

DRAFT - BUSINESS PLAN

INTRODUCTION

The purpose of this business plan is to provide information to the residents of the community and others about incorporating Sunset Beach as a city. It is not intended to advocate for or against this option.

The historical opinion held in the community has been that Sunset Beach cannot become a city because it is too small and has an insufficient sales tax base. It cannot achieve the economies of scale of larger cities and funding would be inadequate. However, to our knowledge this has never been studied and documented.

This business plan is not the final word. There is a need to investigate the financial data and the governance considerations and requirements. This business plan suggests a starting point to begin the process of investigation and collection of the facts from which to proceed if desired. If the community decides to petition for incorporation, the Local Agency Formation Commission (LAFCO) requires that a comprehensive fiscal analysis be conducted. An independent financial consultant study should be commissioned to determine the feasibility of going forward, before any further community resources are committed.

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BACKGROUND

Due to state and county budget restraints, the County of Orange is trying to eliminate unincorporated "islands" (like Sunset Beach) and no longer provide services. Local Agency Formation Commission (LAFCO), which has unilateral decision making authority, voted in July 2009 to place Sunset Beach in the sphere of influence of Huntington Beach. This sets up the process for the community of Sunset Beach, including the beach and greenbelt, to be annexed into the city of Huntington Beach.

As Sunset Beach is now under the Huntington Beach sphere of influence, the city of Huntington Beach can file for annexation at any time. The residents of Sunset Beach may not have a vote in this matter, or on future taxation. As an alternative, a committee was formed to explore the possibility of incorporating Sunset Beach (including the greenbelt and the beach) as its own city.

A Survey/Questionnaire was compiled and mailed to the residents of Sunset Beach (all property owners and registered voters). It was an overwhelming success. 37% of the surveys delivered were completed and returned. The survey shows there are currently several groups of thought on the future of Sunset Beach. Each group represents a valid alternative to be considered. Of the 37% of the community that responded, 83% indicated they were opposed to being annexed to Huntington Beach, or undecided. Only 14% indicated they support annexation. On the other hand, 48% voted to become an incorporated city. In addition, over \$27,000.00 was mailed in and donated to be used for gathering more information and furthering the investigation of the issues.

In order to move forward and develop consensus in the community, it is necessary to gather information and present additional facts to base future decisions.

SUMMARY

In an attempt to consider future governance options for Sunset Beach, an analysis regarding incorporation was carried out by a committee of individual residents.

The analysis considered the delivery of municipal services and financial and governance aspects for incorporation. The results indicate that, in spite of historical opinions, incorporation could be financially viable. Although additional taxes and other sources of revenue would be required, it likely would be the same, or less expensive than the cost of being annexed by Huntington Beach

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and the taxes, fees, etc. they would impose. Residents of Sunset Beach would retain control of where and how their tax dollars would be spent.

The advantages of being a city are:

- Sunset Beach would have a permanent form of governance. There would be no need to revisit the issue with LAFCO or the County again in the future.
- It would provide the greatest amount of local control over services.
- Sunset Beach would keep the Sanitary District for sewer and trash
- Codes and ordinances could be tailored to local desires and needs.
- It would provide the greatest control of revenue streams.
- Problems could be resolved locally instead of dealing with the County in Santa Ana.
- Sunset Beach could tailor municipal services to match its unique needs.
 - Maintain current use of the green-belt areas.
 - Maintain current use of the beach area.
 - Maintain control over current encroachment permits.
 - Maintain control of zoning changes and code enforcement.
- There would be control over deployment of law enforcement resources.
- Sunset Beach could maintain its current LCP.
- Sunset Beach could control the transition of governance, from the County to a City of Sunset Beach.
- A City of Sunset Beach would have more prestige than an unincorporated area and more influence in dealing with regional issues.
- The voters of Sunset Beach would continue to have a vote and say to their representation.

The disadvantages are :

- Start-up costs could be significant.
- A city takes on more liability though that is covered by insurance.
- Taxes may be needed to make up for budget shortfalls.
- It would have to take on the responsibility of dealing with state and county agencies.
- It would have to establish its own general plan and update the housing element of that plan every 5 years.
- It would be subject to state mandates.

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SUNSET BEACH INCORPORATION

Sunset Beach is in a good position with respect to the requirements that would be placed on it as a city. Those requirements would be fewer than what most cities have to deal with. For one, it is built out so there would not be issues related to development. Because it is between the ocean front and Huntington Harbour, it has one main arterial thoroughfare and only (5) traffic lights. It has only a small commercial strip (Pacific Coast Highway) and has no industry. All these factors reduce the amount of services below what a city normally has to provide.

Sunset Beach has a very low crime rate. Its sewer and trash collection needs are already well provided by the Sunset Beach Sanitary District. No change is needed for that. Sunset Beach would also remain part of the Orange County Fire Authority without change. What is left to provide are a limited number of municipal services. The main ones are law and code enforcement, public works, building and planning. These services, presently provided by the County, would be most likely contracted out, or could be provided by the new city directly. Some services that the County of Orange currently provides, such as maintaining the beach and greenbelt, and lighting, would be transferred to the city.

A Sunset Beach city with a population of about 1200 would be the smallest city in Orange County. The next smallest city is Villa Park with a population about 6,000. Villa Park is an inland city and does not provide such services as maintaining the beach and greenbelt, but is responsible for other services such as sewers and trash collection. Sunset Beach would not be responsible for these services since they are already provided by the Sunset Beach Sanitary District.

Villa Park administers its services very efficiently with a city staff of ten. It contracts out for its municipal services. As such, Villa Park can serve as an administrative model for a Sunset Beach city.

When considering a governance option, the overriding question is usually what will be the cost to the resident taxpayer. An analysis is attached and identified as Table 1. The table attempts to answer that question. It summarizes the expected revenues and expenses for a Sunset Beach city. The Table requires validation by an independent consultant report showing the details of the data as they are developed by the consultants. A list of recommended consultants is attached, and marked Table 2.

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FINANCIAL ANALYSIS OF SUNSET BEACH

The purpose of a governance entity is to provide services to the residents within its boundaries. Sunset Beach, as an unincorporated area, currently obtains its services from the County of Orange, the Sunset Beach Sanitary District, Huntington Beach Water Department and the Orange County Fire Authority. These services are categorized as regional and municipal services. The regional services are services provided countywide such as the courts, jails, health, children services and beaches. The municipal services consist of law enforcement (sheriff), public works, animal control, planning, zoning, code enforcement, parks and recreation. If Sunset Beach incorporates, the county's regional services would remain the same. Therefore, only the municipal services need to be considered when evaluating incorporation.

The City of Seal Beach considered annexation of Sunset Beach. As a result of their interest, City of Seal Beach staff prepared an analysis for the City Council to consider. Their staff analysis follows:

(Taken from the City of Seal Beach Staff Agenda and Staff Report August 10, 2009)

A review of fiscal impacts and municipal services was completed by an independent consultant for LAFCO. "**County Island Data Matrix – Sunset Beach – Data Year 2008/2009**" as presented to LAFCO during their Board consideration of the Sphere of Influence Consideration for Huntington Beach. As indicated in the LAFCO Staff Report: "The fiscal model was developed by the fiscal consultant with the assistance of LAFCO and County staff, including representatives from the Sheriff, Library, Planning, Parks, Public Works, Auditor-Controller and CEO departments."

"General fund revenues and expenditures include all unrestricted revenues and expenditures from the County General Fund. Road restricted revenues and expenditures include revenues restricted for road maintenance purposes and expenditures only. Other municipal revenues include revenues from sources and services that may be provided by special districts, joint powers authorities, or part of a county regional system. That analysis indicates the following:

	<u>Revenue</u>	<u>Expenditures</u>	<u>Net</u>
General Fund	701,419	1,237,023	(533,604)
Road Restricted	218,654	118,501	100,153
Other Municipal	-	729,070	Not Available

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Some of the more important items noted in the fiscal analysis are the following:

1. Of the estimated expenditures by the County of Orange, approximately 97% are for Sheriff Services.
2. There is no estimate provided for the cost of response services provided by Orange County Fire Authority because, as a County island, Sunset Beach's fire and emergency response services are provided and funded on a regional basis through the Structural Fire Fund. The Structural Fire Fund is a Fund maintained by the County of Orange whereby a portion of the 1% basic property tax levy is collected from property owners, accumulated in the Structural Fire Fund, and then paid to the OCFA for fire services. fire services in Sunset Beach will continue status quo. The LAFCO Staff Report indicates:

"Within Sunset Beach there is an OCFA Fire Station manned by reserve (volunteer) personnel. The station houses OCFA Engine #3. In 2008, 51 calls were received by the Sunset Beach station requiring a fire engine unit. Of the 51 calls, there were only two instances in which the necessary qualified Reserve Firefighters arrived to staff Engine #3.

The City of Huntington Beach, which has a fire station located approximately 800 feet from Sunset Beach on Warner Avenue, is generally the first responder to calls in Sunset Beach requiring fire engine/paramedic assistance. Since 2004, OCFA has contracted with the City of Huntington Beach to provide Advance Life Support (paramedic) services to the Sunset Beach area.

3. There are (5) shared County operated and maintained traffic signals in Sunset Beach.
4. Sunset Beach residents participate in the Orange County Library system.
5. The committee has reviewed the "County Island Data Matrix – Sunset Beach – Data Year 2008/2009" as presented to LAFCO and is of the opinion that, in particular, the estimated expenditures by the County of Orange for Sheriff Services, at \$1,198,524, is overstated, and not an accurate reflection of costs for the currently provided level of services to the Sunset Beach community. (*This observation was made by the staff report to the Seal Beach City Council in their Agenda/Staff Report, August 10, 2009.*)

BUDGET PRO FORMA FOR THE CITY OF SUNSET BEACH

The attachment, identified as Table 1, was prepared to demonstrate the potential "revenue neutral" outcome resulting from incorporation of Sunset Beach. According to the figures used by LAFCO, if incorporated, about \$145,306.00 would go to the City of Sunset Beach. This is subject to negotiations with the County and could result in additional monies. The remainder goes to the County for its regional services. Sales tax revenues, from Sunset Beach businesses, presently go to the county. They total \$186,857.00. Additionally, a property tax, in lieu of sales tax is paid in the amount of \$19,738.00. Motor vehicle license

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fees, collected by the State of California result in another \$184,521.00 in revenue. There is a Transient Occupancy Tax of 10% that is collected by the County. It is estimated to raise \$295,543.00 in revenue. This tax could be increased. A range of tax rates for other Orange County cities is available in Table 3. Potential "Other Revenues" used by other cities need to be investigated further. A proposed utility tax of 11% would increase revenue by \$295,543.00.

Current County Administration expense is budgeted at \$31,067.00. This would need to be increased significantly to include the costs of City Administration Expense. This expense would include staff positions, city offices, a mayor, city council, insurance, risk management, legal and accounting consultants. Code enforcement is seen as a revenue neutral function. Animal control could continue to be serviced by the County. It is estimated this cost is \$500.00. Law enforcement is currently estimated at \$1,198,524.00. This estimated is widely believed to be unreasonably high. The City of Seal Beach staff estimated their cost to be \$566,261.00. It has been suggested that negotiation between a City of Sunset Beach and the Orange County Sheriff, Seal Beach and Huntington Beach law enforcement agencies would result in a more reasonable actual cost.

WHAT A CITY OF SUNSET BEACH WOULD LOOK LIKE

The city hall for a Sunset Beach city could be located in rented space on Pacific Coast Highway. Currently there are a number of different facilities available. Staff would have to be hired. A City Manager and assistant could run the day to day business of the community. A City Clerk is required. This position could be part-time. The City Manager would report directly to the president of the city council, or mayor. A city attorney could be used on a contract basis. Also, an accounting service could be hired to transact the accounting details of the city. Using Villa Park as a model, the operation of the city could be lean.

Most of the municipal services would likely be contracted out. The Sunset Beach City would need to establish capital reserves. The reserves would then be used for start-up costs. A city council would need to be elected. The council would review recommendations from the City Manager. Meetings could be held monthly, or as often as needed.

While "economy of scale" is often stated as a goal for providing municipal services, a small lean operation can sometimes achieve greater economies than a larger operation because of less bureaucracy. This can be seen by comparing Villa Park and Los Alamitos per capita costs. Villa Park per capita cost is \$446 while Los Alamitos, with twice the population, has a per capita cost of \$791. This is not a complete comparison because more services are provided by Los Alamitos; nevertheless, it is instructive.

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A Sunset Beach city could in effect combine economy of scale with a lean operation. The economy of scale is achieved in that some services such as the fire fighting services are in effect a joint powers authority. Almost all of the services would be contracted with large providers that already have economies of scale that Sunset Beach would share. Sunset Beach could negotiate lower costs for law enforcement. The City Council of Seal Beach estimated their cost to be half what it currently costs the County for Sunset Beach.

There is every reason to believe that the past strong participation of community volunteers would continue and positions for mayor and city council would be readily filled.

PROCESS FOR INCORPORATION

There are two ways to initiate incorporation:

1. By petition of at least 25% of the registered voters in Sunset Beach.
2. By resolution of the affected local agency (SBCA).

(A Notice of Intent to Circulate a Petition) has already been filed by the Sunset Beach Community Association. To file an application for incorporation it is estimated that \$100,000.00 will be required as a deposit, with LAFCO. The deposit is held to offset the cost of LAFCO staff and consultants needed to validate the application. According to LAFCO Legal Counsel Costs are billed at \$173/hour. LAFCO Staff Time is billed at \$ 95/hour.

LAFCO has previously agreed to waive some fees associated with the small unincorporated areas. LAFCO staff routinely opposes waiving of any fees. It is up to the Commission and they do generally grant fee waiver requests for municipalities. It is not known what their position would be toward an unincorporated area.

LAFCO determines if a satisfactory exchange of property tax will take place (the need to be "revenue neutral with the county") and if the city would be financially viable. If LAFCO gives its approval, an election is then held and at least 50% of those voting is required for passage.

The road to incorporation is not easy but it is doable. Two cities in Orange County have incorporated over the last 10 years. It is up to the Sunset Beach residents if they want to take this path.

COMMUNITY FUND RAISING

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A plan for community fundraising will be key in the evaluation by LAFCO staff when considering incorporation by Sunset Beach. Not only is it necessary to demonstrate approval by the registered voters, but it is necessary to have the funding to support the incorporation process. As stated previously, over \$27,000.00 has been raised through the solicitation made with the mailed Survey/Questionnaire process. This money is identified to be used for (10) Community residents have committed to raise \$10,000.00 each, for the purpose of funding the incorporation process. In addition, these same individuals have offered to put up the money as needed, to fill the gap, while the fund raising projects are implemented. This puts the current fundraising level at \$127,000.00. This program will not be implemented until the preliminary financial report is completed and validates the viability of incorporation.

Fundraising Event Planning Includes:

Direct Mail Solicitations \$30,000.00
Raffle Drawing \$30,000.00 – Cash Prize of \$5,000.00
Merchandise Sales \$5,000.00 (example t-shirts, coffee mugs)
Dinner and Silent Auction - \$35,000.00
Community Garage Sale - (business community sponsored)

Many other community residents have volunteered to participate in fund raising activities when needed. Other activities have been suggested and will be planned.

ABOUT SUNSET BEACH

(Taken from the Seal Beach Agenda/Staff Report for the City Council Meeting, August 10, 2009)

Sunset Beach is a one-mile stretch of unincorporated land located south of Seal Beach and Surfside, comprised of some 1200 residents living near white sand beaches, with hotels, restaurants and shops situated along Pacific Coast Highway. Sunset Beach is known for its quaint post office, the center of social life, where events are posted and residents get their mail and for the greenbelt which once served as the right of way for the Pacific Electric Red Car.

Sunset Beach is a 106-year-old community consisting of a mix of long time residents and newcomers who share a passion for the beach and independence in ingenuity in protecting their treasured location. Sunset Beach has an abundance of small town charm, as is evidenced by a community association that sponsors annual activities such as a Mother's Day Weekend Art Festival, Chili Cook-off, "No Parade", a Classic Rock Fest, Pancake Breakfast, Halloween Haunt and a Mile Long Garage Sale.

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Merely mentioning these events hardly does them justice because it is through events like these that community is defined. Residents of Sunset Beach like their community the way it is. They want to maintain its identity in the future.

STATUS OF HUNTINGTON BEACH POSSIBLE ANNEXATION

(Taken from the Seal Beach Agenda/Staff Report for the City Council Meeting, August 10, 2009)

On July 31, 2009 the Huntington Beach City Council held a special meeting to review and update the strategic goals of the Huntington Beach City Council. Sunset Beach representatives attended and spoke to dispel any possible conception that it was only a small group of Sunset Beach people that didn't want to go to Huntington Beach.

Huntington Beach City Councilmember Gil Coerper stated he intended to introduce a motion to annex Sunset Beach in the September or October time frame. Councilmember Don Hansen expressed dismay over Sunset Beach residents rejecting Huntington Beach. Councilmember Jill Hardy stated that not all Council members were in favor of annexation. Two Huntington Beach citizens spoke in favor of not annexing Sunset Beach. No formal action was taken.

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CONCLUSIONS

If annexation to Huntington Beach occurs, the city of Huntington Beach would determine the ordinances and governance of Sunset Beach. Future decisions affecting Sunset Beach would be decided by the registered voters of Huntington Beach. Currently, there are 128,204 registered voters in Huntington Beach. There are 582 registered voters in Sunset Beach. The voting influence of the Sunset Beach residents would be 0%.

Currently Sunset Beach has approximately 1227 residents. Huntington Beach has approximately 194,436 residents. A few examples of future decisions that would be affected are; allocation of community resources, such as policing, fire department, paramedics, as well as decisions on taxation, traffic enforcement and parking, issuance of business licenses, future development, building code enforcement and zoning.

If the residents of Sunset Beach vote to incorporate they would retain their right to vote for all governance decisions locally. The registered voters of Sunset Beach would determine the composite of the city council and all other decisions requiring a ballot vote.

The process for incorporation of a city is to notify LAFCO with a Notice of Intent to circulate a petition, compile an application, circulate petitions, create a fiscal impact report and file other documents. There are many small cities in our state that are successful with less revenue potential than Sunset Beach. There are many options for services and competitive bidding for out sourced services.

A financial study should be conducted by an independent consultant with experience in incorporation matters. If it cannot be demonstrated that Sunset Beach can generate the revenue necessary to sustain itself independently as an incorporated city, an application will be denied. The goal of our community is to obtain the knowledge to make informed choices. Whatever the results or outcome; our greatest interest is for the community of Sunset Beach to move forward with consensus.