owners are opposed to annexation, out-of-agency agreements may be the only way to avoid health or safety problems. There also are instances where cities have provided water to unincorporated communities to improve water management capabilities.

"Jurisdictional boundaries don't always follow drainage basins or significant topographical features; therefore, to avoid pumping or laying duplicate transmission lines, water and sewer services is sometimes contractually provided by neighboring districts or cities. When the out-of-agency agreement is solely between two agencies, it is exempt from LAFCO review.

"While the bill does not provide criteria for evaluating the merits of a contract, it does require that affected territory be within an agency's sphere of influence in anticipation of a later change of organization. However AB 1335 does not contain a time frame for what constitutes "in anticipation of a later jurisdictional change.

"If territory is within an agency's sphere, it could be inferred that a jurisdictional change is anticipated at some future time. Supporting justification may include population growth projections, capital improvement programs, and a discussion of growth patterns affected adjacent territory. . . . Individual LAFCOs may want to adopt local procedures and standards to address this issue.

"If territory to be served by an out-of-agency agreement is outside the agency's sphere, LAFCOs may want to require that an application for a sphere amendment be processed concurrently. However, situations exist where cities provide a service (usually water or sewer service) to unincorporated communities that are outside their spheres."

The weakness in the statute as currently written is the lack of an enforcement mechanism. LAFCO's have no real way of monitoring compliance with the statutory requirement, nor does the statute address what is to occur in the event that an agency extends services without LAFCO approval.

In the last analysis, the current "out-of-agency agreement" provisions rely entirely on the "honor system".

## **Island Annexations**

An unincorporated "island" is an area completely or substantially surrounded by a city or cities (*substantially surrounded* generally interpreted as being bordered by a city on three sides). The current statutory provisions and limitations on island annexations are as follows:

- LAFCO *may not approve* an annexation which would create a *new* island.
- LAFCO *may not disapprove* an island annexation which meets specified criteria.
- LAFCO may expand an annexation boundary to include the *entire island* which meets specified criteria.

Affected local agencies are authorized to *initiate* annexation proceedings by resolution. ("Affected local agency" is defined by statute is, ".... any agency which contains, or would contain, or whose sphere of influence contains, any territory within any proposal or study to be reviewed by the commission.") In other words, the statute permits an affect city, county, or special district to *begin* the island annexation process by submitting a resolution of application to LAFCO. The legislative intent in authorizing agencies to *initiate* proceedings is to encourage local governments to take the lead in eliminating existing islands.

LAFCO's are not presently authorized to initiate island annexation proceedings; however, because cities have been historically reluctant to start the process, and because landowner opposition was often what created an island in the first place, there is a growing recognition at the legislative level that LAFCO's may also need the authority to initiate the island annexation process.

Furthermore, while current law requires an election if an island annexation is protested by a certain percentage of landowner/voters, such is the concern about the inefficiencies associated with islands that a bill is presently before the Legislature which is designed to streamline the island annexation process by giving LAFCO's the authority to order island annexations *without an election*.

The following discussion is taken from the Comments section of the Measure Analysis for Assembly Bill 1555 (Longville), as amended through May 6, 1999:

"This bill addresses a problem that many cities face when trying to annex islands of unincorporated territory within their jurisdiction. These islands are the 'leftovers' and 'odd parcels' of land that remain under county jurisdiction within a city.

"Even though the residents of these properties often use police, fire, library, parks, sewer, water, and other city services, the city receives no property tax or other revenues to pay for services to these parcels. In addition, these parcels create service provision nightmares between cities and counties.

"Currently, if a city seeks to annex an island, it must file a request with LAFCO. LAFCO reviews the proposal, which it must approve if the proposal meets certain requirements. Even if LAFCO approves the proposed annexation, the city may still not be able to annex the property due to the opposition of the affected residents.

"Existing law requires a city to [conduct] an election if more than 25 percent of landowners or residents protest the annexation, or to terminate the proceeding entirely if more than 50 percent file protests. Many cities faced with these potential hurdles and costs are reluctant to attempt the process. As a result counties must continue to provide services to island residents.

". . . . [AB 1555] would . . . . re-establish the prior authority and allow cities to annex islands without the protest process over a seven-year period. Re-establishing this section will help cities and counties streamline their service delivery systems by making it easier for unincorporated islands to be annexed into cities.

"CALAFCO notes that municipal islands were often created long ago as cities grew around them in the 'path of least resistance'. These islands are often small single properties or groups of parcels, which are costly to serve, and create confusion for emergency service providers and residents.

"Sometimes the residents may not even realize that they are not already within the city. The policies set by the city council have a direct effect on them, yet they cannot participate in the election process since they are not residents. Land use and zoning decisions are the responsibility of the county, which may have little interest in the area because it is surrounded by the city."



The language of AB 1555 was negotiated and agreed upon by the League of California Cities and California State Association of Counties [CSAC]". In addition to its support of AB 1555, the California Association of Local Agency Formation Commissions (CALAFCO) has submitted specific recommendations to the Commission on Local Governance for the 21<sup>st</sup> Century (this Commission being charged with the responsibility to make recommendations to the Legislature on matters of local government organization). The following is taken from a statement being prepared by the CALAFCO Executive Board for presentation of the Commission:

"Elimination of Municipal Islands: Unincorporated islands are difficult to govern and are the cause of confusion and duplication in the provision of services. CALAFCO makes the following recommendations in this regard:

- Support legislation to eliminate all island areas surrounded by cities, on a statewide basis, in a single action. Should that effort fail:
- Amend the Cortese-Knox Act to eliminate protest and election procedures in island annexations only.
- Redefine islands by removing the maximum size restriction and by promoting the processing of scattered islands as a single annexation proposal.
- Amend the Cortese-Knox Act to authorize LAFCOs to municipal island annexations."

To what extent the LAFCO statute is amended to streamline the island annexation process remains to be seen; however, there is every indication that *there will be changes*.

As a closing observation with respect to unincorporated islands, CSAC notes under the AB 1555 discussion in their Legislative Bulletin of May 13, 1999: "These islands – often left behind when land was previously annexed – may be more appropriately placed within a cities' jurisdiction. They may often create service delivery problems and become isolated islands. CSAC supports the re-examination of these islands and an evaluation regarding what is best for the property owners residing within these areas."

## PART II

### BACKGROUND AND LOCAL CONTEXT

#### Churn Creek Bottom

In order to understand the issues associated with providing services – particularly sewer and water – to existing and planned development in the Knighton Road /I-5 area – one has to understand the relationship of the intersection area to the larger area known as Churn Creek Bottom (Map 1). The following discussion is taken from Striking A Balance:

"The Churn Creek Bottom area consists of 7.3 square miles. Its borders are easily discernible by the Sacramento River to the west and south, and bluffs to the east and north. . . . Access to the area is via Churn Creek Road, Meadow View Drive, Sunnyhill Lane, and Knighton Road interchange. Three of the five access points are through Redding streets. The length of I-5 through the area is about 4.7 miles.

"In terms of land use, the area is a mix. There are urban single-family subdivisions, apartments, and mobile-home parks; a school, a truck stop, scattered rural lots, farms, and traveling operations; an RV park, a golf course, and a gravel operation. The area is not all rural nor is it urban. The area is bordered by urban development across the river and to the north. Areas to the east are for the most part still developing. Further east is the Municipal Airport.

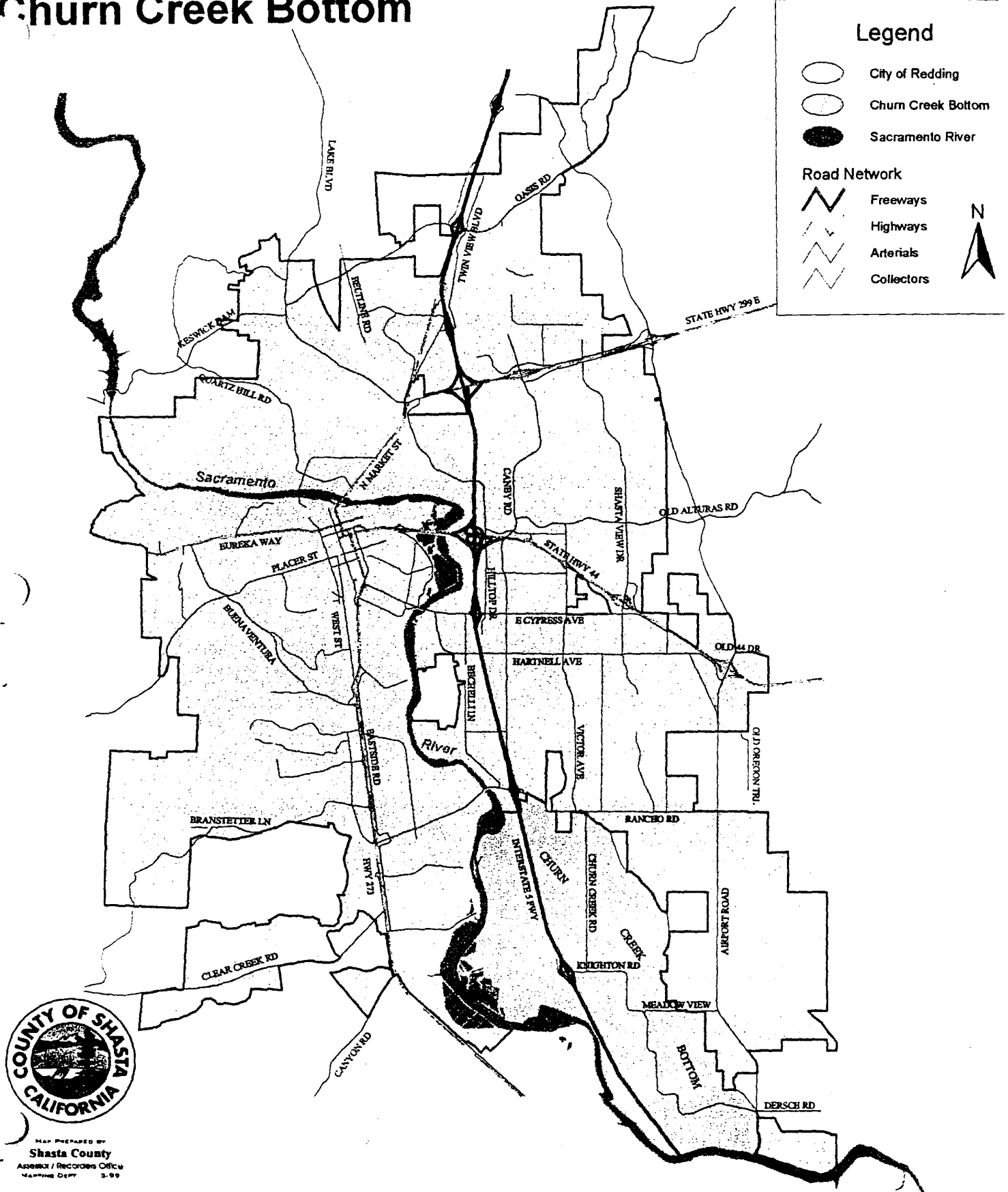
"Under the County General Plan, the area is classified as Residential, 1.0 unit per two acres, Agriculture, with a minimum of three and five acres, Commercial, and Resource Habitat.

"The County General Plan does not recognize the existing mobile-home parks or small-lot subdivisions. Except along Riverland Drive, Knighton road, and Commercial Way, the County has pretty much kept the commitment made several years ago to preserve the rural lifestyle. Since many of the existing lots are smaller than what the General Plan will allow, there is considerable potential, even under the existing General Plan classification, for subdivision and population increases in the area . . . . Under the present zoning, much of the area is 5-acre minimums; however, there are also areas with minimum of 20,000 square feet and 2 acres.

"Existing development in the area utilizes wells for domestic water, conventional septic tank and leach field systems for sewage disposal, PG&E for

MAP 1

# Churn Creek Bottom



natural gas and/or electricity, and the Anderson-Cottonwood Irrigation District for irrigation water.

"Shasta LAFCO has conducted two hearings on the matter of placing Churn Creek Bottom in Redding's sphere of influence. The first hearing was in September, 1983, after which the Commission elected *not* to place all or any portion of Churn Creek Bottom in Redding's sphere.

"In early 1988, a residential subdivision at the north end of Churn Creek Bottom was annexed to Redding in order to resolve a water quality problem. At about the same time, the owners of the UnoCal truck stop were beginning to experience sewage disposal problems at the complex. Given these events, LAFCO agreed that it would be appropriate to include Churn Creek Bottom in its "five-year review" of adopted spheres. The outcome of the 1988 review was that the Commission again voted *not* to place Churn Creek Bottom in a city sphere, with the Commission also concluding that the area constituted an appropriate *buffer zone* between the Cities of Redding and Anderson."

#### **Knighton Road/Interstate 5 Area**




Just as landowners and residents have worked to maintain the agricultural flavor and lifestyle of the greater Churn Creek Bottom area, there have been recurring efforts to develop and acquire services in the commercial area surrounding the Knighton Road/I-5 area (Map 2) Again, from Striking A Balance:

"Beginning in early 1989, property owners stepped-up their efforts to secure sewer service for existing and planned development in the Knighton Road area. The operator of the UnoCal truck stop asked the County to assist in identifying alternatives for sewerage the truck stop and proposed development on the north side of Knighton Road. A preliminary engineering study identified three alternatives: (1) Discharge to the proposed Stillwater regional treatment facility; (2) On-site treatment and discharge into the Sacramento River; and (3) On-site treatment with winter storage and effluent summer irrigation or leach field disposal.




"Initially the plan was that the property owners would select an alternative which would best suit their development needs and financing capabilities, and the County would proceed on their behalf; however, the principal landowners were not able to meet the financing requirements under any of the alternatives, and the project languished.

MAP 2  
**Interstate 5 /  
 Knighton Road  
 Area**

**Legend**

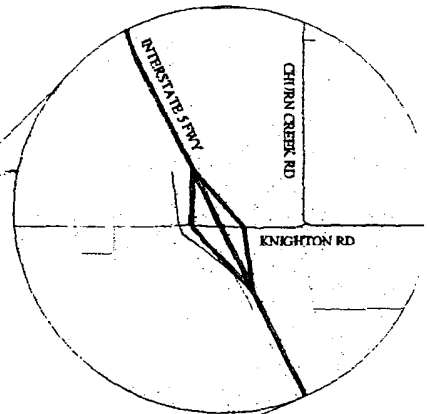
-  City of Redding
-  Knighton Road Intersection
-  Sacramento River

**Road Network**

-  Freeways
-  Highways
-  Arterials
-  Collectors



**Knighton Road/  
 Interstate 5**



MAP PREPARED BY  
**Shasta County**  
 ASSESSOR / RECORDS OFFICE  
 MAPPING DEPT. 5/99

"By early 1992 the truck stop was again under considerable pressure by State and federal environmental protection and permitting agencies to develop a long-range solution to mounting surface drainage and sewage disposal problems. Also by this time the Clover Creek collection system and the Stillwater treatment facilities were operational. Based upon discussions with their engineer, the property owners concluded that connection to the regional system would be the most cost-effective project. The next step was to seek annexation to the City of Redding.

"After completing their internal review and evaluation, the City submitted an annexation and concurrent sphere amendment application to LAFCO in June, 1994. To satisfy the requirement that the annexation area be contiguous to the City, private and public parcels between the Knighton Road area and the Sacramento River were added to the annexation. The tax exchange agreement process began, and for several months thereafter the City and the County negotiated; however, by the end of 1994 an agreement had not been adopted.

"During this same period the County, at the request of property owners in the area, began to review the merits of another sewer service alternative in the event that tax exchange negotiations failed, or in the event that a tax exchange agreement was reached only to have LAFCO deny the annexation. This new alternative involved formation of a CSA which would then contract with the City for service from the Stillwater facilities. This arrangement would not require annexation and a related tax exchange agreement, nor would it be subject to LAFCO's approval of an "Out of Agency Services Agreement". In January, 1995 the Board of Supervisors began the CSA formation process. Shortly thereafter the Redding City Council took a formal position in opposition to the CSA/City contract concept.

"While these events were taking place, two other situations developed: First, the Pacheco School District asked to be included in the CSA project; and second, the new owners of the truck stop (now National Auto/Truck Stops) were able to solve their sewage disposal and drainage problems to the satisfaction of the regulatory agencies. Consequently, they were no longer interested in participating in a "community" sewer project.

"Given, then, the changing dynamics of property owner participation, coupled with City opposition to sewerage without annexation, the principal property owners and developers concluded that access to the Stillwater facilities would likely not occur in a timely fashion, if at all. They indicated a renewed interest in constructing an area serving sewer and water project. The concept was that a CSA would be the public agency responsible for constructing, operating, and maintaining the new "stand alone" sewer facilities and a domestic water system.

"In May, 1995 Shasta LAFCO approved formation of a CSA, *subject to terms and conditions* which required that the property owners enter into appropriate agreements with the County pertaining to project construction financing, as well as financing on-going operation and maintenance. For a period of time after LAFCO's action, the principal property owners considered various financing scenarios as well as potential financial participants; however, by May, 1996, no substantial progress had been made and the County was not actively engaged in development of a project. Also, given the time which had expired, LAFCO terminated further proceedings on the formation of the CSA.

"It is clear that resolution of the issues associated with sewerage the Knighton Road area appears to be no closer now, at the beginning of 1997, than they were when property owners first approached the County and the City near the end of the 1980's. It should, however, be equally clear that the lack of a sewer project (be it a City, County, or joint-agency project) – as well as the lack of additional development in the area – is *not solely attributable* to lack of a tax exchange agreement, or lack of annexation, or both. At critical points in the development of each project alternative, the principal property owners declined to meet financing requirements on their end; therefore, neither the County nor the City could be expected to proceed, and continue to incur associated costs, if there was reluctance on the part of property owners to participate financially in a project which would be to their direct benefit by creating opportunities for additional commercial development."

In the two years since the Striking A Balance discussion, ownership of the truck stop complex on the south side of Knighton Road has changed. The complex continues to rely on the on-site wastewater treatment and disposal system; however, there have been some recent inquiries by the State with respect to the long-term reliability of the system.

Landownership on the north side of Knighton Road have also changed since 1997, yet the type of development proposed remains essentially the same. An application has been submitted to the County for a "Flying J" travel plaza which would include auto/truck/ fueling and service islands, a layover facility for truck drivers, and a restaurant/mini-store complex. (Over time, development surrounding other "Flying J" plazas has included motel/hotel complexes, other restaurants, and recreational vehicle supply stores.)

Because preliminary engineering studies found that a conventional septic tank and leach field system would not be adequate to serve the project, the developers propose an alternative site-serving "packaged" sanitary sewage system. It is also proposed that a County

Service Area (CSA) be formed to act as the public entity responsible for operation and maintenance of the facilities. (Whether or not the developers gave any consideration to pursuing service from the City's sewer system – with or without annexation – is not a matter of general record. If they did, the alternative was evidently discarded at a very early point in favor of the "packaged system" alternative.)

Electricity to the project would be by Pacific Gas & Electricity, solid waste collection and disposal would be by private vendor, and the County would be responsible for law enforcement, fire protection, storm drainage and flood control in the public right-of-way, and maintenance of existing street and roads as well as new streets and roads constructed as part of the development (provided these new sections are accepted into the County road system.)

In retrospect, the first seeds of land use conflict were no doubt sown when I-5 was extended through Churn Creek Bottom, followed not thereafter by the County's decision to allow commercial development in the Knighton/I-5 area. Whatever the initial cause, the end effect is a classic land-use dilemma: Once again there is a proposal, which, on the face of it,

- is consistent with existing commercial development in the area; and
- would, upon completion, add to the local economy by creating new jobs and augmenting the tax base.

There are, however, also indications that the proposed project *may not happen* because of any one or all of the following:

- the "packaged" sanitary sewer system proposed by the developer may not be permitted by the State;
- the State's mitigation measures and/or local agency conditions of project approval may be beyond the developer's inclination or ability to resolve.
- long-standing opposition from landowner/residents in the greater Churn Creek Bottom area will prevail before the legislative bodies.

The concept presented in Section III of this report is intended to provide today's decision-makers with an alternative which could go a long way toward resolving the dilemma and reducing the long-standing conflict.



## Unincorporated Islands

Turning now to background and context with respect to unincorporated "islands", Map 3 delineates the three unincorporated areas which are surrounded by the City of Redding:

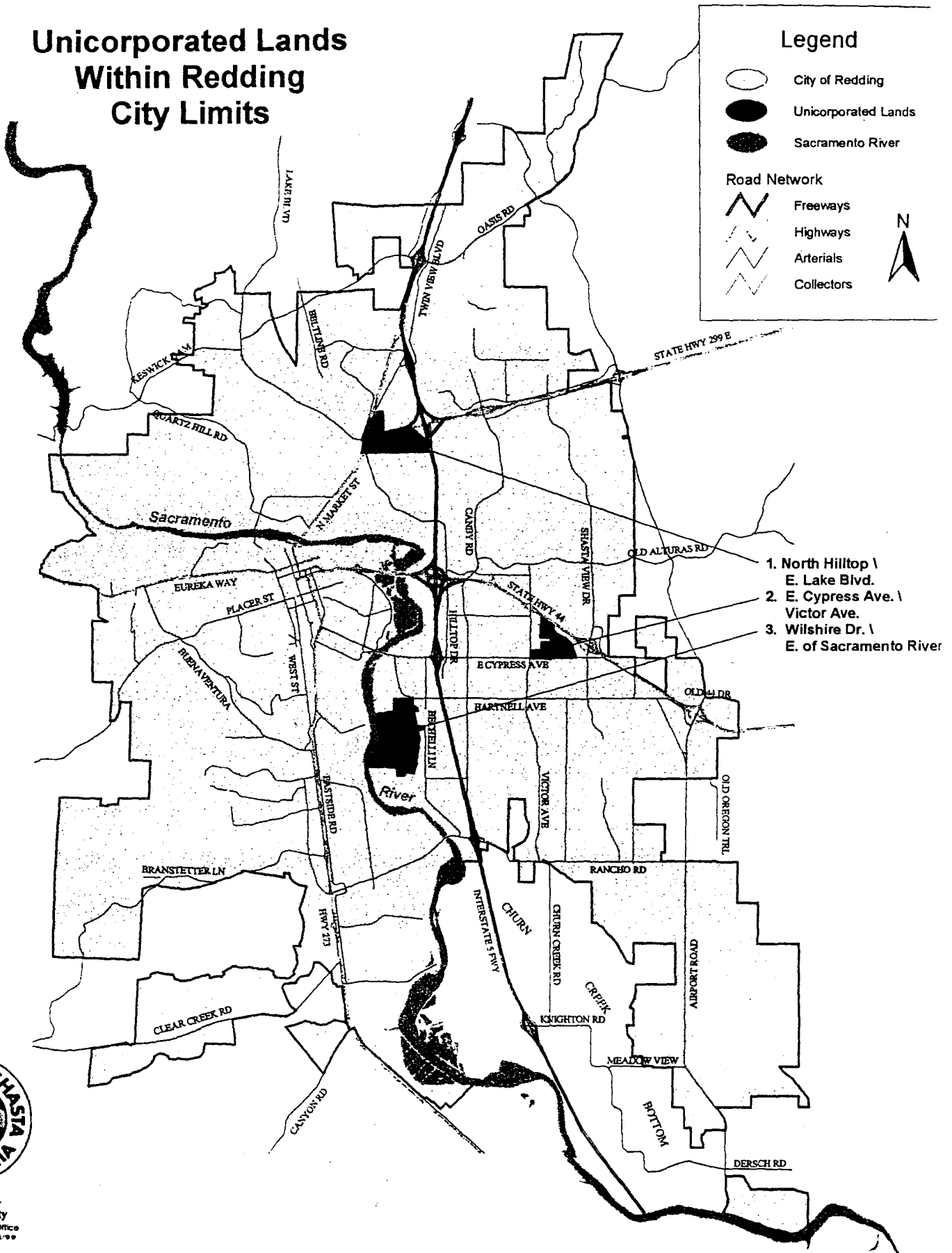
1. North Hilltop/East Lake Boulevard: An area encompassing numerous small, medium, and large parcels, characterized by small businesses, recreational uses, residential dwellings, and vacant land.
2. East Cypress Avenue/Victor Avenue: An area of few parcels, developed to residential and church uses.
3. Wilshire Drive/East of Sacramento River: An area consisting of a large agricultural field and several single-family dwellings, most on "city-size" lots.

What exists today are remainders of much larger islands created in the 1960's and 1970's. Over time the City of Redding has annexed portions of each island, usually at the request of property owners; however, with each effort there were other property owners who were opposed to expanding the annexation area boundary to take in the entire island.

While there have been no annexations in recent years, the County has approved a measure of new development in the island areas, primarily single-family dwellings and limited commercial enterprise. The City of Redding does not provide services in either the Cypress/Victor island or the Wilshire Drive island; rather, homes and business in those areas rely on-site septic tank and leach field systems, private wells for water, private vendors for solid waste collection and disposal, and the County of Shasta for law enforcement and fire protection.

Late in 1998 a pre-application was filed with the County of Shasta for development of a retail center in the northwestern sector of the Hilltop/Lake Boulevard island, as shown in the aerial photo labeled as Map 4. (In the interest of historical accuracy, this particular property has been considered for numerous projects over the years, the last being an effort in 1994 to site a Veterans Administration Clinic. For various reasons, principal among them traffic impacts and off-site circulation improvements, the clinic project did not go forward.)

# Unincorporated Lands Within Redding City Limits



MAP 4



The retail center will require connection to sanitary sewer and water systems. The statutory requirements with respect to both "island annexations" and "out-of-agency services" will likely be a factor in decisions as to how and when and under what terms, conditions, and costs these services will be extended.

Beginning with sewer service, the City of Redding is the agency of jurisdiction in terms of the facilities which were installed as part of the Twin View Sewer Assessment District project of nearly thirty years ago. Therefore, the City would establish the terms and conditions on new connections. If the City agrees to extend sewer service without requiring annexation (which would represent an exception to adopted policy), extension of this service would still be subject to LAFCO's approval of an "out-of-agency services agreement", and LAFCO, would want to be assured that the agreement is, ". . . in lieu of a later annexation". This begs the obvious question: Why not annex in conjunction with project development?

The same could be said for water service. The water lines in the area were installed by the old Buckeye Water District; however, there is a question about the legal status of that district today. The City of Redding has operated Buckeye Water District facilities for some time, and the City establishes the terms and conditions with respect to hook-up to those facilities. Therefore, extension of water service to the proposed project area would also be subject to a LAFCO-approved "out-of-agency" services agreement, and LAFCO would again want to be assured that the agreement is, ". . . in lieu of a later annexation".

Electricity could be provided to the project by PG&E; however, if the proposal is to convert to the City's electrical system, the City has the authority to establish terms and conditions, and a LAFCO action will be required, with the same ". . . in lieu of a later annexation" question to be answered.

Unfortunately, landowners and developers are not always aware of the jurisdictional distinctions as they pertain to the delivery of services. They tend to make assumptions about *who* will provide services, as well as *how*, *when*, and *under what conditions* services can be acquired. It is important that these assumptions be verified. It is important that these questions be answered *at the initial stages of project development*:

- ✓
1. Is the project area is within a city sphere of influence? ✓
  2. Is the project area part of an unincorporated island?
  3. Is the project parcel contiguous to the city boundary?
  4. Will the project require municipal (i.e., city) services?

If the answer is "yes" to any of the above, and particularly if the answer is "yes" to *all of the above*, it typically falls to the agencies to fully convey to the developers *what the "yes" answers mean* in terms of securing the services which are needed in order for a project to proceed.

By way of concluding this section on "islands", California cities have not always grown and configured their boundaries in a logical and orderly fashion, but eventually cities, for the most part, do achieve a measure of uniformity and regularity in their boundaries, either as a product of "in fill" encouraged by the city, or as property owners begin to develop vacant land and they desire to annex in order to acquire services for their development.

### **PART III**

#### **THE CONCEPT**

Part I discussed the statutory provisions for extension of services beyond an agency boundary, as well as the statutory provisions pertaining to annexation of unincorporated islands. Part II reviewed the historical efforts and recurring barriers to developing projects in the Knighton Road/I-5 area and in the Hilltop/Lake Boulevard island. In Part III, a concept will be introduced which would apply the Part I provisions to the Part II problem.

One other passage from Striking A Balance establishes an excellent point of departure for presenting the concept:

" . . . if we – the County and the City as services providers – are truly committed to participating in economic development efforts, we cannot let potential development which could create jobs slip through our fingers simply because one or the other of us cannot bring ourselves to revisit and perhaps restructure *policy positions* which might now be somewhat "dated" and in conflict with current goals and objectives".

The concept has two parts: First, the City of Redding will extend – without requiring annexation – sewer and water service to the commercial area surrounding the Knighton Road/Interstate 5 intersection in Churn Creek Bottom (it being implicit to the accomplishment of this first part that the County will not approve new development in the area which proposes to use conventional or alternative on-site sewer systems).

Second, the County will consider, without prejudice, tax exchange agreements associated with the annexation of the unincorporated "islands" where findings can be made that it would be in the best interests of the landowners, developers, and affected agencies to proceed with these annexations (it being understood that the ability of the County and the City to achieve tax accord for a given annexation does not deny the landowner right to protest annexation).

The following sections elaborate on the concept, beginning with the extension of City services to the Knighton/I-5 area.

### City Services to Knighton/I-5 Area

The specific services to be provided by the City of Redding *will be limited to sewer and domestic water*. (It has also been suggested that the concept be expanded to include a storm drainage project, either in the subject area or on a larger basis in recognition of existing conditions which might be exacerbated by additional upstream and localized development. At this point, however, the concept does not propose a drainage maintenance project.)

Law enforcement and fire protection, as well as street and road maintenance will remain the responsibility of the County of Shasta. Power is presently provided by and will continue to be provided Pacific Gas & Electric Company. It is not proposed that the area be converted to the City's electrical system. Other services such as solid waste collection and disposal continue to be provided by private vendor.

Actual extension of services area would require completion of a number of tasks under three major activity areas :

1. County Service Area Formation
2. Development Agreement/Construction Contract
3. County/City Land Use Compact

The short list above is not necessarily in priority or chronological order. Nor, for that matter, would successful completion of the work under one of the activity areas guarantee successful completion of the work under either or both of the other two areas. Rather, all of the activities would have to be conducted almost simultaneously – in a parallel fashion – and there would have to be regular coordination of effort through meeting defined "benchmarks of accomplishment" along with way.

In the paragraphs to follow, each activity area is discussed in more detail; however, at this point it would be premature to try to propose either specific terms and conditions on CSA formation, precise agreement or contract language, or particular provisions for a land-use compact. If a decision is made to move to the next level of analysis – to move from introduction of a concept to the intricacies of implementing the idea – it would be appropriate for those with the expertise and experience in such matters to develop the details.

Furthermore, *if and when* a decision is made to the next level of analysis, the City and the County would have to agree at the onset to the following: First, to *share the lead* in developing the details, which begins by setting aside any thinking that one agency does this type of thing *better* than the other; second, to *trust* each other's information, analysis, and decision-making; and third, to extend the *information loop* to include affected landowners, developers surrounding residents, and to the extent possible, the community-at-large, all toward building broad consensus and support for the effort.

#### Formation of a County Service Area

A County Service Area (CSA) would be formed for the purposes of contracting with the City of Redding for sewer and water services. This arrangement would satisfy the exception provision in the LAFCO statute pertaining to "out-of-agency" services. When a contract is between public agencies, LAFCO approval is not required, the area to be served need not be in the serving agency's sphere of influence, and the agreement would not be "in lieu of a later annexation". The only LAFCO action would be on the formation of the County Service Area.

Map 5 delineates four potential CSA boundary scenarios:

Scenario A: Proposed "Flying J" development area only.

Scenario B: "Flying J" area plus existing developed and undeveloped commercially-designated parcels surrounding intersection.

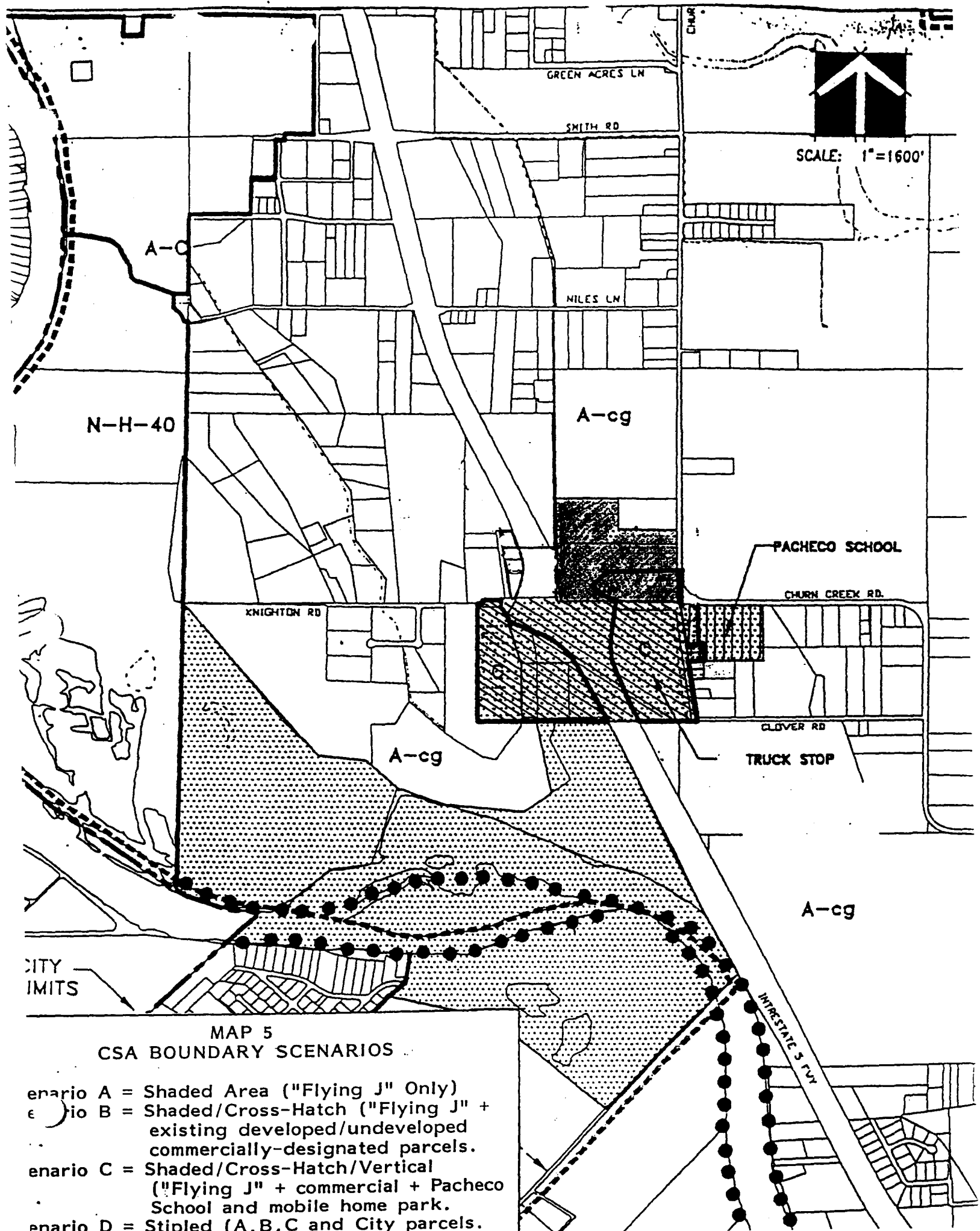
Scenario C: A and B plus Pacheco School parcels and adjacent mobile home park.

Scenario D: A, B, and C plus City-owned parcels west of I-5.

The level of landowner support for participation in the *services extension project* would be a critical factor in fixing a CSA boundary. If landowners are not willing to participate either financially or as otherwise required in order to acquire the services, it might not be advisable to include their parcels in the CSA. Therefore, a necessary initial step in the CSA formation process would be to survey the landowners within the various boundary scenarios.

Point of information: *A tax exchange agreement is not a required component of CSA formation.* Therefore, if there is a line of thinking that the City should have a share of new tax





revenues derived from new development which receives City services, it would be incumbent upon the agencies to develop the data, negotiate a formula, and adopt resolutions of agreement *prior to* submitting the CSA formation application to LAFCO. Beyond this point of information, this report takes no position with respect to tax sharing.

The CSA formation process may be initiated by (1) a petition to LAFCO signed by 10% of the registered voters *residing in the area*, or (2) a resolution of either the board of supervisors or a city council. For the subject CSA, it is proposed that the process would be initiated by resolution of the Shasta County Board of Supervisors.

LAFCO must conduct a noticed public hearing, after which LAFCO may either approve, modify, or deny the proposed formation. LAFCO may also impose terms and conditions of approval, either as requested by the applicant or affected agencies, or as determined and devised separately by LAFCO.

There is also a significant limitation on LAFCO's authority to conditionally approve a proposal. Specifically, LAFCOs may not impose any conditions which would *directly regulate land use density or intensity, property development, or subdivision requirements*. That authority is, by law, vested solely in counties and cities. Therefore, if there is any contemplation of a future land use agreement in the Knighton Road/I-5 area (or, for that matter, in the greater Churn Creek Bottom area), it would have to be through another process and mechanism, such as the "Land Use Compact" introduced further down.

If LAFCO approves CSA formation, the proposal is then sent to the Board of Supervisors for a final hearing as the designated "Conducting Authority". The principal purpose of the Conducting Authority hearing is to evaluate the level of opposition to the proposal as requested by the applicant and approved by LAFCO, or as modified by LAFCO.

In fact, the level of valid "protest" to the LAFCO action dictates the action the Conducting Authority must take. Summarized, if sufficient majority protest is submitted, the Conducting Authority must terminate all further proceedings; if the protest is less than a majority the Conducting Authority may order an election, but is not bound to; and if the protest is in the requisite minority, the Conducting Authority is obliged to order formation of the CSA.

The Conducting Authority *is* authorized to alter the boundaries of the CSA to *delete territory or eliminate a type of service*; however, they may not *add territory* to the CSA or *add additional services*.

It should also be noted that LAFCO is obliged to establish a "sphere of influence" for the new CSA. This occurs concurrent with CSA formation; however, the sphere of influence determination is not subject to a Conducting Authority action.

Once the CSA has been formally established, the Board of Supervisors, as the Board of Directors of the CSA, may enter into contracts and agreements. Which brings this report to the next major activity associated with extending City sewers to the Knighton/I-5 area.

#### Development Agreement and Construction Contract

Typically a project involving construction of sewer, water, storm drainage or other such infrastructure and facilities to serve a proposed development project begins with the execution of a contract between the developer and the service-providing public agency. This kind of contract is generally referred to as a "Development Agreement", and it would contain a number of provisions, terms and conditions pertaining, but not necessarily limited, to:

Development Standards and Conditions: The typically required standards on a development project, as well as any specific conditions on the specific project.

Construction Financing: The provisions with respect to landowner participation in infrastructure construction financing.

Operation and Maintenance: The provisions for the long-term operation and maintenance of the facilities.

Obviously, any agreement relative to a development project would contain a myriad of specific provisions; however, this report does not attempt to identify and discuss each and every possible detail – for this simple reason: This report is solely to introduce a "concept" – an "idea". Once there is receptivity to the "concept" – once there is an indication that the decision-makers would like to move to the next level – then the experts would be brought in.

Clearly, too, the success of *both* proposals – the "Flying J" project and the extension of City sewer and water service to the Knighton/I-5 area – will depend on the details. At this point there is no particular incentive for either the "Flying J" developers or the owners of existing commercial development in the area to contemplate the merits of City services. Therefore, any agreement or contract associated with this alternative would have to take that lack of incentive into consideration.

#### Land-Use Compact

Of the major activity areas – CSA formation, development agreements and construction contracts, and formulation of a "land use compact" – it is the concept of a "compact" which presents the greatest challenge to the status quo.

The City of Redding's historical concerns about extending services to the Knighton Road/I-5 area without annexation have been that it would encourage uses that could reduce revenues to the City; that the uses permitted by the County would compete with private investment within the City; and that the County would allow development at standards less than what the City would permit.

The County has historically been concerned that annexation and extension of City services to the Knighton/I-5 area would reduce the County's current property tax base, that it would foreclose on opportunities for revenue enhancement in one of the few viable unincorporated commercial areas adjacent to Interstate 5, and that it would be the first step to the break-up and "urbanization" of the entire Churn Creek Bottom area.

Toward resolving these long-held concerns, the "land use compact" envisioned here is intended to have this application: *an alliance between parties for a stated purpose*, the purpose being:

- To establish parameters with respect to new commercial development in the Knighton Road/I-5 area, with the understanding that these parameters would not restrict projects consistent with State statutes and local plans, policies, and practices;

- To make long-term provisions for the extension of the infrastructure needed to serve appropriate development in the Knighton/I-5 area;
- To preserve and protect the unique quality and characteristics of the Churn Creek Bottom area beyond the commercial area to the fullest extent possible into the foreseeable future.

The County and the City could agree to incorporate any number of general or specific provisions in the compact. Solely to advance the discussion, and by no means suggested as appropriate to, or intended as "minimum provisions", the parties may agree:

- To limitations on future expansion of the CSA, as well as extension of the municipal sewer and water facilities (for example, the CSA would be limited to commercially-designated or public facilities areas, present or added by the General Plan amendment process, as well as any parcels adjacent to the planned extension of Knighton Road, provided these parcels are also designated for commercial development);
- To stipulate to the types of development the County would encourage or discourage in the Knighton/I-5 area, and the types of development the City would encourage or discourage at major intersections in the City (for example, the City would not encourage a competing truck stop, while the County would limit hotel/motel complex size);
- Not to subsidize competing development through mechanisms such as redevelopment, or to encourage relocation of development from the City to the County, or vice versa, through the offering of subsidies.

To address concerns about one party or the other failing to abide by the compact, the document could also make provisions for what would occur in the event either party failed to perform; however, this report neither suggests what those provisions might be, nor argues for or against any such inclusions, for two principal reasons: First, in order to evaluate the relative merits of any such provision, the details would have to be developed. This would be an entirely separate body of work beyond the scope and intent of this report. Second, as

stated before, this report is solely to introduce a "concept" – an "idea". Once there is receptivity to further exploration – once there is an indication that the decision-makers would like to move to the next level – then it would be appropriate to develop the details.

To conclude the land-use compact discussion, there are three things which cannot be controlled in any form of agreement between agencies:

The first is the rights of property owners. It should be established and emphasized at the onset that the provisions in the compact are not intended to usurp or override or in any way circumvent the rights of private property owners and the prerogative of landowners to develop their property in the City or in the County as permitted under State and local statute.

Second, it cannot dictate what LAFCO may or may not do. While LAFCO would be a key player in the implementation of the overall concept, LAFCO cannot be nor should not be party to any form of land-use agreement. LAFCO must remain at arms-length and within its role under State law.

Third, it cannot bind future boards and councils. At best it can only establish a framework for decisions in the foreseeable future. If the framework is solid, there is less likelihood that a future legislative body will want to reverse the basic purpose and intent. Therefore, it will be incumbent upon the builders to carefully select the materials used to construct the compact.

The compact would be akin to a General Plan. When a board of supervisors or a city council adopts a General Plan, they know that the provisions therein are not forever cast in concrete, nor is it intended that they should be. There are no absolutely perfect or ideal general plans. There are only plans which more or less reflect a particular set of values at a particular point in time. The best that can be accomplished is a General Plan which establishes a sound basis for day-to-day decisions by elected and appointed officials.

### **Island Annexations**

Simultaneous to the effort to extend sewer and water to the Knighton/I-5 area, the process will begin to annex the unincorporated islands identified further up in this report. The

annexation process, whether it involves an island or a non-island area, has three phases: (1) Pre-LAFCO data gathering and application preparation, including preliminary tax exchange agreement proceedings; (2) LAFCO review and action; (3) Post-LAFCO hearings and final filings. Each phase is discussed in the following paragraphs, and include discussions of the potential issues which may emerge during each phase.

(Note: When a city in Shasta County proposes to annex territory, detachment of the annexation area from two county-wide CSAs is also required so as to avoid duplication of fire protection and street lighting services. Therefore, a city's proposal is actually classified by LAFCO as a "reorganization". However, because the term "annexation" is more familiar and lends itself better to the purposes of this report, hereafter when speaking of a city boundary change proposal, it will be referred to as an "annexation".)

#### Pre-LAFCO

This part of the discussion assumes that the City of Redding will be the applicant to LAFCO. The City will make a series of critical determinations in the course of developing the proposal they submit to LAFCO, principal among them:

Annexation Boundary: It will have to be determined whether or not to attempt to annex an entire island at once, or to do a series of segmental annexations in a large island area. The factors which influence the final boundary configuration include the level of property owner support or opposition to annexation, the corresponding support or opposition to participating in the financing mechanism to extend services (such as an assessment district), and any natural barriers or physical features on the land which would limit the boundary. Each of the three islands identified earlier in this report have characteristics which will test some or all of the boundary selection principles, for example:

The Cypress/Victor island best lends itself to an all-at-once annexation. There have already been inquiries by landowners with respect to the annexation process and how to acquire City services. City infrastructure is immediately adjacent to the area.

Annexation of the Wilshire island will have to be done segmentally, assuming the historical opposition to annexation still exists. The last annexation in this area was in 1987 when parcels along Lowden Lane were annexed for the purpose of extending City electrical service. Again, City infrastructure is adjacent to the area, and, based upon the statutory provisions and principles discussed earlier in this report, the City should make every effort to incorporate this area.

The Hilltop/Lake Blvd. island is the most diverse of the three islands in terms of size, parcelization, and land uses. There are vacant parcels, single-family dwellings on separate parcels or in mobile home parks, and several parcels developed to commercial/small business uses such as the RV park adjacent to I-5, a car wash, video store, and hamburger shop in the wedge between north Hilltop and east Lake Boulevard, and a bowling alley and miscellaneous businesses further down Lake Boulevard toward I-5. The last annexation in the area was in 1989 when the north end of Twin View Boulevard was added to the City. Given that ten years have elapsed since the last annexation, combined with recent indications of interest in developing some of the vacant parcels on both the north and south side of Lake Boulevard, it would seem incumbent upon the City to carefully survey landowners as to their current positions with respect to annexation before selecting a final boundary.

Plan for Providing Services - The City is required to submit a "plan for providing services" to the newly-annexed area. The City's plan must provide information with respect to an enumeration and description of the services to be extended to the affected territory, the level and range of those services, an indication of when those services can feasibly be extended to the affected territory, an indication of any improvement or upgrading of structures, roads, sewer or water facilities, or other conditions the local agency would impose or require within the affected territory, and information with respect to how those services will be financed.

As an example, the following is taken from a City of Redding "Plan for Providing Services" statement provided as part of a previous annexation:



". . . . water will be made available . . . . in accordance with adopted standards, policies, and payment of fees or connection charges. Water lines will be extended by property owners through an assessment district when they want service.

"Within the Regional Sewer Service boundary, sewer service will be provided by the City of Redding in accordance with adopted policies standards, and charges. . . . Sewer lines in this area will be extended by property owners in accordance with the Master Sewer Plan through an assessment district or through individual owner financing when they want service.

"Existing streets shown on the County Road log will be maintained by the City only to the extent they are presently improved. New dedicated public streets will be constructed according to City standards and maintained by the City accordingly. At the time of development of the property, all adjoining streets will be improved by the owner to City standards, and all necessary right-of-way will be dedicated.

"Upon annexation, police and fire services will be available to the property. New development will occur in a manner to maintain the City's fire rating.

"It is the policy of the City of Redding to be the sole provider of electric service to electric utility customers within the City limits. City electric service is made available when electric facilities can be purchased from PG&E and/or City lines are extended into the area in accordance with adopted policies, standards, and charges of the City of Redding and based on a logical extension of the City's electric distribution system."

It is often the provisions under the plan for providing services which leads landowners to support or oppose an annexation. Specific to the unincorporated islands, there has already been a level of interest in acquiring City services in the Cypress/Victor island; on the other hand, there has been little interest expressed in converting to City services in the Wilshire island area. There is a mixed level of interest in the Hilltop/Lake Boulevard island. Landowners who want to develop are beginning to recognize that the services they will need are the services provided by the City of Redding; landowners who do not have development plans, or who are already adequately served, have not indicated an interest in annexation, and may oppose any such effort.

Tax Exchange Agreement - Just as the provisions with respect to acquiring services are important to property owners and developers, the provisions with respect to transfer of tax

revenues after annexation are equally important to the City and the County. The entire basis of a tax exchange agreement is the balancing of revenue generated against costs to meet services responsibilities. From the 1997 Striking A Balance study, the County and the City learned that:

"New residential development adjacent to Redding results in *significant net costs to the County*; whereas, new residential development which is annexed to the City results in a *modest fiscal gain to the County* – provided the County retains the pre-annexation share of property taxes.

"Annexed residential development results in *small net costs to the City*, while residential development which is not annexed is a *net fiscal gain to the City* because the new residents shop in Redding, thereby increasing sales tax revenues, while the range of services provided by the City [does not increase].

"Sales tax producing commercial development will be of *significant fiscal benefit to whichever jurisdiction it locates in*.

"Industrial development (assuming no sales tax) is a *small fiscal drain on the jurisdiction in which it is located*.

"Mixed commercial-residential development, *when annexed*, generates *net revenue to both the City and the County*; however, when this development occurs in the unincorporated area, only the City continues to realize *some fiscal benefit*, while the costs for providing County services to the new residential far outweighs the benefits of new commercial revenue and results in a *substantial net loss to the County*.

"For annexations of *residential development only*, the County could reduce its share of property tax and still 'break even'; however, for non-residential development, *the continued full allotment of property tax is insufficient to 'break even'.*"

Both the Cypress/Victor and Wilshire island areas are already substantially developed to residential uses. Therefore, the taxes subject to negotiated exchange would be limited to property taxes. The County would want to be assured that it retains sufficient property taxes to cover the costs for the services the County will continue to provide; likewise, the City will want to receive sufficient property taxes to cover the costs for services they will provide to the newly-annexed area.

The Hilltop/Lake Boulevard island presents a significantly different set of circumstances in terms of the tax base. Map 6 depicts the County General Plan zoning designations presently applied to the area. Clearly the area is predominately commercial. Current commercial development generates property, sales, and other taxes, including transient occupancy taxes. Development of the vacant parcels will increase the base in at least the property and sales tax categories, and if new motels or hotels are sited on any of these parcels, the transient occupancy tax base would increase.

Whether or not the City proposes annexation of the Hilltop/Lake Boulevard island in one large proposal, or in a series of smaller proposals, both the City and the County will want to carefully evaluate the tax data toward structuring a mutually-acceptable agreement which reflects not only the Striking A Balance conclusions, but also recognizes the development conditions, issues, and constraints discussed earlier in this report.

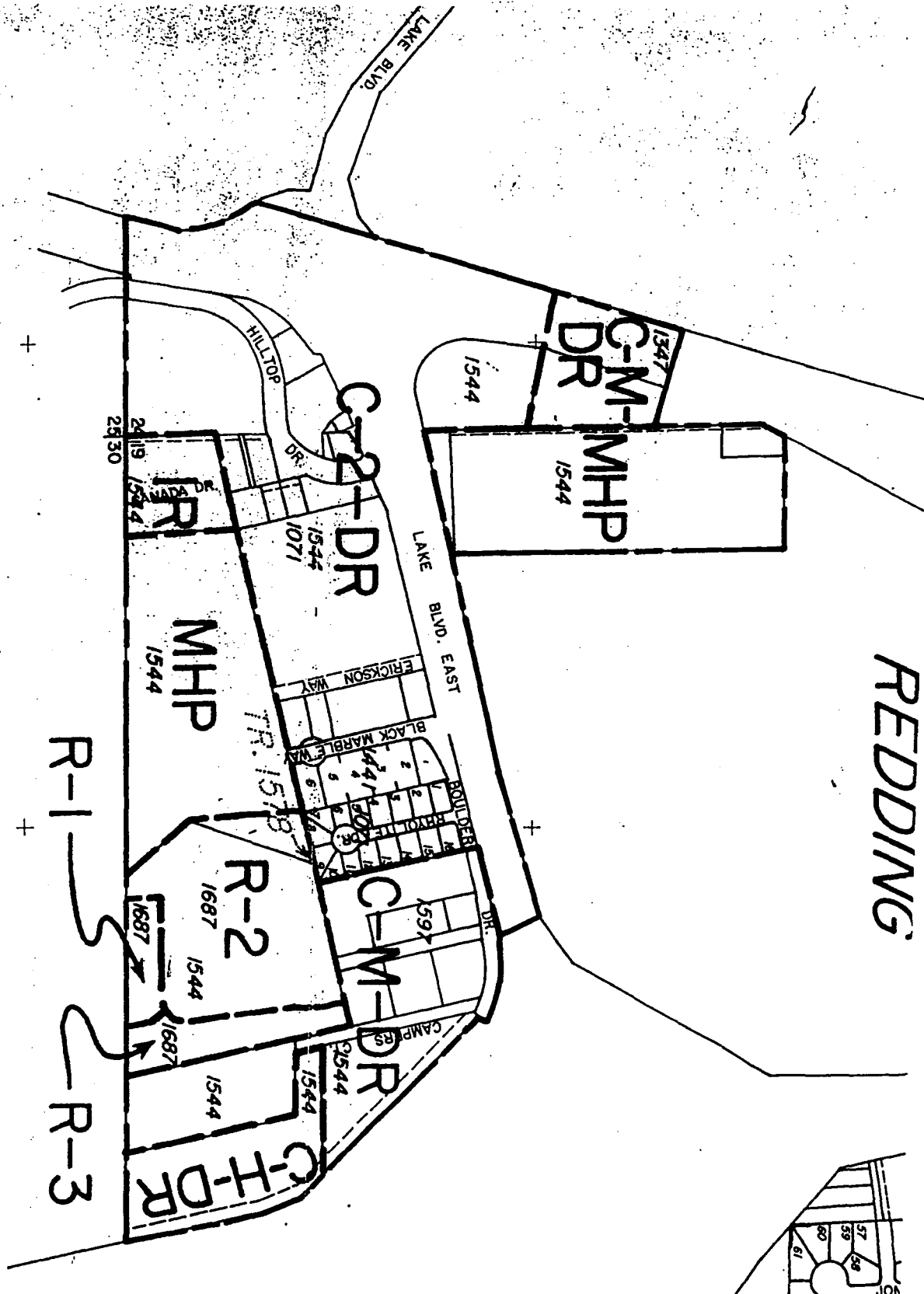
Once, then, the City of Redding has made their critical determinations with respect to an annexation boundary, a plan for providing services, an appropriate tax transfer proposal, a formal application is prepared for submittal to LAFCO.

#### LAFCO Review/Action

LAFCO encourages the elimination of unincorporated islands, for all of the reasons discussed earlier in this report; therefore, if the City of Redding submits an application which proposes to annex any or all of the three island areas, either in their entirety or segmentally, and if (a) the application is statutorily compliant and complete in its components, including conforming tax exchange resolutions, and (b) the application has sufficient support of affected landowners, and (c) the proposal is consistent with LAFCO policies, it would be difficult for LAFCO to deny the proposal. In fact, the burden would be on LAFCO to justify a denial in the face of evidence which strongly supports the proposal.

Of course, LAFCO always has the right to modify an annexation boundary, and may in fact be compelled to do so under certain island annexation conditions. LAFCO may also impose terms or conditions if they are deemed to be appropriate. With that, this report need go no further with respect to the LAFCO evaluation and action process.

# REDDING



## Post-LAFCO

The same could be said about the post-LAFCO process. The actions after LAFCO has approved a proposal are largely dictated by statute. If an annexation has 100% consent of the affected property owners, there need not be a final "protest hearing" before a Conducting Authority, and final filings can be immediately made. If there is less than 100% consent, then a public hearing must be held to afford a final protest opportunity.

However, if there *is* a Conducting Authority hearing, it is the *level of valid written protest* which determines the action. The Conducting Authority must order the annexation if less than 25% valid protest is submitted. They must order an election if between 25-50% valid written protest is submitted (although this requirement may be deleted with the passage of AB 1555). In the face of majority valid protest, the proposal is terminated.

To conclude the island annexation discussion – a word about "timing", as in "on the clock". When a landowner/developer wants to annex in order to proceed with a project, timing becomes very important. Property owners want the process to be carried out in as short a time as is possible, and within their development schedule. They do not always understand the lead time needed by agencies to evaluate the proposal and make decisions with respect to boundary, services, and tax exchange. *At best*, barring complications, an annexation can be accomplished – from application submittal to final filings – in four to eight months. A more complex annexation, particularly if it involves special districts changes or sphere of influence changes, can take as long as a year to complete.

There is also the point when an annexation is "timely", as in "appropriate". A "timely" annexation is typically characterized as one which

- will be revenue neutral to the affected agencies,
- will provide resources to solve current problems,
- is intended to avoid future problems,
- will support mutual planning objectives,
- will support extension of infrastructure, and
- will lead to economic development which will benefit the community as a whole.

## PART IV POLICY IMPLICATIONS

The concept introduced and discussed in this report will not advance beyond these pages unless there is a willingness to re-examine long-held policy positions which now seem to be inconsistent with current objectives.

Both the County and the City say they have a mutual desire to attract business and industry which will create new jobs, stimulate the local economy, and boost the tax base which goes to pay for governmental services. Toward competing in the larger, statewide economic development arena, both the City and the County financially support business retention and attraction programs, are partners in redevelopment activities, and the two agencies have adopted nearly-mirroring economic development "incentives".

At the same time the City has its policy of requiring annexation as a prerequisite to extending services. If the 1997 Striking A Balance report did not make it clear, hopefully this report current *has* clearly made the point: Sometimes you can't get there from here. Sometimes annexation cannot be readily-accomplished or accomplished at all. Some times extension of services is not only appropriate, it would also go a long way toward demonstrating that the stated economic development objectives are not merely rhetoric.

Likewise, the County's efforts to site jobs-creating, revenue-enhancing development in the unincorporated area adjacent to the City fails to acknowledge the County's limited ability to provide the vital infrastructure necessary to serve this kind of development. When a construction season is lost in the confusion with respect to services jurisdiction, it puts both the County and the City in a bad light. It also sends a message to developers that the County and the City are more dedicated to "competing for development" than they are to assuring the logical and orderly extension and delivery of governmental services.

Perhaps the English statesman and Prime Minister David Lloyd George (1863-1945), said it best in one succinct statement:

"No quarrel ought ever to be converted into policy."

## **PART V FINDINGS, CONCLUSIONS, RECOMMENDED ACTION**

The objective of this report was to present the data and information which supports a concept pertaining to extension of City services to the Knighton Road/Interstate 5 area and the annexation of unincorporated islands. The following is a summary listing of the major findings and conclusions:

### **Part I - Statutory Provisions and Limitations**

#### **Out-of-Agency Services**

- Cities and special districts must request and receive LAFCO approval to extend services beyond their jurisdictional boundary. This assures a measure of public scrutiny and the agency is required to provide the justification for the extension.
- The out-of-agency services provisions recognize that there are instances where services are needed but annexation is not immediately possible.
- Agencies must meet statutory criteria for extension of services; however, there are also exceptions which permit agency-to-agency services agreements.

#### **Island Annexations**

- Unincorporated islands are often costly to serve and create confusion for infrastructure and emergency services providers.
- LAFCOs presently may not approve the creation of new islands; LAFCOs may not disapprove island annexations meeting certain criteria; and LAFCOs may expand a partial-island annexation to include an entire island.
- Such is the concern about the services inefficiencies that there is active legislative consideration with respect to streamlining the island annexation process.

## **Part II - Background and Local Context**

### **Churn Creek Bottom and Knighton/I-5 Area**

- Churn Creek Bottom has a distinct agricultural, rural-lifestyle flavor, and there is a strong effort among residents in this area to retain these prevailing characteristics.
- Commercial development is recognized under the County General Plan as appropriate around the Knighton Road/Interstate 5 intersection.
- Efforts to develop the Knighton/I-5 area have historically been hampered by a combination of services (primarily sewerage) issues and community opposition.

### **Unincorporated Islands**

- There are three unincorporated islands which are completely surrounded by the City of Redding: (1) North Hilltop/E. Lake Blvd., (2) East Cypress/Victor Avenue, (3) Wilshire Drive/East of Sacramento River.
- The County has approved new development in these areas; services are provided either by the County (law enforcement, fire protection), by on-site systems (sewer, water), or by private enterprise (electricity, solid waste collection).
- Landowners and developers have proposed projects in island areas which will either *require* City services, or there is a desire to convert to City services.
- The City of Redding may impose terms and conditions on the extension of services to these projects, including annexation as a prerequisite to services extension.
- The City of Redding could extend services to these projects via the out-of-agency services agreement process, and the City may impose terms and conditions on extension of services via such an agreement.
- Both legislative intent and LAFCO policy encourages island annexations.



### **Part III - The Concept**

- The City of Redding will extend sewer and water services to the Knighton Road/I-5 area without requiring annexation; the County will consider tax exchange agreements associated with appropriate island annexations.

#### **City Services to Knighton/I-5 Area**

- A County Service Area would be formed for the purposes of an agency-to-agency contract, thereby exercising the exception permitted in the LAFCO statute pertaining to out-of-agency services agreements.
- A "Development Agreement" between private developers and the service-providing public entity would establish the standards to which the project and the infrastructure would be built, construction financing, and provisions for system operation and maintenance.
- The City and the County would develop a "Land Use Compact" which would establish parameters with respect to new commercial development in the area, would make long-term provisions for extension of infrastructure to appropriate new development, would acknowledge the imperative to preserve and protect the unique quality and characteristics of the greater Churn Creek Bottom area, and would have "failure to perform" penalties.

#### **Island Annexations**

- The City would act as "lead agency" in making application to LAFCO for initiation of island annexation proceedings.
- The City would have to make a series of critical determinations with respect to annexation boundary, the plan for providing services, tax exchange agreements, and timing of actions.

- The statute provides ample opportunity for landowners to voice support for or opposition to an annexation proceeding. The burden would be on landowners to submit the requisite levels of opposition to require an election on the question or to void an annexation proposal.

#### **Part IV - Policy Implications**

- In order to proceed beyond concept introduction to concept implementation, the City and the County must be willing to re-examine long-held policy positions which might now be inconsistent with current economic development objectives.
- The City's policy requiring annexation is problematic in that it does not recognize certain statutory barriers to annexation nor acknowledge situations where extension of services in lieu of annexation might be appropriate.
- The County's efforts to site development in the unincorporated area adjacent to the City does not take into consideration the County's limited ability to provide the range and level of infrastructure services necessary for new development.
- Failure to resolve services issues sends a message to developers that the County and the City place more importance on competing for development than they place on assuring the logical and orderly extension and delivery of services. Only through a concerted effort to develop a "one voice" policy will that message be dispelled.

#### **Recommended Action**

To begin to address the findings and conclusions summarized above, as well as the other issues raised throughout this report, it is respectfully recommended that the Board of Supervisors receive and discuss this report in a "workshop" format. Consideration should also be given to encouraging the Redding City Council to review and discuss the report in a "workshop" format.