

**PROPERTY TAX SHARING AGREEMENT
BETWEEN THE CITY OF MERCED AND COUNTY OF MERCED**

This Agreement, is made and entered into this _____ day of July, 2016 by and between the County of Merced, a political subdivision of the State of California, (hereinafter referred to as "County"), and the City of Merced, a Municipal Corporation incorporated under the laws of the State of California, (hereinafter referred to as "City"), and pursuant to Revenue and Taxation Code of the State of California.

WHEREAS: California Revenue and Taxation Code Section 99 authorizes cities and counties to enter into master property tax sharing agreements to provide adjustments to the allocation of property taxes upon annexation; and,

WHEREAS: City and County recognize annexation will not decrease County's responsibilities for providing municipal and countywide services in the areas of county administration, adult and juvenile detention and correction, health and human services, libraries and office of emergency services; and

WHEREAS: City and County recognize that it is important that any property tax sharing arrangements between City and County should be determined in advance to facilitate sound planning for development and the provision of services as a result of that development; and,

WHEREAS: City and County have worked together to develop a fair and equitable approach to property tax sharing, maximizing locally available revenues; and,

WHEREAS: City and County seek to align the interests of both jurisdictions in a way that promotes and financially encourages future development; and,

WHEREAS: As provided for in this agreement, City and County intend to ensure the timeliest, efficient and cost-effective delivery of services provided to the public.

WHEREAS: It is the purpose of this Agreement to serve as a Property Tax Sharing Agreement pursuant to Section 99 of the California Revenue and Taxation Code for property tax revenue attributable to the territory annexed to the City subsequent to the date of this Agreement; and

WHEREAS: Property tax revenue attributable to the territory annexed prior to the date of this Agreement shall remain apportioned as previously set forth; and

Now therefore, in consideration of the mutual covenants and promises herein contained, the City and County hereby agree as follows:

1. Recitals

The foregoing recitals are true and correct and are incorporated herein as part of this Agreement.

2. Definitions

- (a) ANNEXATION - shall mean the inclusion, attachment, or addition of territory to the City pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, following the effective date of this Agreement.
- (b) ANNEXATION AREA or ANNEXATION AREAS - shall mean properties annexed from the County into the City following the effective date of this Agreement.
- (c) AD VALOREM PROPERTY TAX – shall mean the tax imposed on real and tangible personal property based upon the value of the property.
- (d) BASE PROPERTY TAX YEAR – shall mean the assessed valuation applicable to the property and improvements within the area being annexed at the time the Tax Rate Area is established by the State Board of Equalization.
- (e) COUNTY SERVICES PAYMENT – shall mean a payment made to the County by the City to help offset the City’s share of cost for countywide services provided.
- (f) EDUCATIONAL REVENUE AUGMENTATION FUND (ERAF) – shall mean a requirement of the County Auditor-Controller to shift a certain percentage of annual allocations of local property tax revenues from counties, cities and special districts to a specified fund which is utilized by the State of California to reduce its financial obligation to public schools and

help meet its minimum state funding requirements pursuant to Proposition 98.

- (g) ERAF FACTOR – shall mean the percentage required by California Revenue and Taxation Code sections 97, et seq., to be multiplied by an affected agency’s AB 8 gross level in order to determine the amount of funds to be transferred to the specified ERAF FUND.
- (h) INCREMENTAL PROPERTY TAX REVENUE – shall mean the total increase or decrease in the assessed valuation over the base property tax year within the annexed area.

3. Reporting

From and after the first fiscal year following the effective date of each annexation, County Auditor-Controller will report, as part of the regular AB8 report process, to City Manager Office and County Executive Office the calculation and the actual amount of the Ad Valorem Property Tax revenue from the Annexation Area available for allocation and distribution pursuant to this Agreement.

4. Sharing of Property Tax

From and after the first fiscal year following the effective date of each annexation:

- (a) City shall receive 100% of Ad Valorem Property Tax Revenue from each Annexation Area that would otherwise be allocated and distributed for County Fire Services.
- (b) City shall receive 100% of the Ad Valorem Property Tax Revenue from each Annexation Area that would otherwise be allocated and distributed to the County General Fund, less City ERAF.

5. Payment for County Services

- (a) From and after the first fiscal year following the effective date of each Annexation, the City shall reimburse the County through a County Services Payment in an amount that equates to 63% of the post-ERAF Ad Valorem

Property Tax Revenue collected from each Annexation Area, as specified in Section 4(b).

- (b) The City agrees to allow the County Auditor-Controller to withhold the County Services Payment amount as specified in Section 5(a) from the property tax revenue due to the City at the time an apportionment is allocated and distributed.

6. Agricultural Mitigation

The City agrees to participate in future discussions to establish an agricultural mitigation program for productive agricultural land converted to urban development.

7. City and County General Plan Cooperation

- (a) The City has adopted an updated general plan (2030 General Plan). The 2030 General Plan identifies an Urban Growth Boundary, a Sphere of Influence Boundary, and a Planning Area Boundary.
- (b) The City and County understand that legislative bodies may not bind future legislative bodies, and that one legislative body may not delegate its legislative or police power to another legislative body.
- (c) To ensure communication and coordination, in addition to avoiding conflict with the City in the implementation of the 2030 General Plan, the County agrees to refer the following applications which are accepted by the County within the City's 2030 General Plan Planning Area Boundary to the City for its review and comments:
 - Major and Minor Subdivisions
 - Conditional Use Permits
 - Zone Changes
 - General Plan Amendments
 - Administrative Permits
 - Annexations

The County will consider all comments provided by the City prior to taking action on the application.

- (d) The City's 2030 General Plan designates land outside of the Urban Growth Boundary, but within the Sphere of Influence Boundary, as Agriculture/Rural. To assist and support the County in implementing County General Plan policies concerning the preservation of agricultural resources, the City agrees to refer all applications resulting in the expansion of City limit boundaries into the unincorporated area of the County to the County for its review and comments. The City will consider all County comments prior to forwarding the applications to LAFCO.

8. Term of This Agreement

This Agreement shall commence as of the date of execution by City and County, which date is stated at the beginning of this Agreement and continue for a period of ten years, provided that either party may terminate this Agreement at any time as long as six months prior written notice before the end of any fiscal year (June 30) is given to the other party to this Agreement.

9. Modification

- (a) It is mutually understood and agreed that should any changes in state statutory law, court decisions, changes in ERAF methodology or calculations which purports to negate allocations made under this agreement or state administrative decision or direction result in redistribution of tax revenues previously distributed, any increases or decreases from the original property tax allocation amounts or penalties will be adjusted using the 63% to the County and 37% to the City formula as outlined in Section 5(a).
- (b) It is mutually understood and agreed that should any changes in ERAF occur due to any state statutory law, court or State of California voter decisions, or changes in ERAF methodology or calculation, or state administrative decision or direction that results in the redistribution of future property tax revenue which negate the basic purposes of this Agreement, the property tax allocation from the Annexation Areas, outlined in Section 4 and 5 collectively, shall be thereafter adjusted to the following method:
- i. The City shall receive 100% of Ad Valorem Property Tax Revenue from each Annexation Area that would otherwise be allocated and distributed for County Fire Services.

- ii. The City and County shall share the Ad Valorem Property Tax Revenue from each Annexation Area that would otherwise be allocated and distributed pre-ERAF to the County General Fund, with the County receiving 76% and the City 24%.
- iii. In the event the method in (b) i and (b) ii is used because of changes in ERAF, but such changes in ERAF negate the basic purpose of the formula in (b) i. and (b) ii. this Agreement shall be considered terminated and a new agreement will be negotiated between the City and the County within 120 days of the effective change in ERAF.

(c) Any joint legal costs incurred as a result of resolving a dispute with a third party regarding the revenue distribution outlined in Sections 4 and 5 or in resolving any joint issues related to the modification of property tax revenue distributions will be shared 50% to the County and 50% to the City. In the event that a dispute arises between the County and City, each party will bear its own cost.

10. Notice

All notices, requests, certifications or other correspondence required to be provided by the parties to this Agreement will be in writing and will be personally delivered or delivered by first class mail to the respective parties at the following addresses:

County

County of Merced
County Executive Officer
2222 M Street
Merced, CA 95340

City

City of Merced
City Manager
678 W 18th Street
Merced, CA 95340

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in the County of Merced, State of California, on the dates set forth above.

County of Merced

By _____

Title _____

Date _____

City of Merced

By _____

Title _____

Date _____

APPROVED AS TO LEGALITY AND FORM:

County of Merced

By _____

Title _____

Date _____

City of Merced

By JOHN STON

Title Special Counsel to City

Date 8-10-16