



## Legislation Text

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**File #:** 16-180, **Version:** 1

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**SUBJECT:** Revenue Sharing

### REPORT IN BRIEF

The report describes the history of Revenue Sharing and latest proposals between the City and County.

### RECOMMENDATION

City Council - Provide direction to City Manager on next steps to be taken.

### ALTERNATIVES

1. Approve, as recommended by staff; or,
2. Approve, subject to modifications as conditioned by City Council; or,
3. Refer to staff for reconsideration of specific items; or,
4. Deny.

### AUTHORITY

Charter of the City of Merced, Section 200. State of California Revenue and Taxation Code.

### CITY COUNCIL PRIORITIES

Economic Development.

### DISCUSSION

#### History of Revenue Sharing

The State of California Revenue and Taxation Code requires an agreement for the sharing of property taxes between cities and counties prior to the Local Agency Formation Commission (LAFCO) reviewing an application for annexation.

Prior to the passage of Proposition 13 such an agreement was not required because city tax rates were added to the existing county tax rate as part of an approved annexation.

Prior to Proposition 13, the property tax rate throughout California averaged less than 3% of market value. Additionally, there were no limits on increases for the tax rate or on assessed value changes. Some properties were reassessed 50% to 100% in just one year and their owners' property tax bills increased accordingly.

On June 6, 1978, nearly two-thirds of California's voters passed Proposition 13, reducing property tax rates on homes, businesses and farms by about 57%.

Under Proposition 13 property tax values were rolled back and frozen at the 1976 assessed value level. Increases on assessed values on any given property were limited to no more than 2% per year, as long as the property was not sold and the tax was limited to 1% of assessed value. Once sold, the property was taxed at 1% of the sale price, and the 2% yearly cap became applicable to future years. This allowed property owners to finally be able to estimate the amount of future property taxes and determine the maximum amount taxes could increase.

Subsequent to the passage of Proposition 13 and upon annexation of properties into cities, the reduced tax rate of 1% had to be shared. This sharing requirement produced the need for an agreement between cities and counties.

### **History of Revenue Sharing Between the City and County**

In 1980 the City of Merced and County of Merced adopted tax sharing agreements detailing the split of the 1% of property taxes. The 1980 agreements were in place until the County withdrew them by letter, dated May 11, 1995. At that time the City was in the process of submitting an application for the proposed Bellevue Ranch.

In 1997 the City of Merced and County of Merced entered into a new tax sharing agreement which expired December 31, 2014.

### **Negotiations**

Because of the housing explosion in the early 2000's and prior to the expiration of the agreement the City worked with the County to come up with a more equitable revenue sharing arrangement. As part of this process the City engaged the services of an outside consultant to prepare a fiscal analysis that could be used to support a fair and equitable revenue split. This analysis was presented to the County but was not acceptable to them, so no new agreement was reached.

Because no annexation can be completed until a revenue sharing agreement is in place, the City Council has made this a priority and negotiations have continued with the County since the agreement ended.

### **Current City and County Proposals**

City Proposal	County Proposal
Ag Mitigation	Ag Mitigation
Upon annexation City would receive all taxes from base (1) and increment (2) values that would have gone to the County Fire Fund.	Upon annexation City would receive all taxes from base and increment values that would have gone to the County Fire Fund.
Upon annexation County and City split all taxes from base and increment that would have gone to the County General Fund, 60% to County and 40% to City. After deducting ERAF (3), County and City sharing is about 50% / 50%.	Upon annexation County would retain all taxes from base that would have gone to the County General Fund. Upon annexation County would receive 80% of the taxes and the City 20% of the taxes from increment that would have gone to the County General Fund. After deducting ERAF, County and City sharing is about 73% / 27%.

- (1) Base: Value at time of annexation upon which the “base” tax amount is determined.
- (2) Increment: Increase in value (development) after annexation upon which the “increment” tax amount is determined.
- (3) ERAF: Education Revenue Augmentation Fund - State takeaway for schools.

Since 2006 the County of Merced has insisted Agricultural Mitigation be part of the Revenue Sharing negotiations between the County and cities. Recent meetings and discussions by the County have now brought up the topic of the Local Agency Formation Commission (LAFCO) being considered as a means of discussion for agricultural mitigation. Further review by the City’s legal department is needed on this topic.

The City receiving all of the County Fire Fund base and increment taxes is appropriate, because upon annexation the City would be responsible for providing fire services to the area.

The City receiving no County General Fund base property taxes and only receiving taxes from County General Fund increment is not appropriate because upon annexation the City would need to provide other services, in addition to fire. An area fully developed that is annexed would result in the County receiving all base property taxes and the City never receiving much from increment because there would be no opportunity for more development.

The net split of increment of about 73% to the County and 27% to the City is not equitable. The County feels it is fair, because when they combine the Fire and General Fund base and increment amounts, the split between County and City is about 50% / 50%.

The County General Fund and the County Fire Fund amounts should not be combined for share calculation purposes. Upon annexation there are two different revenue streams, one to provide fire services and one for all other municipal services.

## Options

Discuss options and provide direction to City Manager on next steps.

## **IMPACT ON CITY RESOURCES**

Without a revenue sharing agreement in place no annexations can occur.

## **ATTACHMENTS**

1. May 11, 1995 Cancellation Letter
2. 1997 Revenue Sharing Agreement / Resolution 1997-8