

47



CITY OF SACRAMENTO
CALIFORNIA

OFFICE OF THE
CITY MANAGER

July 10, 1980

CITY HALL
915 I STREET - 95814
(916) 449-5704

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Comprehensive Agreement with Sacramento County Regarding Property
Tax Exchange When Property is Annexed to the City

SUMMARY

Discussions with Sacramento County regarding the subject matter have been continuing since January of this year without success. Since property tax revenues would not accrue to the City resulting from annexations until the 1981-82 Fiscal Year, in any event, it is recommended that an interim agreement be entered into by the City and the County in order to process annexations expeditiously. This agreement would be executed with the understanding that beginning July 1, 1981 all property tax revenue from the annexing territory will be impounded by the County Auditor until either a final comprehensive agreement is reached or until State law determines the division of the funds.

BACKGROUND

Our memorandum dated January 3, 1980 has been attached which describes the background of this matter. Suffice to say the memorandum points out the following changes relating to the financial impact of annexations:

1. The current law requires that local governmental jurisdictions negotiate and reach agreement on the amount of property tax revenue to be exchanged in the event of an annexation.
2. The current City policy is that no annexation to the City will be approved by the City Council until a comprehensive agreement is finalized regarding the exchange of property tax revenues.

CURRENT SITUATION

The staffs of both the City and the County have been attempting to reach a comprehensive agreement regarding the exchange of property tax revenues since January of this year.

APPROVED
BY THE CITY COUNCIL

JUL 15 1980

OFFICE OF THE
CITY CLERK

A - 80016

At this point, both the City and the County staffs have been unable to reach agreement as set forth in the attached position statements. As the statements point out, the basic disagreement is whether or not there should be a proportionate shift of the County basic tax rate and the growth increment to the City when property is annexed.

It is our opinion, that this issue simply will not be resolved until the legislation that is currently pending is addressed in the legislature. The current legislation (AB 2376 Lancaster) is summarized in Bill Carnazzo's attached memorandum dated May 16, 1980.

CONCLUSIONS AND RECOMMENDATIONS

Since the prospect of reaching a comprehensive agreement on the substance of property tax exchange with the County in the near future is slim at best, the City Attorney has prepared an interim agreement regarding this matter, which has been attached. This interim agreement is acceptable to the County staff.

Basically, the agreement provides that specific annexations proceed and that beginning July 1, 1981 all property tax revenues from the annexing territory will be impounded by the County Auditor until either a final comprehensive agreement is reached or until State law determines the division of the funds. This should provide an incentive to both the County and the City to resolve the issues relating to property tax exchange by December 1980.

Respectfully submitted,

William H. Edgar

William H. Edgar
Assistant City Manager

Attachments

July 15, 1980



CITY OF SACRAMENTO CALIFORNIA

OFFICE OF THE
CITY MANAGER

January 3, 1980

CITY HALL
915 I STREET - 95814
(916) 449-5704

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: The Processing of Annexations

SUMMARY

Under the appropriate provisions of AB 8, which is the long-term implementing legislation relating to Proposition 13, and Proposition 4, which governs a jurisdiction's appropriation limit, property tax revenues associated with annexations are processed differently than in the past. All affected local governmental jurisdictions are required to negotiate and reach agreement on the amount to be exchanged and the distribution of property tax proceeds before an annexation becomes effective. The Law authorizes the County to negotiate revenue exchanges on its behalf and for any affected special district (s) within the proposed annexation area. Annexation revenue negotiations occur between the City and County. Discussions have begun with the County to develop a comprehensive revenue distribution formula to be uniformly utilized in all subsequent annexation proceedings. This will avoid inequities and a piecemeal approach to revenue exchanges. A comprehensive agreement, however, has not yet been reached. It is recommended that no annexations to the City be approved by the City Council until the comprehensive agreement is finalized.

BACKGROUND

After the passage of Proposition 13, there was no provision for the exchange of property tax revenues between local agencies affected by an annexation, detachment, change of boundary, etc. Although we have been processing annexations at the staff level, we have had no assurance, under the law, that the City would receive additional property tax revenues from the County to pay for additional service responsibilities resulting from annexations.

AB 8 provides mechanisms for local agencies to exchange property tax revenue when a "jurisdictional change" takes place.

The statute provides for the exchange of property tax revenues to be determined through negotiation. The governing bodies of all local agencies whose service responsibilities would be altered by the change are responsible for negotiation. The County Board of Supervisors represent and negotiate on behalf of any special district (s) that is affected by a jurisdictional change. Negotiations, therefore, are essentially conducted directly between the affected county and city.

Prior to the effective date of any jurisdictional change, the affected local agencies must determine the amount of property tax revenues to be exchanged. The Law does not provide for any criteria for determining the amount of revenue to be exchanged. Also, no jurisdictional change may become effective until each local agency included in the negotiation agrees, by resolution, on the amount of revenue to be exchanged. The Law does not set forth any provisions to resolve an impasse if any agency does not agree to the exchange.

Additionally, jurisdictions affected by an annexation revenue exchange requires an adjustment be applied to each jurisdiction's Proposition 4 appropriation limit. Revenues transferred to the City from new annexed areas will allow the City's appropriation limit to be increased. Likewise, the limit of County and/or special district (s) that transfer territory and revenues to the City will be decreased.

CURRENT SITUATION

The staff of the Sacramento Local Agency Formation Commission is currently compiling information about what has been done in other counties and is endeavoring to develop a comprehensive agreement to equitably govern the exchange of property tax revenues and subsequent appropriation limitations between the County, the City, and other local jurisdictions (see attached). However, we don't expect any comprehensive agreement to be reached for at least two (2) months.

We believe that it would be beneficial to all concerned if the City, County and other jurisdictions could, in fact, reach a comprehensive distribution formula and agreement to uniformly govern the exchange of revenues rather than approach each annexation by separate negotiations on a case by case basis.

The issue now before the City Council is whether or not the City Council should approve any further annexations prior to a comprehensive agreement being finalized with the County. It is true that annexations can not become effective until the exchange of property taxes is mutually agreed upon; however, there are advantages to the City not approving annexations until such time as a comprehensive agreement is finalized with the County.

The advantages of withholding the approval of annexations until after finalization of a comprehensive agreement are as follows:

1. The City would be treating all annexation proponents equitably and would not have to differentiate between the large and small generators.
2. The City would avoid financial uncertainty by proceeding to annex areas by following uniform procedures, criteria and distribution formula for exchange of property tax revenues.

3. The City would not have committed itself to annexations and therefore the provision of providing services in the event that piecemeal negotiations reach impasse with the County.

The disadvantages are as follows:

1. The City may be accused of delaying annexations and not acting in a timely fashion.
2. Heavy political pressure would undoubtedly be brought to bear on the negotiations regarding the comprehensive agreement with respect to both the distribution formula and the expeditious completion of the negotiation process.
3. The argument could be made that current annexation proposals are insignificant with respect to the generation of revenue and therefore the risk of City approval at this time is minimal.

ANALYSIS

In reviewing the above advantages and disadvantages it would seem that the decision of the City Council will be based upon whether or not the financial uncertainty and the inequity of processing annexations on a case by case basis outweighs the heavy pressure that will be brought to bear upon the City Council.

It is the staff's opinion that the processing of annexations prior to a comprehensive distribution formula and agreement being worked out would be unwise and insure a variety of agreements for the exchange of property tax revenues depending upon the issues of specific annexations. In these uncertain times of Proposition 13, Proposition 4, and the possibility of the Jarvis II Initiative succeeding financial stability and certainty is critical to the effective operation of City government.

It is therefore our opinion that prior to any annexations being approved by the City Council, a comprehensive agreement and the specific mechanism of the exchange of property tax revenues be finalized.

RECOMMENDATION

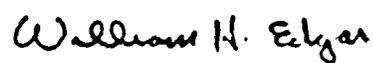
It is recommended that:

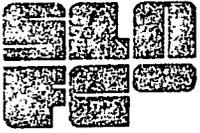
1. The City staff be instructed to process all annexation proposals at the staff level in a timely fashion.
2. The City staff be instructed to proceed in an expeditious manner to negotiate a mutually agreeable comprehensive formula with the County for the exchange of property tax revenues relating to annexations.
3. The City Council take no final action on any annexation until such time as a comprehensive agreement formula is negotiated and finalized with the County.

Recommendation Approved:


Walter J. Slipe
City Manager

Respectfully submitted,


William H. Edgar
Assistant City Manager



SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

December 17, 1979

CITY MANAGER'S OFFICE
RECEIVED
DEC 18 1979

Commission

Special District Members
N. B. "Dave" Keller, *Commission Chairman*
Albert Dehr
Edd Smith, *Alternate*
Jesse Marks, *Alternate*

County Members
C. Tobias Jonsson
Fred G. Wade
Illa Collin, *Alternate*

City Members
Thomas R. Hoerber
Ronald Jacobsen
Fred A. Himebauch, *Alternate*

Public Members
Frank B. Stimson
Barbara W. Pennington, *Alternate*

Staff

John S. Farrell
Executive Officer
David A. Wade
Assistant Executive Officer
Janet D. Robinson
Staff Analyst
Marilyn Ann Flemmer
Commission Clerk

TO: ✓ Bill Edgar
Jim Jackson
Dave Beattie
Nancy Woolford
Dan Smith
Toke Masuda

FROM: John S. Farrell, *Executive Officer*
Sacramento Local Agency Formation Commission

RE: AB & Negotiations

The attached memorandum lists the agencies we have contacted and the status in each respective jurisdiction. As the information comes in, I shall forward it on to you.

If you have any other suggestions about who to contact, please let me know.

Sincerely,

SACRAMENTO LOCAL AGENCY
FORMATION COMMISSION

John S. Farrell
Executive Officer

JSF:MaJ
Attachment

MEMORANDUM

December 14, 1979

TO: John S. Farrell, Executive Officer
FROM: Janet D. Robinson, Staff Analyst
RE: AB 8 Negotiations

CONTACTED:

FRESNO: The County of Fresno has put together a negotiation process. Like those of Marin and Santa Clara, it sets up a single tax base exchange formula for every change of organization involving the County and a city. Marvin Panter will send us a description of the process and the formula as well as an example of an exchange with the City of Fresno.

MARIN: The County of Marin just recently passed a resolution which outlines the formula and process for AB 8 negotiations. Dawn Mittleman is sending us a copy of the resolution and a summary of the process.

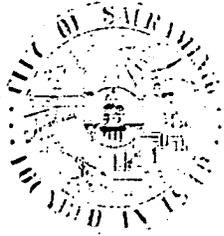
SANTA CLARA: Paul Sagers gave me a brief description of the negotiation process that Santa Clara has proposed. Julie Nauman, Fred Silva and other Capitol local government types met with Paul in Santa Clara to discuss their formula and found that it is illegal because they take money from the schools. Paul is sending me a copy of their proposal but they will have to modify it somewhat.

LEAGUE OF CITIES: Betsy Straus said that the League has been monitoring the counties to see what they are doing and what formulas are to be used for the base exchanges. She said that Marin, Santa Clara, and Fresno have been the most successful so far. They have all adopted a single formula for all exchanges and while this is a simplistic approach, it is also fairly expedient. The League has formulated a negotiation process and ratio for exchange. Several counties are taking a look at the League's recommendations and testing it out through projections. She is forwarding the information.

JOSEPH GARDNER: They have taken a look at the League's recommendation, modified it somewhat and come up with a proposed process of their own but they are not particularly happy with it. They would like our suggestions.

SAN JOAQUIN: Mr. Dickson, Chief Administrative Officer, said that he had sent a memo to each Chief Administrative Officer in the state. I will contact Richter's office. They have processed one negotiation because the city was in a hurry. The City of Stockton did not receive any exchange funds because the county felt that the city profits enough from sales tax, property transfer taxes and state subventions. San Joaquin County's position is that the only time that property tax should be exchanged is when a city takes over a function that results in cost savings to the county. (i.e., fire service). The county never gave up general funds before and it won't now. The cost of health and welfare services (which are extended to city and county residents equally) are constant. The county can't afford to slice away at its revenue base.

JDR:Ma6



CITY OF SACRAMENTO
CALIFORNIA

OFFICE OF THE
CITY MANAGER

March 10, 1980

CITY HALL
915 I STREET - 95814
(916) 449-5704

Mr. John Farrell
Executive Director
LAFCO
921- 11th Street, Suite 1103
Sacramento, CA 95814

Dear John:

In response to your request the following represents an outline of the City's position regarding how property taxes ought to be exchanged when property is annexed under the appropriate provisions of AB 8:

1. Property tax revenues from all special districts should be transferred from the district to the City based upon the proportion of the area annexed.
2. Property tax revenues from the County base should be transferred from the County to the City based upon the proportion of City/County property tax revenues now generated within the City.
3. The growth increment of property tax revenues should be established in the same proportion of property tax revenues that exist between the City and the County when the property is annexed.

NOTES:

1. District where service levels continue without regard to annexation will not be party to any exchange of property tax revenue.
2. The City would be willing to consider establishing a minimum level of valuation for the county base which would not be apportioned when the property is annexed.

John, the above represents the significant points regarding the transfer of the property tax revenues when property is annexed under AB 8. When you establish the arrangements for the meeting between the City and the County please let me know.

Sincerely,

William H. Edgar

William H. Edgar
Assistant City Manager

cc: City Manager
City Attorney

COUNTY OF SACRAMENTO

Inter-Department Correspondence

Date May 8, 1980

To : Gary Cassady, Administrator
Administration and Finance Agency

From : George Miller

Subject : DRAFT POSITION STATEMENT ON ANNEXATION TAX EXCHANGES

I recommend the attached be sent to John Farrell as Sacramento County's draft position relative to the exchange of property tax revenues following annexations to the City of Sacramento. As you know, John requested the respective positions of the City and County to assist in the process of developing interim agreements that would allow timely completion of pending annexations prior to final resolution of the tax exchange question.

I have reviewed Bill Edgar's statement outlining the City's position and completely agree that where service levels continue without regard to annexation there should be no exchange of property tax revenues. This apparently constitutes agreement on a very basic, but essential starting point, i.e., if a taxing entity is not relieved of property tax financed service responsibilities as a result of the annexation, there is no rationale whatsoever for shifting any of that entity's property tax revenues to the annexing city.

I also agree with Bill's position that property tax revenues from entities that would no longer provide services following annexation should be transferred from those entities to the annexing city based on the assessed valuation proportion of the area annexed, e.g., if the annexed area contains 40 percent of a special district's assessed valuation then 40 percent of that district's property tax revenue should be transferred to the annexing city, and obviously the special district should not share any of the subsequent A.V. growth in the annexed area.

As to proportionate shift of the county base and growth increment, I cannot agree with the City's position that these points should be basic criteria for redistribution because they are inconsistent with our basic point of agreement that there should not be shift of tax revenues where there is no relief of property tax financed service responsibilities.


GEORGE E. MILLER
Principal Administrative Analyst

GEM:sp/jb
Attachment

(13A-B16)

SACRAMENTO COUNTY'S
DRAFT POSITION STATEMENT ON
ANNEXATION TAX EXCHANGES

Agreements for equitable redistribution of property tax revenues after the effective dates of annexations to cities in Sacramento County should be based on the following points:

1. There should not be a shift of any property tax revenues from taxing entities that are not relieved of property tax financed service responsibilities as a result of the annexation.
2. For special districts or other taxing entities that will no longer provide property tax financed services to the annexed area, all property tax revenues of those taxing entities that are based on assessed valuation of the annexed area will be transferred to the annexing city.
3. For taxing entities that will provide a reduced amount of property tax financed services to the annexed area as a result of the annexation, there should be an equitable shift of property tax revenues, to be negotiated on a case-by-case basis.
4. Property tax revenues from growth subsequent to the jurisdictional change should be distributed to the entities providing services to the involved tax code areas in a manner reflecting shift in service responsibilities previously financed by property tax revenues. However, there may be instances where it will be appropriate to negotiate some departure from this point due to particulars of certain situations.

Additional Considerations:

The mechanics for computing the property tax apportionments in Sacramento County, as well as many other counties, have consisted of manual computations on a "taxing entity" basis. It has been determined that to equitably apportion taxes attributable to growth or to determine equitable sharing following jurisdictional changes, the taxes must be apportioned by proportional shares within each "Tax Rate Area". This method requires computer programming and processing and until the computer programming is completed and operational, final agreement on equitable redistribution will be delayed.

Therefore, the County is proposing, with the City's concurrence, to enter into an interim agreement for two areas currently in the annexation process. The agreement would provide by resolution for no exchange of property tax revenues at this time, but would include an agreement to continue review of the matter until the tax computation computer capabilities are available, at which time an equitable distribution could be determined. This would include a provision for the Auditor to impound tax collections as defined in AB 8 if agreement is not reached by December 31, 1980.



CITY OF SACRAMENTO

DEPARTMENT OF LAW
812 TENTH ST. SACRAMENTO, CALIF. 95814
SUITE 201 TELEPHONE (916) 449-5345

May 16, 1980

JAMES P. JACKSON CITY ATTORNEY
THEODORE H. KOBEY, JR. ASSISTANT CITY ATTORNEY
LELIAND J. SAVAGE DAVID BENJAMIN SAM JACKSON
WILLIAM P. CARNAZZO SABINA ANN GILBERT STEPHEN B. NOCITA DEPUTY CITY ATTORNEYS

MEMORANDUM

TO: JAMES P. JACKSON, City Attorney
FROM: WILLIAM P. CARNAZZO, Deputy City Attorney
RE: AB 2376 (Lancaster)

According to Russ Selix, this bill is a compromise, although still opposed by CSAC. The formulas are rather objective. They are:

ALTERNATIVE NO. 1

All property tax revenue received***
By County from the area subject to annexation X

Total
Property tax revenues received by all cities in county = Amount which will go to City.
Total property tax revenues received by County from all incorporated area plus total property tax revenues received by all cities in County

ALTERNATIVE NO. 2

All property tax revenue of County from the Area subject to annexation X

Property tax revenue received by the City annexing = Amount which will go to City
Property tax revenue received by County from the City plus property tax received by the City annexing

***"Received" means received in fiscal year preceding the annexation

The Board of Supervisors, within 30 days of the effective date of this bill, would have to select one formula for use in all annexations. As to the fairness of these formulas, we probably should have input from the Manager's office or the Treasurer. Tom Friery recommended support for AB 2212 (Knox) which was virtually the same, but which only had Alternative No. 1.

Signature of William P. Carnazzo
WILLIAM P. CARNAZZO
Deputy City Attorney



SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

Commission

July 7, 1980

Special District Members
N. B. "Dave" Keller, *Commission Chairman*
Albert Dehr
Edd Smith, *Alternate*
Jesse Marks, *Alternate*

County Members
C. Tobias Johnson
Fred G. Wade
Illa Collin, *Alternate*

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Marilyn Ann Flemmer
Commission Clerk

Mr. Walter Slipe
City Manager
City of Sacramento
City Hall - 915 I Street
Sacramento, California 95814

CITY MANAGER'S OFFICE
RECEIVED
JUL 8 1980

RE: AB 8 Negotiations

Dear Mr. Slipe:

The attached Interim Agreement regarding AB 8 negotiations was drafted by a Committee consisting of staff from the City, County and LAFCo, and a representative from the law offices of McDonough, Holland, Schwartz and Allen.

This Interim Agreement can be adopted by the Board of Supervisors and the City Council of the City of Sacramento for the ZUBIRI/NATOMAS OAKS REORGANIZATION as an interim measure to satisfy AB 8 requirements.

It is the Committee's request that you recommend to the City Council that the attached agreement be adopted relative to the ZUBIRI/NATOMAS OAKS REORGANIZATION. Moreover, it is the Committee's request that you recommend that the City Council adopt a similar resolution with respect to the NORTH BRUCEVILLE ROAD REORGANIZATION.

If you have any questions, please do not hesitate to call.

Very truly yours,

SACRAMENTO LOCAL AGENCY
FORMATION COMMISSION

John S. Farrell
John S. Farrell
Executive Officer

JSF:Maf
cc: Bill Edgar
Jim Jackson
Dave Beatty
Dan Smith



SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

Commission

July 7, 1980

Special District Members

N. B. "Dave" Keller, *Commission Chairman*

Albert Dehr

Edd Smith, *Alternate*

Jesse Marks, *Alternate*

County Members

C. Tobias Johnson

Fred G. Wade

Illa Collin, *Alternate*

City Members

Thomas R. Hoeber

Ronald Jacobsen

Fred A. Himebauch, *Alternate*

Public Members

Frank B. Stimson

Barbara W. Pennington, *Alternate*

Staff

John S. Farrell

Executive Officer

David A. Wade

Assistant Executive Officer

Janet D. Robinson

Staff Analyst

Marilyn Ann Flemmer

Commission Clerk

Mr. Brian Richter
County Executive
County of Sacramento
700 H Street - 7th Floor
Sacramento, California 95814

RE: AB 8 Negotiations

Dear Mr. Richter:

The attached Interim Agreement regarding AB 8 negotiations was drafted by a Committee consisting of staff from the City, County and LAFCo, and a representative from the law offices of McDonough, Holland, Schwartz and Allen.

This Interim Agreement can be adopted by the Board of Supervisors and the City Council of the City of Sacramento for the ZUBIRI/NATOMAS OAKS REORGANIZATION as an interim measure to satisfy AB 8 requirements.

It is the Committee's request that you recommend to the Board of Supervisors that the attached agreement be adopted relative to the ZUBIRI/NATOMAS OAKS REORGANIZATION. Moreover, it is the Committee's request that you recommend that the Board of Supervisors adopt a similar resolution with respect to the following:

Russell Reorganization (City of Galt)
A & M Enterprises Reorganization (City of Galt)
North Bruceville Road Reorganization
(City of Sacramento)

Finally, please instruct the Auditor to make the appropriate property tax exchanges, if necessary, for the following special district actions:

Wright Annexation to the Rio Linda County
Water District
Z-4 Annexation to Courtland Fire District

Z-4 Annexation to Elk Grove Fire District

Annexations 1-64, 1-65 to Northridge Park
County Water District

Goethe Colony, et. al., Annexation to
Sacramento Regional County Sanitation District
and County Sanitation District #1

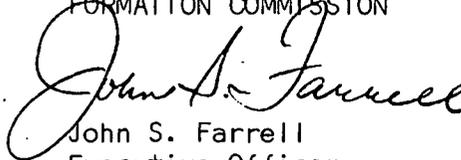
Kennedy Acres Annexation to Sacramento Regional
County Sanitation District and County Sanitation
District #1

Ensminger Reorganization

If you have any questions, please do not
hesitate to call.

Very truly yours,

SACRAMENTO LOCAL AGENCY
FORMATION COMMISSION



John S. Farrell
Executive Officer

JSF:Maf
attach

cc: Bill Edgar
Jim Jackson
Dave Beatty
Dan Smith
Joe Tanner
Walter Slipe
Rio Linda County Water District
Elk Grove Fire District
Courtland Fire District
Northridge Park County Water District
William S. Hyde
Arcade Water District

47

RESOLUTION NO. 80-465

Adopted by The Sacramento City Council on date of

**RESOLUTION RELATING TO PROPERTY TAX EXCHANGE
FOR ZUBIRI/NATOMAS OAKS REORGANIZATION**

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

That the Mayor of the City of Sacramento is authorized to execute on behalf of the City of Sacramento that certain agreement between the City of Sacramento and the County of Sacramento relating to the exchange of property tax revenue from the Zubiri/Natomas Oaks reorganization.

MAYOR

ATTEST:

CITY CLERK

...
...
...

APPROVED
BY THE CITY COUNCIL

JUL 15 1980

OFFICE OF THE
CITY CLERK



CITY OF SACRAMENTO

OFFICE OF THE CITY CLERK

915 I STREET
CITY HALL ROOM 203

SACRAMENTO, CALIFORNIA 95814
TELEPHONE (916) 449-6428

LORRAINE MAGANA
CITY CLERK

July 24, 1980

Honorable Joseph Sheedy
Chairman, Sacramento County Board
of Supervisors
800 Seventh Street
Sacramento, California

Dear Mr. Sheedy:

On July 15, 1980, the City Council adopted a resolution authorizing the execution of the interim agreement between the City of Sacramento and the County of Sacramento relating to the exchange of property tax revenues for the Zubiri/Natomas Oaks Reorganization.

Enclosed are six (6) copies of the agreement executed by the City as authorized by the attached certified resolution.

Upon final execution, please return four (4) copies of said agreement for the City's distribution.

Sincerely,

Lorraine Magana
City Clerk

LM:sj

Encl. 6

Item No. 47