



OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

CITY HALL
ROOM 101
915 I STREET
SACRAMENTO, CA
95814-2684

July 24, 1989

916-449-5704

Budget & Finance Committee and
Transportation & Community Development Committee
Sacramento, California

Honorable Members In Session:

Subject: **Property Tax Exchange Agreement with the County of Sacramento**

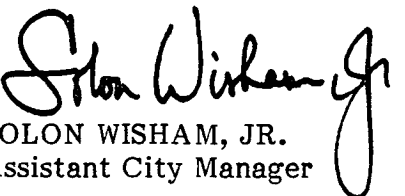
SUMMARY

This report recommends that the Budget & Finance Committee and the Transportation & Community Development Committee, meeting jointly, review and approve the attached Council report for action by the full City Council concerning the approval of a Property Tax Exchange Agreement with the County of Sacramento.

RECOMMENDATION

It is recommended that the joint committees review and approve for full City Council action, the attached report concerning the Master Property Tax Exchange Agreement between the City and County of Sacramento and authorize the Mayor to execute the agreement on behalf of the City.

Respectfully submitted,


SOLON WISHAM, JR.
Assistant City Manager

August 1, 1989
All Districts

Contact Person: Solon Wisham, Jr. 449-5704
Assistant City Manager



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July 20, 1989

City Council
Sacramento, California

Honorable Members In Session:

Subject: **Property Tax Exchange Agreement with the County of Sacramento**

SUMMARY

This report recommends that the City Council approve the new Master Property Tax Exchange Agreement between the City and County of Sacramento and authorize the Mayor to execute the agreement on behalf of the City.

BACKGROUND

State law (Chapter 6, Section 99'b', Revenue and Taxation Code) requires that property tax exchange agreements be in place between a city and county before a city can annex territory. By definition, a Master Property Tax Exchange Agreement is permissive. The agreement is confined to the exchange of property taxes after an annexation is approved by the Local Agency Formation Commission (LAFCO).

In 1980, the City and County entered into a Master Property Tax Exchange Agreement which was renewed several times before the last expiration which occurred on January 1, 1986. Since that time, the few annexations that have occurred required special negotiations for each application. The lack of a master agreement has essentially stalled all annexation proposals of a significant size or assessed valuation.

Over the past several months, staff representatives of the City, County and special districts, have exchanged proposals in an effort to reach an agreement which would result in an equitable Master Property Tax Exchange Agreement between the City and County. The County staff had an additional burden of viewing the agreement with the City in broad enough terms that it would be equitable to the cities of Folsom, Isleton, and Galt and at the same time, provide a process to deal with the detachment of special districts.

I am pleased to indicate that we have been successful in reaching an agreement which provides for the equitable redistribution of property taxes in areas annexed to the City.

ELEMENTS OF THE AGREEMENT

1. The agreement covers the redistribution of property taxes assessed against real property located in territory to be annexed to the City.
2. Detachments from special districts whose service responsibility is to be assumed by the City will occur after an annexation is approved.
3. The pre-annexation special district and County general fund shares of property tax will be redistributed to the City and the County proportional to the current City-wide and County-wide average shares of the property tax levy. This would result in a redistribution of 51.5% to the County and 48.5% to the City after an annexation is approved by LAFCO.
4. In cases where the County would suffer diminished shares of the levy due to an annexation, the redistribution of shares of the levy will be phased over five years so that the County will not suffer severe property tax revenue loss in any single year.
5. The City, the County, and special districts, continue to reserve the right to oppose specific annexation proposals in the LAFCO process.

A special recognition and appreciation is appropriate for City Revenue Manager Mike Medema, County Administration & Finance Administrator, Gary Cassady, and County Administrative Analyst Russell Fehr for their commitment to a balanced solution.

FINANCIAL DATA

The approval of this agreement by the City Council and the Board of Supervisors will result in a redistribution of property tax levy in the amount 51.5% to the County of Sacramento and 48.5% to the City after an annexation is approved by LAFCO.

A model has been developed which reflects the impact of an annexation in various unincorporated area communities upon the County's general fund. This model was developed to clearly depict the equity of property tax exchange based on the concepts developed for the new agreement. Table I below provides a comparison of all figures expressed in percentages. The brackets represent anticipated losses to the County's share of the levy if annexations occurred in certain unincorporated communities. The County receives a fiscal benefit (percentages not in brackets) from annexations to the City that occur in some communities. The new agreement reduces that benefit, but a fair and equitable balance occurs because the Natomas, Elk Grove/Laguna and Vineyard communities are areas that would provide a more significant loss to the County if annexation to the City occurred. Where there is an actual loss of revenue to the County due to annexation, the City and County agree to a phased redistribution over a period of up to five years to reduce the potential for a sudden and severe reduction to the County general fund anticipated revenue.

TABLE I

COMPARISON OF OLD AND NEW TAX EXCHANGE AGREEMENTS
CHANGES IN THE COUNTY'S SHARE OF THE LEVY

<u>Community</u>	<u>Old Agreement</u> <u>% of Change</u>	<u>New Agreement</u> <u>% of Change</u>	<u>Old to New</u> <u>% Difference</u>
Arden-Arcade	2.2	2.0	(0.2)
Rio Linda	0.7	1.0	0.3
Natomas	(13.2)	(9.2)	4.0
Fruitridge	7.1	6.3	(0.8)
Southgate	7.5	5.6	(1.9)
Elk Grove/Laguna	(6.6)	(5.7)	0.9
Rancho Cordova	1.6	0.7	(0.9)
Vineyard	(6.6)	(5.7)	0.9

POLICY CONSIDERATIONS

Approval of the attached agreement establishes a new property tax exchange agreement between the City and County of Sacramento. The report recognizes the need for a master agreement to cover all annexations to the City and provides a formula which equitably reduces the fiscal impact on the County over a period of up to five years if the specific annexation results in a significant loss to the County general fund.

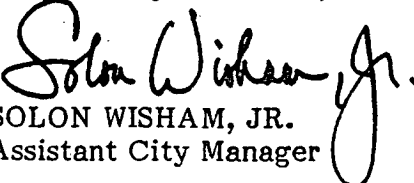
MBE/WBE EFFORTS

MBE/WBE goals are not applicable.

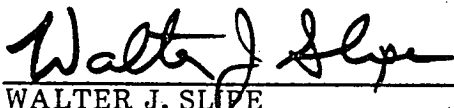
RECOMMENDATION

It is recommended that the City Council, by resolution, approve the Master Property Tax Exchange Agreement between the City and County of Sacramento and authorize the Mayor to execute the agreement on behalf of the City.

Respectfully submitted,


SOLON WISHAM, JR.
Assistant City Manager

RECOMMENDATION APPROVED:


WALTER J. SLUPE
City Manager

Attachments

August 1, 1989
All Districts

Contact Person: Solon Wisham, Jr. 449-5704
Assistant City Manager

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SACRAMENTO APPROVING A PROPERTY TAX EXCHANGE AGREEMENT WITH THE COUNTY OF SACRAMENTO AND AUTHORIZING THE MAYOR TO EXECUTE THE AGREEMENT ON BEHALF OF THE CITY

WHEREAS, State law (Chapter 6, Section 99'b', Revenue and Taxation Code) requires a property exchange agreement be in place between a City and County before a City can annex territory; and

WHEREAS, the City and County of Sacramento recognized the need to have such an agreement in place to provide for the equitable redistribution of property tax in areas annexed to the City;

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Sacramento as follows:

1. The City Council hereby approves the Master Property Tax Exchange Agreement between the City and County of Sacramento;
2. The Mayor is authorized to execute the agreement on behalf of the City.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

A G R E E M E N T

BETWEEN THE COUNTY OF SACRAMENTO
AND THE CITY OF SACRAMENTO
REGARDING THE TRANSFER OF PROPERTY
TAXES UPON THE ANNEXATION OF TERRITORY
TO THE CITY OF SACRAMENTO

The parties to this Agreement are the CITY OF SACRAMENTO, a duly organized and existing municipal corporation and charter city ("City"), and the COUNTY OF SACRAMENTO, a political subdivision of the State of California ("County").

RECITALS

WHEREAS:

(1) State law (Revenue and Taxation Code Section 99) requires that property tax transfer agreements be in place between a county and a city before annexations may take place. These agreements may be either project specific or take the form of master agreements which cover all annexations involving City and County during the term of the agreement. County and City agree to facilitate an orderly review of annexation proposals and desire to enter into a permanent master property tax transfer agreement regarding annexations, in order to provide certainty and uniformity in the annexation process. County supports orderly growth of City, and City supports County's need to provide countywide services.

(2) Adoption of a master property tax transfer agreement pursuant to Revenue and Taxation Code Section 99(d) is discretionary, and relates to the adjustment and transfer of property taxes after an annexation is approved by the Local Agency Formation Commission (LAFCO). Having the agreement in place allows City or landowners to file and process annexation requests with LAFCO. The location, size, boundaries, timing, and conditions of annexation requests, even LAFCO's approval or denial, cannot be predicted. Whether the territory proposed for annexation is developed or undeveloped also is unpredictable. The property tax transfer agreement does not cover revenues other than property taxes, such as sales taxes.

(3) Individual annexations must be studied on a case by case basis, and the LAFCO process, and not the property tax transfer agreement, is the proper forum in which to weigh the merits of specific annexation applications. The impacts on special districts and consistency with land use plans are issues which must be evaluated and decided through the LAFCO process. While such issues are not the subject of this property tax transfer agreement, the advance resolution through this Agreement of the respective post-annexation shares of the parties in the property tax revenue generated within the area to be annexed, will facilitate proper consideration of those issues on their own merit apart from property tax transfer questions.

AGREEMENT

1. Scope of Agreement

The property tax revenue transfer provisions of this Agreement shall apply to all City annexations which are approved by LAFCO, and to the adjustment of property taxes assessed against real property located in territory to be annexed to City.

2. Portions of Pre-annexation Property Tax Levy Subject to Redistribution

The shares of the property tax levy to be adjusted and transferred after an annexation include the shares of the property tax levy accruing to: (i) detaching special districts; (ii) the County library; (iii) the County Unincorporated Area Services Fund (Fund 013); and (iv) the County General Fund (Fund 001). These shares of the property tax levy are to be adjusted and transferred to City and County in accordance with the formula adopted in this Agreement. "Detaching special districts" means those districts whose responsibility for provision of services to the area being annexed passes to the City after an annexation, including but not limited to, recreation and park districts, fire protection districts, and cemetery districts.

3. Post-annexation Shares

Subject to the provisions of paragraph 5, the pre-annexation shares of the property tax levy subject to adjustment and transfer under this Agreement shall be adjusted and transferred to City and County as follows, after the effective date of any annexation approved by LAFCO: 51.5 percent to County and 48.5 percent to City.

4. Mitigation Measures for Detaching Special Districts

City, County and affected special districts located in Sacramento County reserve and retain the right to oppose any particular annexation during the LAFCO process. Because annexation may result in serious adverse fiscal impacts on districts which would be detached, City agrees to offer in each specific annexation request, measures designed to mitigate such adverse fiscal impacts, including but not limited to the revenue phaseout program specified in paragraph 5. County agrees to support reasonable mitigation measures offered by City.

5. Phasing Procedure where County Incurs Property Tax Revenue Loss as a Result of Annexation

If, after adjustment and transfer of the portion of the pre-annexation property tax levy which is subject to adjustment and transfer, County's post-annexation property tax revenue from the annexing area is less than its pre-annexation property tax revenue from that same area, a five-year phasing procedure shall be adopted so that County's actually incurred loss of revenue is spread evenly over the five-year period. Attached hereto and incorporated herein by this reference as Exhibit "A" is an example of a phased procedure for spreading the incurred revenue loss over five years.

6. Termination

This Agreement shall become effective on August 1, 1989, and shall continue in effect until terminated by mutual consent of the parties. A party may unilaterally terminate this

Agreement by giving notice of intention to terminate one (1) year in advance of the intended termination date. Termination pursuant to any such notice duly given shall not become effective until the entire one-year period has expired. In no event shall a party be entitled to give the one-year notice of intention to terminate during the pendency of any proceeding involving City or County before LAFCO. For purposes of this Agreement a proceeding is pending before LAFCO at all times after any document has been filed with LAFCO which invokes its jurisdiction or LAFCO itself has assumed jurisdiction on its own; and during the time that any legal action related to a LAFCO proceeding involving City or County is pending in any trial or appellate court; and during any LAFCO proceeding on remand from any court.

Chairman, Board of Supervisors
Sacramento County, California

(SEAL)

ATTEST:

Clerk of the Board of Supervisors

Mayor, City of Sacramento

(SEAL)

ATTEST:

City Clerk