

# Lake Local Agency Formation Commission

December 4, 2019

Carol Hutchinson, County Administrator  
Lake County Board of Supervisors  
255 N. Forbes St.  
Lakeport, CA 95453

Margaret Silveira, City Manager  
City of Lakeport City Council  
225 Park Street  
Lakeport, CA 95453

**SUBJECT:** South Lakeport Annexation Project

Honorable Members of the Lakeport City Council  
Honorable Members of the Lake County Board of Supervisors

As you are aware, the City of Lakeport has requested annexation of 136.78 acres more or less of land (consisting of approximately 50 parcels) located south of the existing city limits, adjacent to South Main Street and Soda Bay Road, east of State Route 29 with an application to LAFCo on August 19, 2019. This annexation also includes a detachment from the Lake County Sanitation District.

The City retained the consultant Applied Development Economics to prepare a fiscal analysis for the annexation, which report is dated May 3, 2019. The County sent LAFCo correspondence on October 2<sup>nd</sup>, 2019 strongly disagreeing with City's fiscal analysis. The County's fiscal consultant Bay Area Economics (BAE) identified a variety of issues with the City's analysis.

The City's August 19, 2019 application to LAFCo asserted that no tax exchange proceeding under Rev & Tax Code §99 was required because the 1997 property tax sharing agreement between the City and the County remained in effect and was applicable to the annexation. In its October 2, 2019 letter from County Counsel, the County asserted the 1997 Revenue Sharing Agreement was not intended to cover this annexation. The City through its legal counsel sent LAFCo a letter on November 8, 2019 responding to the County's letter. The letter disagreed with County Counsel and argued that the 1997 Revenue Sharing Agreement remains valid and applicable to this annexation.

The Local Agency Formation Commission met with legal counsel at its November 20, 2019 meeting in closed session to consider the annexation dispute. A closed session was held because of the potential for exposure to litigation depending on what determination the Commission made with regard to the applicability of the 1997 Tax Sharing Agreement to this annexation proposal. At this meeting the Commission determined to defer a decision with respect to 1997 Tax Sharing Agreement. Instead, the Commission directed the following:

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1. It is apparent that the real dispute between the City and County is over how the property and sales tax revenue from the Annexation area should be apportioned if it is annexed. Since there is substantial disagreement about the fiscal impact of the annexation, the Commission determined a third fiscal analysis needs to be prepared by LAFCo to provide an objective more accurate determination of the revenue and service impacts of the annexation, for both the County and the City. LAFCo will retain an independent municipal economics consultant to review the previously prepared fiscal and service data prepared by both the City and the County and any additional information the consultant may require. LAFCo's consultant will prepare a report objectively setting forth the estimated service costs for each agency within the annexation area and make recommendations for an appropriate apportionment of tax revenue. The City (as the applicant) will pay the costs for this fiscal analysis.
2. After completion of LAFCo's fiscal analysis, the Commission would schedule a facilitated meeting of representatives of the City, County and LAFCo with an independent facilitator regarding the annexation and its fiscal effects. LAFCo would ask that two members of each legislative body participate in the meeting to assure a more effective process. Working together in good faith, LAFCo is confident that this process will result in a resolution of the disagreements and result in a new tax sharing agreement that both parties can agree to. LAFCo will pay the facilitation costs and retain a qualified independent facilitator from outside the area.

For this process to work, both the City and the County must agree to participate in good faith. We know you all have the best interest of the community at heart and will want to participate to resolve this long-standing community service issue.

Please place this letter on your next available agenda within 30 days after the date of this letter and provide a response to LAFCo as to your Board or your Council's willingness to participate in good faith. Please understand that if your agency does not choose to participate in this process, LAFCo will have no alternative but to proceed to make a determination on the applicability of the 1997 Tax Exchange Agreement to the annexation application before LAFCo.

Very truly yours,



Bruno Sabatier, Chair  
Lake Local Agency Formation Commission