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Fiscal Analysis of the Proposed South Lakeport Annexation

Prepared for:

City of Lakeport

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EXECUTIVE SUMMARY

The proposed South Lakeport Annexation includes 123.64 acres adjacent to the southern boundary of the City of Lakeport along South Main Blvd. and Soda Bay Road. The area is mostly developed in retail, service commercial and light industrial uses and currently supports an estimated 569 jobs. The area is within the City of Lakeport Sphere of Influence and City pre-zoning for the area includes both C3 - Service Commercial and I-Industrial designations. The area also includes developed residential parcels. Four of the parcels are vacant and City estimates the maximum buildout potential of these parcels under City zoning standards is about 257,000 sq. ft. Other expansions of building space on underutilized parcels and additions to existing development could potentially add another 471,000 sq. ft. If full buildout of the area is achieved, it could result in more than 1,900 additional jobs.

The City of Lakeport and the County of Lake adopted a tax sharing agreement ("Agreement") in 1997 for annexation of the South Lakeport area. Under the terms of that Agreement, the County would retain existing property tax revenues from the area and would receive a share of future tax increments equal to the share it receives for the adjacent tax rate area within the current boundaries of Lakeport, which is approximately 19.6 percent of the base property tax (after ERAF Adjustment). The County would also continue to receive property tax in lieu of vehicle license fees (VLF) based on growth in assessed value from the annexation area. The City of Lakeport would receive property tax revenues that are currently allocated to the City Road Fund, which is approximately 1.4 percent of the base property tax. As future tax increments occur, the City would receive the County Road Fund share plus its normal share of the adjacent tax rate area within the City limits, which is about 10.4 percent of the base property tax revenue.

The tax sharing agreement also addresses sales tax, since the area is largely commercial. The Agreement stipulates that the City shall pay the County a cumulative total of \$210,000 in sales tax revenues over a six-year amortization period. The City shall keep all sales tax revenues received above that amount.

Upon annexation, the City would assume service responsibilities for police protection, street maintenance and planning as well as other municipal services. The County would continue to provide countywide services such as criminal justice, health and social services, property assessment and recordation, and other services it provides to all residents of the County.

This fiscal impact analysis estimates that upon annexation, the County would receive approximately \$80,200 per year in property tax revenues and incidental service charges. This does not include the sales tax payments of \$120,000 over six years from the City under the Agreement. County service costs after annexation for the existing land uses in the area are estimated to cost the County about \$88,700 per year. This small fiscal deficit would be mitigated by the extra sales tax payments from the City. As future growth occurs, property tax revenues would grow as well. By 2030, projected development in the annexation area would generate an estimated \$117,200 in additional annual property tax and other revenues for the County, against \$65,400 in additional costs. Full buildout of the area would generate an additional \$433,900 per year (2019 dollars) in property tax and other

revenues for the County and result in additional annual service costs of about \$234,800. Existing land uses would generate sufficient revenue to cover County costs in the short term with the City sales tax payments to the County, and future development would have an even more beneficial fiscal effect on the County.

The City is projected to receive \$1.15 million in annual property and sales tax revenues upon annexation (most of which would come from the City's voter-approved sales tax Measures I and Z, which are not available to the County). City service costs for existing land uses in the annexation area are estimated at about \$235,500 annually. Future development of the annexation area is projected to include a lower proportion of sales tax generating uses and incremental growth in services costs is projected to reduce the City's net gain from the annexation from \$950,200 initially to \$864,900 by 2030 and \$686,840 at maximum development of the area. However, long-term growth projections for Lake County and the City of Lakeport suggest that buildout of the annexation area would most likely extend beyond 2050, except under extraordinary accelerated growth assumptions.

In conclusion, the 1997 tax sharing agreement between the City and the County would result in a fair distribution of tax revenues reflecting the service responsibilities of both jurisdictions after annexation. The terms of the Agreement therefore meet the standards of the Lake LAFCo Revenue Neutrality policy that require annexations to provide sufficient revenues to both jurisdictions to fund necessary governmental services.

ANNEXATION AREA

The proposed annexation area extends from the current City boundary on South Main St. to the point at which Soda Bay Rd. turns from a southeast direction to due east (Figure 1). The area contains 50 parcels which total 123.64 acres (Table 1). The existing assessed value of these properties is \$23.8 million.

Using data provided by InfoUSA, ADE estimates this area supports 569 jobs in retail, service commercial and industrial businesses. The area has approximately ten residences and three of the parcels are currently vacant. City of Lakeport staff has estimated the buildout potential of the vacant parcels as well as those that are currently underutilized under City zoning allowances. Those estimates are provided in the next section of the report, Growth Projections.

Figure 1: South Lakeport Annexation Area

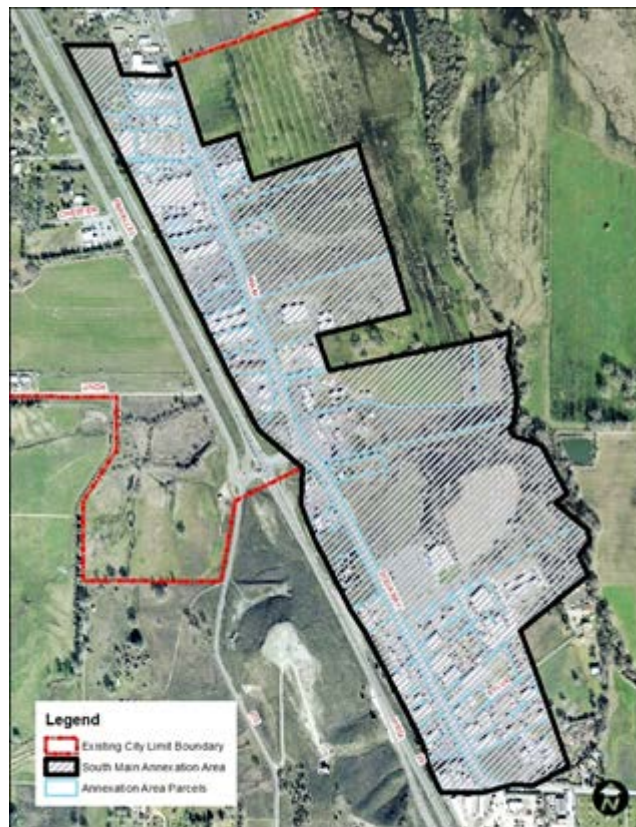


Figure 1 - Proposed Annexation Area

Source: City of Lakeport

TABLE 1: SOUTH LAKEPORT ANNEXATION PARCELS AND ASSESSED VALUE

APN	Site Address	Street	Use Type	Total Land and Improvement	Acres
8-003-120-000	2530	S Main St	Office	\$769,660	0.78
8-003-020-000	2510	S Main St	Resid Single Family	\$280,908	2.23
5-052-130-000	2480	S Main St	Office	\$180,455	0.38
5-052-250-000	2440	S Main St	Automotive Uses	\$484,813	1.25
82-092-140-000	93	Soda Bay Rd	Retail Sales	\$582,083	1.34
82-092-130-000	91	Soda Bay Rd	Vacant	\$6,121	0.03
82-092-100-000	75	Soda Bay Rd	Retail Sales	\$306,257	0.56
82-093-100-000	100	Soda Bay Rd	Commercial	\$517,264	3.48
82-092-120-000	87	Soda Bay Rd	Commercial	\$195,986	0.61
82-092-080-000	65	Soda Bay Rd	Retail Sales	\$128,262	0.75
82-092-090-000	73	Soda Bay Rd	Commercial	\$70,411	0.44
82-092-110-000	83	Soda Bay Rd	Retail Sales	\$271,821	0.58
82-092-070-000	63	Soda Bay Rd	Commercial	\$181,018	1.38
82-093-160-000	64	Soda Bay Rd	Retail Sales	\$1,130,008	6.99
82-093-040-000	74	Soda Bay Rd	Retail Sales	\$182,921	0.85
82-093-030-000	72	Soda Bay Rd	Commercial	\$386,745	0.99
82-093-140-000	90	Soda Bay Rd	Retail Sales	\$94,368	0.70
82-093-080-000	92	Soda Bay Rd	Commercial	\$1,010,920	1.77
82-093-090-000	96	Soda Bay Rd	Retail Sales	\$790,280	1.76
82-093-130-000	82	Soda Bay Rd	Industrial	\$799,999	1.86
82-093-050-000	78	Soda Bay Rd	Automotive Uses	\$399,078	1.90
82-093-110-000	350	Sylva Way	Vacant	\$67,029	0.67
8-001-010-000	2598	S Main St	Retail Sales	\$376,500	8.41
82-092-060-000	59	Soda Bay Rd	Retail Sales	\$204,621	0.82
82-092-020-000	43	Soda Bay Rd	Retail Sales	\$195,000	0.51
82-092-040-000	53	Soda Bay Rd	Commercial	\$163,200	1.61
8-001-250-000	52	Soda Bay Rd	Commercial	\$2,550,000	26.12
82-092-030-000	47	Soda Bay Rd	Vacant	\$11,262	0.92
82-092-010-000	41	Soda Bay Rd	Restaurant	\$109,266	1.08
8-001-020-000	2600	S Main St	Retail Sales	\$1,592,978	9.10
8-001-030-000	32	Soda Bay Rd	Resid Single Family	\$38,277	0.85
82-093-150-000	62	Soda Bay Rd	Industrial	\$449,167	1.08
8-003-050-000	2590	S Main St	Retail Sales	\$334,412	1.43
8-003-040-000	2570	S Main St	Retail Sales	\$1,390,540	7.41
5-049-080-000	2329	S Main St	Vacant	\$114,804	2.91
5-052-190-000	2447	S Main St	Commercial	\$130,590	0.14
5-052-070-000	2449	S Main St	Retail Sales	\$235,684	0.20
5-052-200-000	2351	S Main St	Automotive Uses	\$209,064	0.89
5-052-050-000	2345	S Main St	Retail Sales	\$374,544	1.51
5-052-030-000	2335	S Main St	Retail Sales	\$347,590	0.89
5-035-100-000	2725	S Main St	Automotive Uses	\$1,533,605	1.46
5-053-190-000	2585	S Main St	Commercial	\$176,868	0.91
5-053-200-000	2595	S Main St	Commercial	\$499,784	0.96
5-053-210-000	2615	S Main St	Retail Sales	\$179,735	0.90
5-053-220-000	2617	S Main St	Retail Sales	NA	0.88
5-053-180-000	2575	S Main St	Automotive Uses	\$811,512	2.97
8-003-130-000	2550	S Main St	Vacant	\$10,772	12.38
5-049-110-000	2305	S Main St	Retail Sales	\$381,946	0.70
5-049-120-000	2325	S Main St	Commercial	\$292,116	0.76
5-052-270-000	2465	S Main St	Retail Sales	\$2,254,902	4.54
Total				\$23,805,146	123.64

Source: City of Lakeport, Lake County Assessor

GROWTH PROJECTIONS

BUILDOUT POTENTIAL

The properties included in the South Lakeport Annexation are pre-zoned “C3” – Service Commercial and “I” – Industrial. The C3 district allows a maximum floor area ratio (FAR) of 0.45 while the Industrial zone allows a 0.35 FAR. City of Lakeport staff has reviewed each parcel and estimated the remaining development potential based on city zoning standards. The analysis also identified some of the constraints to development on the site, particularly areas within flood and riparian zones. In addition, some sites will be constrained due to the presence of cultural artifacts, but these are not identified in Table 2.

The analysis indicates that approximately 728,000 sq. ft. of additional building space could be accommodated on the parcels. Most of this is in the C3 zone, with about 74,800 sq. ft. in the Industrial zone. ADE estimates this additional development could support approximately 820 to 1,595 new jobs. The lower end of the range reflects the current employee density in the project area, which is estimated at about 890 bldg. sq. ft. per job. The higher range is based on national market standards which range from 362 sq. ft. per retail job to 658 sq. ft. per industrial job. The section below discusses the projected pace of development in Lake County and the project area and estimates the likely length of time needed to absorb the additional development potential in the project area.

FUTURE GROWTH SCENARIOS

The projected employment growth and future square footage demand estimate uses three different sets of assumptions: a baseline scenario, a moderate growth scenario, and an accelerated growth scenario. All three scenarios use countywide job growth projections for Lake County and scale the employment down to the City of Lakeport using the local share of countywide employment by individual industry.¹ According to this data, Lakeport accounts for nearly 23 percent of the overall employment in Lake County. The largest employers in the city are public administration, educational services, health care/social assistance, and retail trade. Within public administration, Lakeport makes up over half of the countywide jobs.

For purposes of the analysis, the projected jobs and square footage demand were allocated into the following broad land use categories: industrial, office, commercial, and institutional. Industrial uses include manufacturing, construction, utilities, wholesale distribution, and transportation/warehousing. Office uses include professional and business services, information, and financial services. Commercial uses include retail trade, leisure, and miscellaneous services. Institutional uses include government, health care, and education.

¹ The employment data used for estimating the share of countywide employment for the City of Lakeport comes from the Longitudinal Household-Employer Dynamics (LEHD) program, with the latest LEHD data dating back to 2015. The countywide baseline data comes from the Labor Market Information Division (LMID) of the California Employment Development Department (EDD). The analysis is based around the 2017 Lake County employment estimates, which are considered the “official” job numbers within the State of California.

TABLE 2: ESTIMATED REMAINING DEVELOPMENT POTENTIAL ON SOUTH LAKEPORT ANNEXATION PARCELS

PARCEL	SITE ADDRESS	ACRES	Development (Vacant, Developed, Underutilized)	% Developed*	Pre-zoning	Pre-zoning Conformance	Maximum Allowed Development	Existing Development Constraints**	Estimated New Bldg. Sq. Ft.
008-003-12	2530 S MAIN ST	0.782	Developed	60%	C-3	Vet Bus/Commercial	40% to B/O	N/A	6,135
005-049-08	2329 S MAIN ST	2.906	Vacant	0%	C-3	N/A	100% to B/O	N/A	56,961
008-003-02	2510 S MAIN ST	2.235	Underutilized	30%	C-3	SFR	70% to B/O	40% in Flood	17,523
005-052-19	2447 S MAIN ST	0.141	Developed	100%	C-3	Storage/Serv. Comm.	Comp B/O	N/A	0
005-052-07	2449 S MAIN ST	0.205	Developed	40%	C-3	Retail/Music Store	60% to B/O	N/A	2,409
005-052-13	2480 S MAIN ST	0.383	Developed	100%	C-3	Contractor Office	Comp B/O	N/A	0
005-052-25	2440 S MAIN ST	1.254	Developed	100%	C-3	Retail/Auto Parts	Comp B/O	N/A	0
005-052-20	2351 S MAIN ST	0.893	Developed	100%	C-3	Retail	Comp B/O	N/A	0
005-052-05	2345 S MAIN ST	1.513	Developed	80%	C-3	Retail	20% to B/O	N/A	5,932
005-052-14	2405 S MAIN ST	0.196	Road	N/A	C-3	N/A	N/A	N/A	
005-052-03	2335 S MAIN ST	0.893	Developed	95%	C-3	Retail/Tire Store	5% to B/O	N/A	875
082-092-14	93 SODA BAY RD	1.235	Developed	100%	C-3	Retail/ Various	Comp B/O	N/A	0
082-092-13	91 SODA BAY RD	0.029	Developed	100%	C-3	Retail/Various	Comp B/O	N/A	0
082-093-10	100 SODA BAY RD	3.483	Underutilized	70%	I	Indus/Retail	30% to B/O	5% Flood/Riparian	15,136
082-092-12	87 SODA BAY RD	0.614	Developed	70%	C-3	Retail/ Auto Dealer	30% to B/O	N/A	3,608
082-092-08	65 SODA BAY RD	0.734	Developed	100%	C-3	Serv. Comm/Office	Comp B/O	N/A	0
082-092-10	75 SODA BAY RD	0.565	Developed	100%	C-3	Serv. Comm/Retail	Comp B/O	N/A	0
082-092-09	73 SODA BAY RD	0.425	Developed	100%	C-3	Serv. Comm/Office	Comp B/O	N/A	0
082-092-11	SODA BAY RD	0.581	Developed	70%	C-3	Retail/ Auto Dealer	30% to B/O	N/A	3,416
082-092-07	SODA BAY RD	1.379	Developed	70%	C-3	Serv. Comm/Propane	30% to B/O	N/A	8,112
082-093-16	SODA BAY RD	6.989	Developed	50%	I	Serv. Comm	50% to B/O	60% Flood	21,310
082-093-04	SODA BAY RD	0.855	Developed	80%	I	Serv. Comm/ Roofing	20% to B/O	N/A	2,607

PARCEL	SITE ADDRESS	ACRES	Development (Vacant, Developed, Underutilized)	% Developed*	Pre-zoning	Pre-zoning Conformance	Maximum Allowed Development	Existing Development Constraints**	Estimated New Bldg. Sq. Ft.
082-093-03	SODA BAY RD	0.993	Developed	80%	I	Serv. Comm/Propane	20% to B/O	N/A	3,027
082-093-14	SODA BAY RD	0.701	Developed	100%	I	Serv. Comm/Boatshop	Comp B/O	N/A	0
082-093-08	SODA BAY RD	1.772	Developed	80%	I	Serv. Comm/Retail	20% to B/O	2% Flood/Riparian	5,295
082-093-09	SODA BAY RD	1.764	Developed	80%	I	Serv. Comm	20% to B/O	3% Flood/Riparian	5,218
082-093-13	SODA BAY RD	1.864	Underutilized	40%	I	Serv. Comm	60% to B/O	N/A	17,049
082-093-05	SODA BAY RD	1.896	Developed	100%	I	Serv. Comm	Comp B/O	N/A	0
082-093-11	SYLVA WY	0.675	Vacant/Equip.	0%	I	Heavy equip. storage	100% to B/O	50% Flood/Riparian	5,143
008-001-01	S MAIN ST	8.409	Developed	30%	C-3	Retail/Comm./SFR	70% to B/O	90% Flood/2% Ripar.	9,231
082-092-06	SODA BAY RD	0.821	Developed	95%	C-3	Serv. Comm	5% to B/O	N/A	805
082-092-02	SODA BAY RD	0.511	Developed	80%	C-3	Serv. Comm	20% to B/O	N/A	2,002
082-092-04	SODA BAY RD	1.615	Vacant	0%	C-3	N/A	100% to B/O	N/A	31,657
008-001-25	SODA BAY RD	26.119	Underutilized	25%	C-3	Retail/Theater	75% to B/O	40% Flood	230,396
082-092-03	SODA BAY RD	0.916	Vacant	0%	C-3	N/A	100% to B/O	N/A	17,951
005-035-10	S MAIN ST	1.463	Developed	100%	C-3	Retail/Gas Station	Comp B/O	N/A	0
082-092-01	SODA BAY RD	1.082	Developed	90%	C-3	Retail/Rest. Fast Food	10% to B/O	N/A	2,121
008-001-02	S MAIN ST	9.104	Underutilized	25%	C-3	Serv. Comm/Retail	75% to B/O	60% Flood/25% Rip	20,076
008-001-03	SODA BAY RD	0.850	Underutilized	25%	C-3	SFR	75% to B/O	N/A	12,494
082-093-15	SODA BAY RD	1.079	Developed	100%	I	Serv. Comm	Comp B/O	10% Flood	0
008-003-05	S MAIN ST	1.431	Developed	100%	C-3	Serv. Comm/Rental	Comp B/O	5% Flood	0
005-053-19	S MAIN ST	0.905	Developed	100%	C-3	Retail/Boat Sales	Comp B/O	N/A	0
005-053-20	S MAIN ST	0.963	Developed	100%	C-3	Serv. Comm/Storage	Comp B/O	N/A	0
005-053-21	S MAIN ST	0.902	Developed	90%	C-3	Serv. Comm	10% to B/O	N/A	1,769
005-053-22	S MAIN ST	0.885	Developed	100%	C-3	Serv. Comm/Storage	Comp B/O	N/A	0
008-003-04	S MAIN ST	7.412	Developed	20%	C-3	Retail/ Sears	80% to B/O	50% Flood	58,119
005-053-18	S MAIN ST	2.973	Developed	100%	C-3	Retail/Boat Sales	Comp B/O	N/A	0
008-003-13	S MAIN ST	12.376	Vacant	0%	C-3	N/A	100% to B/O	40% Flood	145,560

PARCEL	SITE ADDRESS	ACRES	Development (Vacant, Developed, Underutilized)	% Developed*	Pre-zoning	Pre-zoning Conformance	Maximum Allowed Development	Existing Development Constraints**	Estimated New Bldg. Sq. Ft.
005-049-11	S MAIN ST	0.702	Developed	60%	C-3	Serv. Comm/Propane	40% to B/O	N/A	5,506
005-049-12	S MAIN ST	0.764	Developed	30%	C-3	Retail/Music Store	70% to B/O	N/A	10,490
005-052-27	S MAIN ST	4.545	Developed	100%	C-3	Retail/Lumber Yard	Comp B/O	N/A	0
Total C3									653,144
Total Industrial									74,785
Grand Total									727,929

*Areas containing buildings, parking and/or storage areas considered as developed area

**Should be noted that several properties within this area have development constraints based on the presence of Native American cultural resources.

B/O = Build-Out

Serv./Comm= Service Commercial

Source: City of Lakeport, ADE, Inc.

BASELINE SCENARIO

The Baseline scenario is based on the projected job counts from the California Department of Transportation (Caltrans) Long-Term Socio-Economic Forecast for 2018. Under this scenario, the projected employment growth in Lakeport between 2017 and 2050 totals over 1,300 jobs (Table 3). This is about a 0.7 percent annual rate over the whole period compared to a 2.5 percent growth rate between 2010 and 2017.

These projected long-term jobs are highly concentrated in institutional uses, with nearly 1,200 projected new jobs in this category through 2050. Caltrans forecasts that industrial uses will have no net change in the total jobs through 2050, even though the cumulative projected jobs will show modest growth over the short- and medium-term through 2030. Beyond 2030, Caltrans projects a decline in industrial jobs. The projected demand for business space totals about 592,000 sq. ft. through 2050, with over 528,000 sq. ft. coming from institutional uses. It should be noted that over the near-term between 2017 and 2020, the Caltrans forecasts show higher projected employment and square footage demand than the high and moderate growth scenarios, reflecting a longer expansion period coming out of the recession. However, Caltrans expects long-term job growth to be constrained by lack of labor force as population is projected to grow at a slower rate.

TABLE 3: LAKEPORT BASELINE GROWTH SCENARIO JOB AND SQUARE FOOTAGE DEMAND PROJECTIONS, 2017 TO 2050

JOB GROWTH	2017 TO 2020 GROWTH	2017 TO 2025 GROWTH	2017 TO 2030 GROWTH	2017 TO 2040 GROWTH	2017 TO 2050 GROWTH
Industrial	21	19	19	9	0
Office	8	20	28	46	60
Commercial	19	40	63	95	114
Institutional	300	587	778	978	1,153
Total	348	666	888	1,128	1,327
SQUARE FOOTAGE	2017 TO 2020 GROWTH	2017 TO 2025 GROWTH	2017 TO 2030 GROWTH	2017 TO 2040 GROWTH	2017 TO 2050 GROWTH
Industrial	13,872	12,587	12,190	5,890	225
Office	3,141	7,367	10,549	17,287	22,143
Commercial	6,903	14,434	22,872	34,414	41,108
Institutional	137,201	268,765	356,238	447,715	528,231
Total	161,117	303,153	401,850	505,305	591,706

Source: ADE, Inc.; data from US Bureau of Labor Statistics, US Census LEHD, California EDD, Caltrans, and the International Facility Management Association.

MODERATE GROWTH SCENARIO

The moderate growth scenario is based on projected growth rates for Lake County from Woods & Poole, an independent company of economists specializing in long-term economic forecasting. Under this scenario, the projected job growth for Lakeport between 2017 and 2050 totals about 2,200 new positions, an annual growth rate of 1.1 percent (Table 4). Nearly 1,800 of these projected jobs occur in institutional uses. Less than 100 new jobs are projected for industrial and office uses under this scenario. Altogether, the moderate growth scenario projects around 993,000 sq. ft. of new demand for business space, with nearly 811,000 sq. ft. coming from institutional uses.

TABLE 4: LAKEPORT MODERATE GROWTH SCENARIO JOB AND SQUARE FOOTAGE DEMAND PROJECTIONS, 2017 TO 2050

	2017 TO 2020 GROWTH	2017 TO 2025 GROWTH	2017 TO 2030 GROWTH	2017 TO 2040 GROWTH	2017 TO 2050 GROWTH
JOB GROWTH					
Industrial	6	18	27	43	59
Office	9	20	34	55	73
Commercial	36	85	130	224	321
Institutional	222	571	893	1,406	1,770
Total	272	694	1,083	1,728	2,223
SQUARE FOOTAGE					
Industrial	3,888	11,992	17,691	27,997	38,711
Office	3,194	7,471	12,522	20,474	27,118
Commercial	12,907	30,841	47,163	81,219	116,152
Institutional	101,456	261,391	408,765	644,057	810,660
Total	121,445	311,695	486,141	773,747	992,640

Source: ADE, Inc.; data from US Bureau of Labor Statistics, US Census LEHD, California EDD, Woods & Poole, and the International Facility Management Association.

HIGH GROWTH SCENARIO

The high growth scenario is based on the compounded annual growth rates (CAGR) that occurred in Lake County between 2010 and 2017.² Because this represented the recovery period after the Great Recession in which employment grew over an extended period of time, the growth assumptions should be considered a maximum growth scenario.

TABLE 5: LAKEPORT HIGH GROWTH SCENARIO JOB AND SQUARE FOOTAGE DEMAND PROJECTIONS, 2017 TO 2050

	2017 TO 2020 GROWTH	2017 TO 2025 GROWTH	2017 TO 2030 GROWTH	2017 TO 2040 GROWTH	2017 TO 2050 GROWTH
JOB GROWTH					
Industrial	30	105	223	421	1,239
Office	1	7	18	47	210
Commercial	40	114	197	281	521
Institutional	233	683	1,227	1,851	3,803
Total	305	909	1,665	2,600	5,773
SQUARE FOOTAGE					
Industrial	19,874	68,992	146,654	277,144	815,044
Office	485	2,501	6,832	17,302	78,047
Commercial	14,656	41,384	71,369	101,789	188,538
Institutional	106,697	312,684	561,734	847,665	1,741,638
Total	141,713	425,562	786,589	1,243,900	2,823,267

Source: ADE, Inc.; data from US Bureau of Labor Statistics, US Census LEHD, California EDD, and the International Facility Management Association.

Using these assumptions, the analysis found total growth of nearly 5,800 jobs between 2017 and 2050, with most of the projected growth occurring in institutional uses (Table 5). This creates a

² The growth rates by industry were derived from the Quarterly Census of Employment and Wages (QCEW) by the U.S. Bureau of Labor Statistics (BLS). The most recent available annual dataset dates back to 2017.

potential square footage demand of about 2.8 million sq. ft.³ Most of the projected demand comes from institutional uses with 1.7 million sq. ft., while industrial uses have potential demand for about 815,000 sq. ft. of space. It should be noted that most of the projected employment growth for industrial uses comes from the construction industry, which has had unusually strong recent growth. If this trajectory cannot be maintained, then the actual demand for industrial space will be substantially less.

ANALYSIS

Table 2 above indicates that the South Lakeport Annexation Area could support a maximum of about 728,000 sq. ft. of non-residential development. The City General Plan identifies 60 acres of vacant non-residential land within the current boundaries.⁴ Under similar assumptions as the buildout analysis in Table 2, this land would be expected to support a maximum of 1.04 million sq. ft. The annexation area would represent about 41 percent of the City's future development potential. In estimating the timing of development in the annexation area, we have assumed that it would absorb about 41 percent of projected growth under the various scenarios described above.

The buildout estimates indicate that an additional 653,000 sq. ft. of commercial uses could be built in the C3 zone in the project area, of which 252,100 would be on properties that are currently vacant, 280,500 sq. ft. on properties deemed to be underutilized, and 120,500 through intensification of developed parcels. The C3 zone allows a wide range of commercial uses, including medical offices with a zoning permit and residential care facilities with a use permit. Therefore, some of the strong projected growth in institutional uses described above could occur in the South Lakeport area.

Under the baseline scenario, just the vacant C3 properties in South Lakeport alone could take until 2050 to develop, depending on how much non-residential development occurs elsewhere in Lakeport. Under the moderate growth scenario, the vacant commercial properties in the annexation area could develop before 2040 but full buildout would not occur until after 2050. In the high growth scenario, full buildout could occur by about 2045.

The buildout analysis also identifies potential for nearly 75,000 sq. ft. of additional industrial uses. If the construction industry continues to expand in the Lakeport area, it could lead to full development of the industrial properties before 2030, which is reflected in the high growth scenario. However, if that does not occur, the baseline and moderate projections above suggest that the industrial properties would not achieve full buildout until well after 2050.

For purposes of the fiscal analysis below, we have included a 2030 projection based on the moderate growth scenario as well as full buildout scenario of 728,000 sq. ft. The projected mix of uses is shown below in Table 6 for both alternatives.

³ The employment density (square feet per job) benchmarks come from the International Facility Management Association's *Space and Project Management Benchmarks* research report.

⁴ City of Lakeport, General Plan 2025. August 2009. p. III-4.

**TABLE 6: DEVELOPMENT ABSORPTION PROJECTIONS
FOR SOUTH LAKEPORT ANNEXATION AREA: 2030 AND BUILDOUT**

Land Use	2030	Buildout
Industrial	7,253	74,785
Office	5,134	18,567
Commercial	19,337	79,528
Institutional	167,594	555,049
Total	199,318	727,929

Source: ADE, Inc.

FISCAL ANALYSIS

INTRODUCTION

The Lake County Local Agency Formation Commission (LAFCo) has authority to approve the proposed South Lakeport annexation. LAFCo has adopted a Revenue Neutrality policy to outline the fiscal conditions under which an annexation may be approved:

Lake LAFCo Policies, Standards and Procedures (excerpt pp. 13-14)

May 20, 2009 Resolution 2009-0007

Amended May 21, 2014; Resolution 2014-0003

2.13. Revenue Neutrality

a) Revenue Neutrality Applicable to All Proposals. LAFCo will approve a proposal for a change of organization or reorganization only if the Commission finds that the proposal will result in a similar exchange of both revenues and service responsibilities among all affected agencies. A proposal is deemed to have met this standard if the amount of revenue that will be transferred from an agency or agencies currently providing service in the subject territory to the proposed service-providing agency is substantially equal to the expense the current service provider bears in providing the services to be transferred.

b) Adjustment to Create Revenue Neutrality. In the event the expense to the new service provider is substantially greater than or less than that amount of revenue transferred from the current service provider, the current service provider and new service providing agency must agree to revenue transfer provisions to compensate for the imbalance. Such provisions may include, but are not limited to, tax-sharing, lumpsum payments, and payments over a fixed period of time.

c) Failure to Achieve Revenue Neutrality. Where achieving substantial revenue neutrality is not possible because of the limitations of state law, the Commission shall impose all feasible conditions available to reduce any revenue imbalance, or it may deny the proposal. The Commission recognizes that strict compliance with the revenue neutrality standard may be infeasible for certain proposals and that the need for service may sometimes outweigh the requirement for complete revenue neutrality. Where the failure to achieve revenue neutrality is primarily due to the disagreement of the affected agencies, the Commission shall normally deny the application.

d) Revenue Sharing Agreements. Paragraphs a, b, and c of this section will be considered to be complied with if:

i) The affected agencies have agreed to a specific revenue split for the proposal and have filed a copy of that agreement with the Executive Officer with a statement that the agreement adequately provides for revenue neutrality, or

ii) A master tax exchange agreement or agreed-upon formula is in effect between the affected agencies and the agencies confirm in writing that such agreement is applicable to this proposal and that it provides for a balanced exchange of service costs and revenue.

On February 18, 1997, the City of Lakeport and the County of Lake entered into an agreement for revenue redistribution pertaining to the City of Lakeport South Lakeport Reorganization – Phase I. Subsequent agreements were adopted in 2001 and 2002 related to the timing of the road improvement and utility undergrounding project on South Main Street and Soda Bay Rd. Design and environmental review for that project are complete, funding is being assembled, and construction is anticipated to commence in 2021.

The 1997 Agreement laid out a redistribution of property tax and sales tax in the event of annexation of the area to the City. The subsequent agreements did not alter these tax sharing formulas.

The purpose of the fiscal analysis is to describe the quantitative distribution of tax revenues resulting from the annexation and to evaluate the remaining service responsibilities of the City and the County in compliance with LAFCo's Revenue Neutrality policy. This chapter begins with discussion of the property tax and sales tax distribution provisions and then addresses the service cost responsibilities of the City and the County.

PROPERTY TAX

The Agreement addresses the distribution of property taxes for the County General Fund, the County Road Fund and the Lakeport County Fire Protection District. At the time of the Agreement, the Fire District served only the unincorporated area around Lakeport. In 2000, the Fire District merged with the City Fire Department and now provides fire protection services both within Lakeport and in the surrounding County area, including the South Lakeport Annexation Area.⁵ Given this situation, we expect there will be no property tax redistribution between the Fire District and the City as a result of the proposed annexation. We focus therefore only on the redistribution between the City and the County General Fund and Road Fund. The Agreement specifies that no other taxing agency or County Fund is to be affected by the annexation.

The Agreement property tax provisions are summarized as follows:

- The base property tax currently allocated to the County General Fund shall not be changed as a result of the annexation.
- The base property tax currently allocated to the County Road Fund will be transferred to the City. In addition, all future tax increments that would otherwise have been allocated to the County Road Fund shall instead be transferred to the City.
- The portion of future tax increment in the annexed area which would otherwise be allocated to the County General Fund, shall be divided between the County General Fund and the City of Lakeport based on the same proportionate share each of the two entities receives in tax rate area (TRA) 001-001, which is a contiguous tax rate area within the present boundaries of the City of Lakeport.

⁵ Lake LAFCo, City of Lakeport Municipal Services Review, July 18, 2012. p. 21.

Since the time of the Agreement, TRA 001-001 has been retired, but we have obtained the tax allocation factors for TRA 001-002, which is within the City of Lakeport, from the County Auditor.⁶ Table 7 shows the tax allocation factors for the two TRA's currently in the annexation area and TRA 001-002. The gross AB8 factors were supplied by the County Auditor. ADE adjusted the factors to reflect the state mandated shift to the Education Revenue Augmentation Fund (ERAF) to obtain the net factors shown in the right-hand column of Table 7.⁷

The current assessed value of the annexation area is \$23.8 million, of which \$16.25 million is in TRA 057-032 and \$7.55 million is in TRA 057-042. The total base property tax paid by property owners in the annexation area is currently \$238,051 per year, of which the County General Fund receives \$57,896 and the County Road Fund receives \$3,415. Under the provisions of the Agreement, after the annexation the County General Fund would continue to receive a share of property taxes, but the County Road Fund share would be transferred to the City.

The projected incremental growth to 2030 would increase assessed values in the annexation area by about \$39 million in 2019 dollars. This is based on recent retail and service commercial property sales in Lake County, which have averaged between \$150 and \$250 per sq. ft., and does not include annual assessed value escalations on existing property. Under Proposition 13, assessed values may be increased up to two percent per year, or up to current market value when properties are sold. For illustrative purposes, however, the \$39 million in assessed value related to new construction would generate \$390,000 per year in property tax increment. Based on the tax allocation factors for TRA 001-002 in Table 6, the County General Fund would receive approximately 19.6 percent of this tax revenue, or \$76,400 per year. The City of Lakeport would receive about 11.9 percent, or \$46,250 per year.

If the proposed annexation area achieves maximum buildout as estimated in Table 2 above, ADE estimates the assessed value of the area would increase by \$144.4 million in 2019 dollars. The County's annual base property tax allocation would be \$282,900 and the City's annual share would be \$171,260.

⁶ Amanda Johnson, Property Tax Coordinator, County of Lake, Auditor-Controller/County Clerk's Office, email communication, January 31, 2019.

⁷ Lake County Auditor-Controller/County Clerk's Office, Allocated Amounts & Apportionment Factors Net ERAF, Fiscal Year Ending June 30, 2019. Downloaded January 21, 2019.

TABLE 7: TAX ALLOCATION FACTORS FOR SOUTH LAKEPORT ANNEXATION AREA TRAs (057-032 AND 057-042) AND TRA 001-002 WITHIN THE CITY OF LAKEPORT

TRA	Tax Code	Agency	Gross AB8 Increment Factor	ERAF	Net AB8 Increment Factor
001-002	10000	General County	0.2855350	0.6860465	0.1958903
001-002	12500	Co. Library	0.0117940	0.8716060	0.0102797
001-002	13100	Fish & Game	0.0012420	0.8839694	0.0010979
001-002	20000	Flood - General	0.0086900	0.8794328	0.0076423
001-002	30100	Hartley Cemetery	0.0105530	0.8452356	0.0089198
001-002	35400	Lakeport Fire	0.1559350	0.8522658	0.1328980
001-002	37100	Lake Co. Vector Control	0.0173810	0.8982442	0.0156124
001-002	42300	Lakeport City	0.1277400	0.8160213	0.1042386
001-002	45000	Co Office of Ed.	0.0260710	1.0000000	0.0260710
001-002	45300	Lakeport Unified	0.2973310	1.0000000	0.2973310
001-002	46100	Mendocino College	0.0577280	1.0000000	0.0577280
		ERAF			0.1422910
Total			1.0000000		1.0000000
057-032	10000	General County	0.3542370	0.6860465	0.2430231
057-032	10300	Road	0.0232060	0.6177081	0.0143345
057-032	12500	Co. Library	0.0142490	0.8716060	0.0124195
057-032	13100	Fish & Game	0.0011860	0.8839694	0.0010484
057-032	20000	Flood - General	0.0103190	0.8794328	0.0090749
057-032	20500	Flood Zone 5	0.0023360	0.5967941	0.0013941
057-032	30100	Hartley Cemetery	0.0132750	0.8452356	0.0112205
057-032	35400	Lakeport Fire	0.0913010	0.8522658	0.0778127
057-032	37100	Lake Co. Vector Control	0.0217010	0.8982442	0.0194928
057-032	45000	Co Office of Ed.	0.0315960	1.0000000	0.0315960
057-032	45300	Lakeport Unified	0.3654900	1.0000000	0.3654900
057-032	46100	Mendocino College	0.0711040	1.0000000	0.0711040
		ERAF			0.3850126
Total			1.0000000		1.0000000
057-042	10000	General County	0.3550780	0.6860465	0.2436000
057-042	10300	Road	0.0232570	0.6177081	0.0143660
057-042	12500	Co. Library	0.0142700	0.8716060	0.0124378
057-042	13100	Fish & Game	0.0011830	0.8839694	0.0010457
057-042	20000	Flood - General	0.0103530	0.8794328	0.0091048
057-042	30100	Hartley Cemetery	0.0133200	0.8452356	0.0112585
057-042	35400	Lakeport Fire	0.0915100	0.8522658	0.0779908
057-042	37100	Lake Co. Vector Control	0.0217560	0.8982442	0.0195422
057-042	45000	Co Office of Ed.	0.0316590	1.0000000	0.0316590
057-042	45300	Lakeport Unified	0.3663430	1.0000000	0.3663430
057-042	46100	Mendocino College	0.0712710	1.0000000	0.0712710
		ERAF			0.1413810
Total			1.0000000		1.0000000

Source: Lake County Auditor-Controller/County Clerk's Office, ADE, Inc.

SALES TAX

The Agreement also specifies the distribution of sales tax from the annexation area. At the time of the Agreement, it was estimated that the area generated about \$60,000 per year in sales taxes for the County. Upon annexation, sales tax revenue would transfer to the City. However, the Agreement outlines the following amortization schedule for the City to reimburse the County in order to reduce the impact of the loss of sales tax revenues:

<u>Year</u>	<u>Amount to be Paid by City to County</u>
1	\$52,500
2	\$45,000
3	\$37,500
4	\$30,000
5	\$22,500
6	\$15,000
7	\$0

Thus, over six years, the County would receive \$210,000. The Agreement stipulates that if actual sales tax revenues are higher at the time of annexation, this amortization schedule nevertheless remains in effect.

The County CAO has disclosed that the actual sales tax receipts for the County from the South Lakeport Annexation area were \$463,953 for FY 2016-2017.⁸ It is likely that as of this writing in FY 2018-2019, sales tax receipts would have grown by five percent or more, and now total about \$490,000 per year.

The voters of the City of Lakeport have adopted two sales tax augmentation measures. Measure I adds a one-half percent tax and Measure Z adds an additional one percent tax. Combined with the base sales tax, ADE estimates the City would receive a total of about \$1.15 million per year in sales tax from the annexation area, less the amounts paid to the County over the six-year amortization period.⁹

Projected incremental growth by 2030 would add an estimated 19,337 sq. ft. of commercial development, which could increase total sales tax revenues to the City by about \$56,600 per year. If the annexation area achieves maximum buildout as estimated in Table 2 above and the new retail development generates sales tax at the same rate as the existing retail stores, such future development could add another \$93,000 in 2019 dollars to the City's base sales tax receipts after annexation, resulting in a total increase of \$236,600 per year including Measure I and Z.

⁸ Carol J. Hutchingson, Lake County Administrative Officer, email communication, February 6, 2019.

⁹ Note that car and boat sales to non-City residents would not pay the additional Measure Z or I tax rates.

The sections below discuss the municipal service cost obligations of the City and the County after annexation and evaluate the balance between the revenue allocations described above and the level of future service cost obligation for each jurisdiction.

CITY SERVICE COSTS AND OTHER REVENUES

In order to evaluate the fiscal impact of the annexation on City of Lakeport service costs, ADE prepared an analysis of the City budget and per capita cost and revenue factors. In the current General Fund budget (FY 2018-2019), the City projects \$5.76 million in revenues and \$5.97 million in expenditures (Table 8). The budget is structurally balanced and the small deficit shown in the Table is due to General Fund support of capital improvement projects using prior revenues.

TABLE 8: CITY OF LAKEPORT GENERAL FUND BUDGET FISCAL YEAR 2018-2019

Budget Category	Budget Amount
Revenues	
Taxes	\$4,749,040
Franchise Fees	\$206,000
Permits	\$72,500
Licenses	\$1,550
Fines/ Forfeitures/Penalties	\$15,500
Intergovernmental	\$244,000
Charges for Services	\$54,510
Use of Money & Property	\$52,000
Other Revenues	\$163,060
Interfund Transfers	\$198,500
General Funds Subtotal	\$5,756,660
Expenditures	
General Administration	\$796,065
Police	\$2,117,915
Public Works Admin/Eng	\$274,577
Street Maintenance	\$1,275,439
Park/Bldg. Maintenance	\$595,535
Community Development	\$440,975
Non-Departmental	\$474,722
General Fund Subtotal	\$5,975,227
Net Revenue/(Cost)	(\$218,567)

Source: City of Lakeport Annual Budget FY 2018-19

The Taxes category in Table 8 includes property, sales, and transient occupancy taxes. For other revenues that may be affected by the businesses in the annexation area, as well as costs for services, ADE used a per capita estimating approach. The service population for Lakeport includes the resident population, the jobs located in town and visitors to the City. It is a standard metric in fiscal impact analysis that businesses, as represented by the jobs they provide, require one-half the level of municipal services as do full time residents of the City. The State Department of Finance reports that the City population is 5,134 as of January 2018. ADE estimates there are 3,835 jobs located in the City based on data from the Local Employer-Household Dynamics (LEHD) data set and State

Employment Development Department (EDD). We estimate the service population for Lakeport is 5,134 persons plus one half 3,835 for a total of 7,051. Residential uses account for about 73 percent of the demand for City services. We also estimate residents account for a similar percentage of incidental revenues such as franchise fees, fines and forfeitures and City charges for service.

ADE made certain adjustments to City revenues and costs prior to calculating the per capita factors. Since the analysis is intended to analyze ongoing impacts of existing development, we have removed the permit fees associated with new construction and the development entitlement process, and we have reduced the Community Development cost budget accordingly. In addition, we have excluded intergovernmental revenues, which typically are more affected by residents than businesses, which mainly occupy the proposed annexation area. Finally, we excluded \$169,000 in interfund service revenue and a similar amount for General Administration services. It should be noted as well that while the City of Lakeport would provide sewer and water services to the annexation area, the costs of providing those services are covered by user fees and thus, there is no associated net cost.

With these adjustments, ADE calculated the per capita revenue and cost factors shown in Table 9 below. Most of the revenues and cost follow the 73%/27% split discussed above, with the exception of Licenses, which are mainly business licenses. Two budget categories not shown in Table 9 are Use of Money and Property, which is essentially interest on the City's bank accounts plus rental fees of City facilities. This revenue is calculated as one percent of the other revenues, based on figures from the City budget. Also, the General Administration category is charged as a percent overhead on other City service costs. The City General Fund budget indicates that General Administration costs represent about 12.9 percent of total General Fund costs. General Administration costs include the administration department, city council costs, city attorney costs and the finance and IT department.

TABLE 9: PER CAPITA REVENUE AND COST FACTORS, CITY OF LAKEPORT

Budget Category	Residential		Business	
	Share	Per Resident	Share	Per Employee
Revenues				
Franchise Fees	73%	\$29.21	27%	\$14.61
Licenses	10%	\$0.03	90%	\$0.36
Fines/ Forfeitures/Penalties	73%	\$2.20	27%	\$1.10
Charges for Services	73%	\$7.73	27%	\$3.87
Other Revenues	73%	\$23.12	27%	\$11.56
Costs				
General Administration	73%	\$88.93	27%	\$44.46
Police	73%	\$265.75	27%	\$132.88
Public Works Admin/Eng	73%	\$38.94	27%	\$19.47
Roads and Infrastructure	73%	\$180.88	27%	\$90.44
Park/Bldg. Maintenance	73%	\$84.46	27%	\$42.23
Community Development	73%	\$52.26	27%	\$26.13
Non-Departmental	73%	\$67.32	27%	\$33.66

Source: ADE, Inc.

NET FISCAL IMPACT ON THE CITY OF LAKEPORT

Combining the property and sales tax analysis above with the per capita revenue and cost analysis, ADE estimates that the proposed annexation will generate a net positive fiscal impact for the City of about \$950,200 per year (Table 10). This is mainly due to the voter approved sales tax measures that Lakeport has in place, which increase the base sales taxes by 150% over what the County currently receives from the same businesses. The residential and industrial uses actually would create a small negative impact due to their low assessed values. However, over time if these properties are sold and their assessed values are brought up to market value, this negative fiscal impact would likely be mitigated.

TABLE 10: ANNUAL NET FISCAL IMPACT FOR THE CITY OF LAKEPORT OF EXISTING LAND USES IN SOUTH LAKEPORT ANNEXATION AREA

Budget Category	Total	Vacant	Residential	Retail	Light Industrial
REVENUES					
Property Tax	\$3,415	\$30	\$46	\$2,543	\$796
Sales Tax	\$490,000	\$0	\$0	\$490,000	\$0
Measure I	\$220,500	\$0		\$220,500	\$0
Measure Z	\$441,000	\$0		\$441,000	\$0
Franchise Fees	\$8,837	\$0	\$526	\$4,674	\$3,637
Licenses	\$208	\$0	\$1	\$116	\$91
Fines/ Forfeitures/Penalties	\$665	\$0	\$40	\$352	\$274
Charges for Services	\$2,338	\$0	\$139	\$1,237	\$962
Use of Money & Property	\$11,763	\$0	\$12	\$11,664	\$87
Other Revenues	\$6,995	\$0	\$416	\$3,700	\$2,879
Total Revenue	\$1,185,721	\$30	\$1,179	\$1,175,786	\$8,726
EXPENDITURES					
General Administration	\$26,901	\$0	\$1,601	\$14,229	\$11,072
Police	\$80,391	\$0	\$4,784	\$42,521	\$33,086
Public Works Admin/Eng	\$11,779	\$0	\$701	\$6,230	\$4,848
Roads and Infrastructure	\$54,716	\$0	\$3,256	\$28,941	\$22,519
Park/Bldg. Maintenance	\$25,548	\$0	\$1,520	\$13,513	\$10,515
Community Development	\$15,807	\$0	\$941	\$8,361	\$6,506
Non-Departmental	\$20,365	\$0	\$1,212	\$10,772	\$8,382
Total Expenditures	\$235,508	\$0	\$14,014	\$124,566	\$96,928
NET SURPLUS/(DEFICIT)	\$950,213	\$30	(\$12,835)	\$1,051,220	(\$88,203)

Source: ADE, Inc.

ADE has also estimated the potential fiscal impact of future growth to 2030 in the annexation area for the City of Lakeport (Table 11). Projected future growth includes a much lower proportion of commercial development than is currently located in the annexation area. The prevalence of institutional uses reduces the fiscal benefit of future growth due to the lower levels of taxable retail

sales. ADE estimates the 2030 growth increment would generate a net cost to the City of about \$85,400 per year. If buildout occurs as estimated in Table 2 above, this deficit would increase to about \$263,400 (Table 12). However, combined with the initial net gain upon annexation, the City would still realize net positive revenues of about \$686,840 per year at maximum buildout.

TABLE 11: ANNUAL NET FISCAL IMPACT FOR THE CITY OF LAKEPORT OF PROJECTED 2019-2030 GROWTH IN SOUTH LAKEPORT ANNEXATION AREA

Budget Category	Total	Light Industrial	Office	Commercial	Institutional
REVENUES					
Property Tax	\$46,251	\$2,150	\$913	\$3,440	\$39,748
Sales Tax	\$22,624	\$0	\$0	\$22,624	\$0
Measure I	\$11,312			\$11,312	
Measure Z	\$22,624			\$22,624	
Franchise Fees	\$6,488	\$161	\$202	\$780	\$5,345
Licenses	\$162	\$4	\$5	\$19	\$133
Fines/ Forfeitures/Penalties	\$488	\$12	\$15	\$59	\$402
Charges for Services	\$1,717	\$43	\$53	\$206	\$1,414
Use of Money & Property	\$1,170	\$25	\$14	\$618	\$514
Other Revenues	\$5,136	\$127	\$160	\$618	\$4,231
Total Revenue	\$117,972	\$2,522	\$1,361	\$62,301	\$51,787
EXPENDITURES					
General Administration	\$23,225	\$490	\$740	\$2,375	\$19,620
Police	\$59,020	\$1,465	\$1,834	\$7,098	\$48,623
Public Works Admin/Eng	\$35,597	\$215	\$1,248	\$1,040	\$33,094
Roads and Infrastructure	\$40,170	\$997	\$1,248	\$4,831	\$33,094
Park/Bldg. Maintenance	\$18,757	\$465	\$583	\$2,256	\$15,453
Community Development	\$11,605	\$288	\$361	\$1,396	\$9,561
Non-Departmental	\$14,951	\$371	\$465	\$1,798	\$12,318
Total Expenditures	\$203,325	\$4,291	\$6,478	\$20,794	\$171,762
NET SURPLUS/(DEFICIT)	(\$85,353)	(\$1,768)	(\$5,117)	\$41,507	(\$119,975)

Source: ADE, Inc.

Table 12: ANNUAL NET FISCAL IMPACT FOR THE CITY OF LAKEPORT OF MAXIMUM BUILDOUT IN SOUTH LAKEPORT ANNEXATION AREA

Budget Category	Total	Light Industrial	Office	Commercial	Institutional
REVENUES					
Property Tax	\$171,258	\$22,171	\$3,303	\$14,146	\$131,639
Sales Tax	\$93,048	\$0	\$0	\$93,048	\$0
Measure I	\$46,524			\$46,524	
Measure Z	\$93,048			\$93,048	
Franchise Fees	\$23,301	\$1,660	\$729	\$3,209	\$17,702
Licenses	\$580	\$41	\$18	\$80	\$441
Fines/ Forfeitures/Penalties	\$1,753	\$125	\$55	\$241	\$1,332
Charges for Services	\$6,166	\$439	\$193	\$849	\$4,684
Use of Money & Property	\$4,550	\$258	\$49	\$2,542	\$1,701

Budget Category	Total	Light Industrial	Office	Commercial	Institutional
Other Revenues	\$18,444	\$1,314	\$577	\$2,540	\$14,012
General Funds Subtotal	\$458,671	\$26,008	\$4,924	\$256,227	\$171,512
EXPENDITURES	\$0				
General Administration	\$82,476	\$5,054	\$2,676	\$9,768	\$64,977
Police	\$211,959	\$15,102	\$6,632	\$29,192	\$161,033
Public Works Admin/Eng	\$120,608	\$2,213	\$4,514	\$4,277	\$109,604
Roads and Infrastructure	\$144,265	\$10,279	\$4,514	\$19,869	\$109,604
Park/Bldg. Maintenance	\$67,361	\$4,799	\$2,108	\$9,277	\$51,177
Community Development	\$41,678	\$2,970	\$1,304	\$5,740	\$31,665
Non-Departmental	\$53,696	\$3,826	\$1,680	\$7,395	\$40,795
General Fund Subtotal	\$722,043	\$44,242	\$23,428	\$85,519	\$568,854
NET SURPLUS/(DEFICIT)	(\$263,372)	(\$18,234)	(\$18,504)	\$170,708	(\$397,342)

Source: ADE, Inc

FISCAL IMPACT FOR LAKE COUNTY

Upon annexation, the County of Lake would no longer be responsible for police protection, street maintenance, or planning services for the annexation area. The County would continue to provide certain services for which it has countywide responsibility, such as property assessment and recording, criminal justice, public protection functions such as environmental health and public health, as well as County health care and public assistance programs. Since the City of Lakeport would take over the sewer collection system in the annexation area, the costs associated with its operation, maintenance and repair would be transferred from the County (Lake County Sanitation District, "LACOSAN") to the City. However, since those costs are covered by user fees, there would be no net fiscal effect.

The County's total estimated appropriations for Fiscal Year 2018-2019 are \$242,986,990. Significant portions of the County budget are supported by state and federal funds earmarked for specific programs or purposes. This is especially true for health care and criminal justice services. However, a portion of most County services is funded through local tax revenues, which is referred to as the Net County Cost for services. Table 13 summarizes the Net County Cost by major function for the Fiscal Year 2018-2019 budget. The detailed programs or services that comprise the major function categories are provided in the Appendix.

Similar to the approach for the City cost above, ADE estimated per capita cost factors for countywide services applicable to the proposed annexation area (Table 14). The factors are calculated on the basis of a total county population of 65,081 from the State Department of Finance and a count of 16,840 jobs in the county from the State EDD. In addition to the services listed in the table, the analysis includes costs for General County Administration. The Net County Cost for Administration of \$11.2 million is 4.6 percent of the total County budget of \$243.0 million. This factor is applied to direct costs estimated for the annexation area.

TABLE 13: COUNTY OF LAKE NET COUNTY COST BY MAJOR FUNCTION, FY 2018-2019

Major County Function	Net County Cost
General Administration	\$11,178,020
Police Protection	\$10,059,116
Capital Projects	\$3,545,248
Roads	\$2,996,540
Library	\$108,000
Criminal Justice	\$16,614,915
Other Public Protection	\$5,715,616
Parks & Rec	1385349
Health Services	\$854,400
Social Services	\$5,902,291
Total	\$58,359,495

Source: County of Lake, Final Recommended Budget, FY 2018-2019

TABLE 14: PER CAPITA COSTS FOR COUNTYWIDE SERVICES

Budget Category	Residential		Business	
	Share	Per Resident	Share	Per Employee
Library Fund	89%	\$1.47	11%	\$0.73
Criminal Justice	89%	\$226.05	11%	\$113.03
Other Public Protection	89%	\$77.76	11%	\$38.88
Parks & Rec	100%	\$21.29	0%	\$0.00
Health Services	100%	\$13.13	0%	\$0.00
Social Services	100%	\$90.69	0%	\$0.00

Source: ADE, Inc.

The County Budget Units included under Other Public Protection are limited to those functions that apply to the land uses in the annexation area after it is incorporated into the City. As mentioned above, these functions include environmental health, public health, the County airport and the Air Pollution Control District, among others. These functions are listed by Budget Unit in Table 15.

TABLE 15: COUNTY "OTHER PROTECTION" FUNCTIONS PROVIDED TO SOUTH LAKEPORT AREA AFTER ANNEXATION

Budget Unit No.	Function	Net County Cost
1672	Lakebed Control	\$37,432
1920	Disaster Response	\$0
2703	Animal Control	\$828,459
3122	Airport	\$20,497
4010	Environmental Health	\$27,754
4011	Public Health	\$466,791
4121	Integrated Waste Mgmt	\$2,465,521
8799	Air Pollution Control Dist.	\$44,978

Source: ADE, Inc.

The results of the fiscal analysis for existing land uses in the annexation area are shown in Table 16. The property tax revenue calculations were described in the section above. The base property tax includes both the General Fund allocation and the Library Fund. Counties and cities also receive an additional property tax allotment from the state in lieu of vehicle license fees (PTILVLF). This is separate from the local AB8 tax allocation process and was instituted in 2004 as part of the State budget legislation at that time. Local jurisdictions receive increases in PTIVLF based on annual increases in assessed value and County allocations are based on total assessed value in the County, not just in the unincorporated area. Therefore, the County should continue to receive a portion of these revenues based on growth in assessed value in the South Lakeport Annexation Area. Based on the existing assessed value in the project area, we estimate it has grown at least \$6.1 million since 2004 based on the allowable two percent increases under Proposition 13. On this basis, the area is generating about \$17,200 per year in PTILVF for the County currently, as shown in the table.

The charges for service shown in Table 16 are mainly revenues related to the Assessor's function. The use of money and property is based on county bank interest receipts, which equate to about one percent of annual Non-Departmental revenues. In total, it is estimated the County will continue to receive about \$80,200 per year generated from properties in the South Lakeport Annexation Area.

TABLE 16: ANNUAL COST/REVENUE BALANCE FOR LAKE COUNTY AFTER ANNEXATION OF THE SOUTH LAKEPORT AREA

Budget Category	Total	Vacant	Residential	Retail	Light Industrial
REVENUES					
Base Property Tax	\$60,853	\$537	\$816	\$45,314	\$14,187
VLF Prop Tax	\$17,219	\$152	\$231	\$12,822	\$4,014
Charges for Services	\$682	\$0	\$41	\$361	\$281
Use of Money & Property	\$1,446	\$13	\$20	\$1,074	\$339
Total Revenue	\$80,201	\$701	\$1,107	\$59,571	\$18,821
EXPENDITURES					
General Administration	\$3,903	\$0	\$232	\$2,064	\$1,606
Library Fund	\$444	\$0	\$26	\$235	\$183
Criminal Justice	\$68,380	\$0	\$4,069	\$36,168	\$28,143
Other Public Protection	\$16,016	\$0	\$953	\$8,471	\$6,592
Health Services	\$236	\$0	\$236	\$0	\$0
Social Services	\$1,632	\$0	\$1,632	\$0	\$0
Total Expenditures	\$88,743	\$0	\$5,281	\$46,938	\$36,524
NET SURPLUS/(DEFICIT)	(\$8,542)	\$701	(\$4,173)	\$12,633	(\$17,703)

Source: ADE, Inc.

The major cost obligation of the County would be in Criminal Justice. Although the City of Lakeport Police Department will provide patrol and police protection services, the County funds operation of the court system and the jail and related detention services. The residential uses may have some potential need for health services and social services from the County. Both the residential uses and the

industrial uses are projected to create fiscal deficits for the County due to their relatively low assessed values. While the retail properties would generate a surplus, the County is estimated to incur a small annual deficit of about \$8,500 per year after annexation. This would be mitigated for many years by the \$210,000 in sales tax payments the City would make to the County. The deficit would also likely be short-lived, as discussed below, as new development would produce a positive fiscal benefit for the County.

New development in the annexation area would have higher average assessed values than do the current properties in the area. ADE estimates the incremental growth out to 2030 would generate a net positive fiscal benefit for the County of nearly \$51,800 per year (Table_17). This is also partially due to the additional property tax in lieu of VLF, which is driven by growth in assessed value.

If the South Lakeport Annexation Area is built out according to the estimates in Table 2 above, the additional development would generate a more significant budget surplus for the County, estimated at more than \$199,000 per year (Table 18). In addition, the buildout estimates assume redevelopment of the residential properties, as they are non-conforming with City zoning. If that occurs, it would eliminate the small fiscal deficit estimated from those properties in Table 16 above.

Table 17: ANNUAL COST/REVENUE BALANCE FOR LAKE COUNTY GENERATED BY INCREMENTAL GROWTH BY 2030 OF THE SOUTH LAKEPORT AREA

Budget Category	Total	Light Industrial	Office	Commercial	Institutional
REVENUES					
Base Property Tax	\$76,403	\$3,552	\$1,509	\$5,682	\$65,660
VLF Prop Tax	\$38,176	\$1,775	\$754	\$2,839	\$32,809
Charges for Services	\$500	\$12	\$15	\$60	\$412
Use of Money & Property	\$2,114	\$98	\$42	\$158	\$1,816
Total Revenue	\$117,193	\$5,437	\$2,319	\$8,739	\$100,697
EXPENDITURES					
General Administration	\$2,877	\$71	\$88	\$345	\$2,373
Road Fund	\$279	\$0	\$10	\$0	\$269
Library Fund	\$326	\$8	\$10	\$39	\$269
Criminal Justice	\$50,177	\$1,246	\$1,535	\$6,037	\$41,359
Other Public Protection	\$11,752	\$292	\$360	\$1,414	\$9,687
Total Expenditures	\$65,411	\$1,617	\$2,003	\$7,835	\$53,956
NET SURPLUS/(DEFICIT)	\$51,782	\$3,820	\$317	\$903	\$46,741

Source: ADE, Inc.

TABLE 18: ANNUAL COST/REVENUE BALANCE FOR LAKE COUNTY GENERATED BY INCREMENTAL BUILDOUT OF THE SOUTH LAKEPORT AREA

Budget Category	Total	Light Industrial	Office	Commercial	Institutional
REVENUES					
Base Property Tax	\$282,905	\$36,624	\$5,456	\$23,368	\$217,457
VLF Prop Tax	\$141,361	\$18,300	\$2,726	\$11,676	\$108,658
Charges for Services	\$1,797	\$128	\$55	\$248	\$1,366
Use of Money & Property	\$7,825	\$1,011	\$151	\$648	\$6,015
Total Revenue	\$433,888	\$56,064	\$8,388	\$35,940	\$333,496
EXPENDITURES					
General Administration	\$10,328	\$733	\$319	\$1,417	\$7,859
Road Fund	\$926	\$0	\$36	\$0	\$890
Library Fund	\$1,171	\$84	\$36	\$161	\$890
Criminal Justice	\$180,203	\$12,846	\$5,552	\$24,831	\$136,975
Other Public Protection	\$42,206	\$3,009	\$1,300	\$5,816	\$32,081
Total Expenditures	\$234,834	\$16,671	\$7,243	\$32,225	\$178,696
NET SURPLUS/(DEFICIT)	\$199,054	\$39,392	\$1,146	\$3,716	\$154,800

Source: ADE, Inc.

CONCLUSION

The revenue sharing agreement in place between the City of Lakeport and the County of Lake provides sufficient revenue for both jurisdictions to meet their service obligations post annexation. The terms of the Agreement therefore meet the standards of the Lake LAFCo Revenue Neutrality policy that require annexations to provide sufficient revenues to both jurisdictions to fund necessary governmental services.

Future development in the project area would be expected to produce a better cost revenue outcome for the County than do the existing land uses due to higher assessed values. The City would see higher service costs in relation to revenues for future development, but the initial sales tax gain would mitigate this fiscal impact for the City. Long-term growth projections for Lake County and the City of Lakeport suggest that buildout of the annexation area would most likely extend beyond 2050, except under extraordinary accelerated growth assumptions.

APPENDIX: NET COUNTY COSTS

Budget Unit No.	Description	Net County Cost
General Administration		
1011	Bd. Of Supervisors	\$434,631
1012	County Administrator Office	\$919,568
1014	Clerk of the Board	\$95,733
1120	Non-Departmental	\$0
1121	Auditor/Controller	\$755,252
1122	Treasurer/Tax Collector	\$465,718
1123	Assessor	\$1,133,612
1124	Central Services	\$98,117
1231	County Counsel	\$710,789
1341	Human Resources	\$718,592
1451	Registrar of Voters	\$611,910
1671	Buildings and Grounds	\$1,447,774
1892	Marketing and ED	\$0
1904	IT	\$1,073,113
2707	Recorder	\$0
2708	Assessor micrographics	\$107,713
9917	Dental Vision	\$53,884
9918	UE	\$20,661
9919	Public Liability	\$1,804,510
9920	Workers Comp	\$726,443
Police Protection		
2201	Sheriff Coroner	\$8,842,422
2202	Sheriff Central Dispatch	\$1,130,094
2207	Sheriff Civil	\$86,600
Capital Projects		
1674	Flood Corridor	\$130,976
1778	Capital Projects	\$377,000
1781	Special Projects	\$1,698,475
1785	Public Safety Facilities	\$1,163,793
1903	PW Admin	\$0
1908	PW Eng and Insp	\$175,004
Roads		
3011	Road Fund	\$2,996,540
Library		
6022	Library Fund	\$108,000
Criminal Justice		
2101	Trial Courts	\$0
2106	Grand Jurors	\$65,000
2110	District Atty	\$3,132,025
2111	Public Defender	\$1,497,633
2112	Child Support	\$61,000
2113	Victim Witness Div.	\$46,618
2115	Domestic Violence	\$2,360

Budget Unit No.	Description	Net County Cost
2116	DA Asset Forfeits	\$120,875
2204	Sheriff Court Sec	\$0
2215	Sheriff Inmate welfare	\$362,400
2301	Jail	\$7,539,303
2302	Probation	\$2,174,187
2304	Jail Medical	\$1,613,514
Other Public Protection		
1072	Cannabis	\$385,000
1672	Lakebed Control	\$37,432
1918	Geothermal	\$552,000
1920	Disaster Response	\$0
2601	Ag Commissioner	\$262,849
2602	Bldg. & Safety	\$0
2701	Fish & Game	\$16,200
2702	Planning	\$400,549
2703	Animal Control	\$828,459
3122	Airport	\$20,497
4010	Environmental Health	\$27,754
4011	Public Health	\$466,791
4121	Integrated Waste Mgmt.	\$2,465,521
6131	UC Extension	\$207,586
8799	Air Pollution Dist.	\$44,978
Parks and Recreation		
7011	Parks & Rec	\$1,385,349
Health Services		
4012	Health Services Admin	\$0
4014	Behavioral Health	\$750,000
4016	Tobacco	\$104,400
4015	Alcohol	\$0
Social Services		
1794	CDBG Program Income	\$0
1796	CDBG Capital Projects	\$1,232
5011	Social Services	\$2,572,911
5115	OJT	\$0
5121	General Welfare	\$2,706,248
5164	Housing Admin	\$0
5168	Senior Citizen Prog	\$75,739
5165	HOME Housing Services	\$546,161
TOTAL		\$58,359,495