



Agenda Item

Orange City Council

Item #: 9.2.

8/25/2026

File #: 26-0478

TO: Honorable Mayor and Members of the City Council

FROM: Jarad Hildenbrand, City Manager

1. SUBJECT

County of Orange Unincorporated Island Annexation Study and Policy Direction (Continued from August 11, 2026)

2. SUMMARY

During the February 5, 2026 Strategic Planning Session, the City Council expressed interest in evaluating whether the remaining unincorporated County islands within the City's Sphere of Influence should be annexed into the City of Orange. Annexation has the potential to create a more unified community, improve service consistency, and eliminate jurisdictional boundaries that currently divide neighborhoods surrounded by the City. At the same time, annexation would transfer ongoing service responsibilities, infrastructure obligations, and Regional Housing Needs Assessment (RHNA) allocations to the City. This report provides an overview of the annexation process, summarizes the potential fiscal and policy considerations, and seeks City Council direction regarding whether staff should pursue annexation of some or all of the remaining County islands.

3. RECOMMENDED ACTION

1. Receive and file the presentation regarding the potential annexation of the remaining County islands within the City of Orange's Sphere of Influence.
2. Provide policy direction regarding whether staff should pursue annexation of all, some, or none of the remaining County islands, and identify any additional analysis desired before initiating formal proceedings.

4. FISCAL IMPACT

There is no immediate fiscal impact associated with this report. Should the City Council direct staff to initiate annexation proceedings, additional staff time and consultant resources may be required to prepare fiscal analyses, service plans, environmental documentation, and annexation applications. Preliminary estimates indicate that annexation of one or more County islands could result in ongoing net costs to the City unless additional revenue-sharing agreements are negotiated with the County of Orange.

5. STRATEGIC PLAN GOALS

Goal 3: Enhance Quality of Life Through City Services.

Objective 3.2: County Island Annexation

6. DISCUSSION AND BACKGROUND

History of County Island Annexation

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Act) was enacted to

streamline local government organization and encourage logical municipal boundaries that promote efficient and effective service delivery. One of the Act's primary objectives is to facilitate the annexation of unincorporated "County islands" that are substantially surrounded by incorporated cities.

Following adoption of the Act, the City of Orange partnered with the County of Orange and the Orange County Local Agency Formation Commission (OC LAFCO) to evaluate the City's remaining unincorporated islands. As a result of that effort, the City successfully annexed 11 County islands in 2003, eliminating numerous jurisdictional boundaries and expanding municipal services to those neighborhoods.

At that time, six additional County islands were also evaluated for annexation; however, annexation did not proceed due to a combination of fiscal, procedural, and community considerations. Those six remaining County islands continue to exist today and collectively encompass approximately 850 acres and are home to nearly 5,000 residents.

The remaining County islands are summarized below.

County Island Name	Location	Acreage
El Modena	North of Chapman Avenue and south of east Silverleaf Avenue.	101.67
North El Modena	South of East Bond Avenue and north of East Walnut Avenue, encompassing Hewes Street	31.59
Lincoln/Glassell	North of West Lincoln Avenue and Adjacent to the Santa Ana River.	103.03
Olive Heights	North and south of East Buena Vista Avenue, north of Lincoln Avenue and south of East Bixby Avenue.	32.47
Orange Park Acres	South of East Santiago Canyon Road and north of East Chapman Avenue, encompassing Orange Park Boulevard.	394.02
Santiago Creek (Bond Pits)	North and south of Villa Park Road and west of Hewes Street.	187.25

Potential Benefits of Annexation

Annexation of the remaining County islands has the potential to provide several long-term community and operational benefits. Because these neighborhoods are already surrounded by or closely connected to the City of Orange, annexation would create more logical municipal boundaries while allowing the City to provide consistent municipal services throughout the community.

Potential benefits include:

- Elimination of fragmented City and County jurisdictional boundaries.
- More consistent police, fire, code enforcement, planning, and public works services.
- Improved coordination of infrastructure maintenance and capital improvements.

- Greater consistency in land use planning and development standards.
- Enhanced emergency response coordination.
- Increased local representation through the Orange City Council.
- Creation of a more unified community by incorporating neighborhoods that already identify closely with the City of Orange.

Annexation Process

California law establishes two different annexation procedures depending upon the size of the territory proposed for annexation. County islands that are 150 acres or smaller qualify for a streamlined annexation process, while larger territories require additional procedural steps, including protest proceedings and, under certain circumstances, an election.

I. Annexation Process for County Islands with 150 Acres or Less

When a County island is 150 acres or less (all but Orange Park Acres and the Bond Pits), California Government Code Section 56375.3 authorizes a streamlined approach that is further described below:

Step 1 - Preliminary Discussions: City staff meet with OC LAFCO, the County Executive Office, service providers/special districts, and residents/property owners to express the City's interest and intent of annexing the County island(s).

Step 2 - Negotiate Revenue Shares: As further described below, the City and County will negotiate one-time and ongoing revenue exchanges. As a part of this process, the City and County will finalize the property tax share. In Orange County, this has already been established through a 1980 City/County Master Property Tax Exchange Agreement. The property tax revenue split is 51% to the City and 49% to the County.

Step 3 - City Council Resolution and OC LAFCO Application Submission: The City Council adopts a resolution confirming findings pursuant to California Government Code Section 56375.3, and submits all the required materials (e.g., boundary map(s), vicinity maps, plan for service, property tax exchange resolution) to OC LAFCO.

Step 4 - County Board of Supervisors: The County Board of Supervisors considers adopting an annexation agreement and a property tax exchange resolution.

Step 5 - OC LAFCO Review and Public Hearing: OC LAFCO ensures the proposal is complete, prepares the report, and schedules a public hearing. In accordance with the Act, OC LAFCO notifies parties of the proposal and waiver of protest proceedings, and the OC LAFCO Commission shall approve the proposed annexation.

The approximate timeline for annexations that are 150 Acres or less is generally 6-12 months.

II. Annexation Process for County Islands with 150 Acres or More

Step 1 - Preliminary Feasibility Analysis: In collaboration with OC LAFCO and the County of Orange, City staff evaluates the fiscal impacts, service costs, and existing infrastructure.

Step 2 - Outreach to Residents: Although not legally required at initiation, staff recommends conducting community meetings, mailers, or informational workshops to better understand the

community's perspective on potentially being annexed into the City of Orange.

Step 3 - Negotiate Revenue Shares: As further described below, the City and County will negotiate one-time and ongoing revenue shares to support City services. As a part of this process, the City and County will finalize the property tax share. In Orange County, this has already been established through a 1980 City/County Master Property Tax Exchange Agreement. The property tax revenue split is 51% to the City and 49% to the County.

Step 4 - City Council Resolution: The City Council adopts a resolution initiating annexation proceedings.

Step 5 - County Board of Supervisors: The County Board of Supervisors considers adopting an annexation agreement and a property tax exchange resolution.

Step 6 - Submit Application to OC LAFCO: Application materials include plan for services, fiscal analyses, CEQA compliance, maps, and legal descriptions.

Step 7 - OC LAFCO Hearing: OC LAFCO holds a public hearing and determines whether to approve the annexation. Approval does not complete the annexation. Instead, it authorizes commencement of protest proceedings.

Step 8 - Protest Proceedings: OC LAFCO schedules a protest hearing and accepts written protests for a period generally ranging from 21 to 60 days. The outcome depends on whether the territory is inhabited. Provided below are the processes for inhabited vs. uninhabited territories.

Inhabited Territory (12 or More Registered Voters)

Protest Level	Result
Less than 25% protest	Annexation Ordered
25% to less than 50% protest submitted by registered voters within the territory; or protest submitted by 25% of the owners of the land who also own at least 25% of the assessed value of land within the territory	Election required
50% or more protest	Proceedings terminated

Uninhabited Territory (Fewer than 12 Registered Voters)

Protest Level	Result
Less than 50% of assessed value protesting	Annexation Ordered
50% or more of assessed value protesting	Proceedings terminated

If protests fall within the election range, OC LAFCO calls an election among voters residing within the annexation territory. A majority vote is required for annexation to proceed.

Step 9 - Completion: If there is no majority protest or the election succeeds, then OC LAFCO issues a Certificate of Completion, the annexation becomes effective, and the County service

responsibilities transfer to the City.

This process may last 12-18 months, or longer if an election is required.

Financial Considerations

In early 2025, City staff requested preliminary fiscal information from the County of Orange and OC LAFCO to better understand the financial implications associated with annexing the remaining County islands. Based on the County's estimates, annexation of all remaining County islands would likely result in an ongoing net fiscal impact to the City under the existing revenue allocation structure.

Should the City Council direct staff to proceed, staff would negotiate with the County regarding one-time and ongoing revenue-sharing agreements intended to offset municipal service costs associated with annexation. Generally, the following revenue categories would be addressed in those discussions:

- City Share of Property Taxes (51% to the City / 49% to the County)
- City Share of Orange County Street Light Assessment District Dissolution Fund
- City Share of the Orange County Structural Fire Fund
- City Share of the Orange County Public Library Fund

Prior to initiating annexation proceedings, staff recommends conducting additional due diligence regarding the condition of public infrastructure within each County island, including streets, sidewalks, storm drains, street lighting, parks, and other public improvements. Understanding existing infrastructure conditions will help the City better estimate future maintenance obligations and long-term capital replacement needs.

Regional Housing Needs Assessment (RHNA)

Annexation of County islands would also transfer responsibility for the County's remaining Regional Housing Needs Assessment (RHNA) allocations within those territories to the City. In total, the remaining County islands currently contain an allocation of 1,383 RHNA units. Although annexation would not require immediate residential development, the City would assume responsibility for planning for those housing units in accordance with State housing law.

Island	RHNA Units
El Modena	328
Lincoln Glassell	624
North El Modena	0
Olive Heights	431
Orange Park Acres	0
Santiago Creek (Bond Pits)	0
Total	1,383

In determining whether to pursue annexation, the City Council may wish to consider several policy factors, including the long-term fiscal impacts to the City, opportunities to negotiate additional

revenue sharing with the County, the transfer of RHNA obligations, the condition of existing public infrastructure, community support, and the benefits of creating more unified municipal boundaries and service delivery.

Summary Comparison of Remaining County Islands

County Island	Acres	Estimated Population	RHNA Units	Annexation Process
El Modena	101.67	2,797	328	Streamlined
North El Modena	31.59	520	0	Streamlined
Olive Heights	32.47	500	431	Streamlined
Lincoln/Glassell	103.03	0	624	Streamlined
Orange Park Acres	394.02	1,074	0	Standard
Santiago Creek	187.25	0	0	Standard

Conclusion

Annexation of the remaining County islands presents an opportunity to eliminate jurisdictional inconsistencies and provide more unified municipal services to neighborhoods that are closely connected to the City of Orange. However, annexation would also transfer ongoing service responsibilities, infrastructure maintenance obligations, and applicable RHNA allocations to the City. Because the financial impacts vary by island and additional negotiations with the County would be necessary regarding revenue sharing, staff is seeking policy direction from the City Council regarding whether to proceed with annexation of all, some, or none of the remaining County islands and the level of additional analysis desired before initiating formal proceedings.

7. ATTACHMENTS

- County Island Profiles (OC LAFCO)
- 1980 Property Tax Agreement