CITY OF MERCED

Merced Civic Center
678 W. 18th Street
Merced, CA 95340

Legislation Text

File #: 16-381, **Version:** 1

Report Prepared by: Brad Grant - Finance Officer

SUBJECT: Revenue Sharing Agreement

REPORT IN BRIEF
Considers approving the Property Tax (revenue) Sharing Agreement with County of Merced.

RECOMMENDATION
City Council - Adopt a motion approving Property Tax Sharing Agreement between the City of Merced and County of Merced.

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.

New Agreement

City and County staff have come to agreement on language and deal points. The main points are as follows:

City shall receive 100% of property taxes from annexed areas that would otherwise be allocated and distributed for County Fire Services.

City shall receive 100% of property taxes from annexed areas that would otherwise be allocated and distributed to the County General Fund, less the City Education Revenue Augmentation Fund (ERAF) share.

City shall reimburse the County 63% of the post-ERAF property taxes for County services provided to City residents from the property taxes that would otherwise be distributed to the County General Fund.

The net combined distribution results in the City receiving 53% and the County 47%.

If this methodology must be changed because of changes in statutory law, court decisions or changes in ERAF methodology there is a provision for adjusting any resulting increases or decreases by the agreed upon formula and for sharing in legal fees if disputes arise and legal costs are incurred.

The Agreement provides that future discussions will be held with the County in order to establish an agricultural mitigation program for productive agricultural land converted to urban development.

The Agreement provides for City and County General Plan cooperation.

The Agreement is for a period of ten years but may be terminated with six months prior written notice before the end of any fiscal year.

IMPACT ON CITY RESOURCES
With a tax sharing agreement in place annexations can be submitted to the Local Agency Formation Commission (LAFCO) and upon approval development can occur which will result in additional revenue to the City.

ATTACHMENTS
1. Property Tax Sharing Agreement