Mendocino County

Legislation Text

File #: 24-0412, **Version:** 1

To: BOARD OF SUPERVISORS

From: Supervisor Mulheren and Supervisor Gjerde

Meeting Date: June 5, 2024

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Item Type: Regular Agenda **Time Allocated for Item**: 1 Hour

Agenda Title:
Discussion and Possible Action Including Adoption of a Resolution Approving a Master Tax Sharing Agreement between the County of Mendocino, the City of Fort Bragg, the City of Point Arena, the City of Ukiah, and the City of Willits
(Sponsors: Supervisor Mulheren and Supervisor Gjerde)

Recommended Action/Motion:
Adopt Resolution approving a Master Tax Sharing Agreement between the County of Mendocino, the City of Fort Bragg, the City of Point Arena, the City of Ukiah, and the City of Willits; authorize Chair to sign same.

Previous Board/Board Committee Actions:
Appointment of Supervisors Gjerde and Mulheren to a Tax Sharing Ad Hoc Committee.

Summary of Request:
The County of Mendocino and its Cities need an equitable and modern tax sharing agreement to facilitate the annexation of property and ensure the continued provision of essential public services in the relevant jurisdictions. Creating a sustainable tax sharing agreement will allow for improvements and efficiencies in delivering quality government services and create a strategic pathway for housing development and economic growth.

Currently, there is not a uniform approach to tax sharing across the region that coordinates tax revenue and provision of government services between the County of Mendocino and the cities of Fort Bragg, Point Arena, Ukiah, and Willits. As such, there have been no significant land annexations by a city in Mendocino County since the 1980s. As a result, all jurisdictions are getting stretched to provide services without the funding stream or capacity to support them. Moreover, the lack of annexations inhibits orderly growth of our urban areas and results in piecemeal development and sprawl in the surrounding unincorporated regions.

Approval of a master tax sharing agreement will help facilitate annexations and ensure the proper distribution of revenues to support city and county services while fostering economic collaboration and resiliency.

Background

The Cortese- Knox-Hertzberg Local Government Reorganization Act outlines the procedures in which the

Mendocino County Local Agency Formation Commission (LAFCO) must follow to process an application for an annexation. When a city annexes land from a county, the responsibility for providing municipal-type services transfers from the county to the city while the county continues to provide county-wide services such as public health and social services. This agreement is not an annexation agreement, nor does it guarantee certain annexations must occur.

Government revenue, derived primarily from property tax, local sales tax, and transient occupancy tax, funds essential services, with responsibilities shared between the Cities and the County. The allocation of tax revenue between the County and City jurisdictions requires modernization to more effectively direct resources to the jurisdiction best equipped to deliver specific services. Annexation facilitates the strategic extension of city-provided municipal services to higher populated areas, while ensuring the County can continue to provide vital county-wide services; the Master Tax Sharing Agreement is designed to facilitate this transfer without creating a sudden financial shock.

One of the requirements to process an application for an annexation through LAFCO is a tax sharing agreement. A tax sharing agreement sets forth how tax revenues generated by the property being annexed are shared between the County and the annexing City. A master tax sharing agreement-one that encompasses all of the primary taxes and all jurisdictions-- is beneficial in that it provides consistency and efficiency in the annexation process as opposed to having to negotiate a separate agreement with each annexation.

A primary objective of a master tax sharing agreement is to enhance cooperation between the county and its cities, thereby reducing competition for tax revenue. This allows land use and development decisions to be guided by sound planning principles, such as the development of necessary infrastructure and impact mitigation, efficient and rational service delivery, ensure orderly growth patterns, and the preservation of quality of life.

<u>Discussion</u>

City and County staff, along with an ad-hoc committee from the Board of Supervisors comprising Supervisors Mulheren and Gjerde, have collaborated for months on the details of a master tax sharing agreement. Their goal has been to devise a solution equitable to all jurisdictions and to mitigate budget impacts. This Master Tax Sharing Agreement facilitates economic development in ways that will increase tax revenue while relieving the County of municipal service obligations, benefiting every jurisdiction, and ultimately improving service delivery. As annexation occurs, the proposed Master Tax Sharing Agreement ensures both urban and rural areas receive the necessary support tailored to their unique needs. This Master Tax Sharing Agreement also enables the municipalities to program the expansion of services without sacrificing existing responsibilities.

A detailed term sheet for the proposed Master Tax Sharing Agreement is included as an attachment along with the Master Tax Sharing Agreement itself.

The proposed Master Tax Sharing Agreement is fair for all jurisdictions, will create a uniform approach that can be followed for decades to come, and will allow for appropriate growth. Benefits include:

- Better provision of services: With annexation, the tax sharing agreement allows each jurisdiction to more efficiently focus their efforts and resources on the responsibilities that are in their “lane.” Furthermore, it will “right-size” the tax revenue provided for each jurisdiction to meet its service obligations and match how these services are divided and delivered.
- Addresses unsustainable pressure on City and County budgets: The County of Mendocino is being stretched to provide different services to unincorporated areas that are beyond the County’s core capacities. A tax sharing agreement that supports future annexations which would assign service responsibility for these areas to cities would reduce the strain on the County to try to provide services

that it is not set up for and would improve sustainability of the County budget and operations. Furthermore, reasonable growth for cities will help create a better economy of scale to address the demand for costly municipal services.

- Equity for disadvantaged communities: The unincorporated areas of the county that are currently underserved by government infrastructure are disproportionately lower income and minority populations. These communities deserve more investment in streets, sidewalks, streetlights, parks, emergency response and other infrastructure. To improve equity in our region, there must be a focus on bringing resources and investment and infrastructure improvements to these disadvantaged communities. That can only happen with a tax sharing agreement that better aligns revenue and responsibility to the appropriate jurisdictions.
- Pathway for economic growth: Better municipal services will allow for orderly, successful, and sustainable growth. Housing development will proceed and business activity will expand, which will bring heightened property and sales tax revenue to the region. Without a tax sharing agreement, government services will likely remain sub-par in areas that could accommodate such development, and growth will be stagnated.
- Pathway for housing: There are aggressive requirements for new housing development to meet shortfalls across the state of California. In Mendocino County, there are good opportunities for housing development that lie just outside city jurisdictions. With a tax sharing agreement and appropriate land annexation, the cities will work collaboratively with the County to take on new housing development and would be in the position to provide appropriate municipal services to support that buildout.
- Time for solution: There have been no significant land annexations in Mendocino County since the 1980s, which has left some developed areas without the appropriate extension of adequate municipal services. The tax sharing agreement fosters City and County collaboration to serve higher populated areas with the array of governmental services that are necessary for urban communities to thrive.
- Fairness for jurisdictions across the region: All four Cities in Mendocino County would adopt the same tax sharing provisions with the County. This would ensure fairness and fiscal responsibility for all jurisdictions and prevent the Cities from competing against each other for development opportunities.
- Fairness for residents: Currently, city residents are having to subsidize the delivery of basic services to areas outside city boundaries. Likewise, county residents are supporting delivery of municipal services that are typically outside of the County's responsibility, thereby stretching valuable resources. A tax sharing agreement will ensure all residents pay an equal amount for the services they receive, and all residents have access to the proper level of services for their community. In addition, incorporation into city boundaries provides individuals and businesses with expanded representation to help shape city policies.
- Common solution: Many cities and counties across California have adopted tax sharing agreements to resolve the discrepancies that can occur with how tax revenue is collected and how services are being delivered in different areas.
- The math adds up: City and county representatives have been working together on the specifics of the agreement for months to identify a fiscal solution that is fair for all jurisdictions and does not create budget shortfalls in any year as the agreement is incrementally implemented and revenue sharing is phased over time with each annexation. With this agreement in place, the expectation is that tax revenue will grow and every jurisdiction will be better off than before.

The Master Tax Sharing Agreement will promote annexations which are long overdue in many regions throughout Mendocino County. Assurance that our existing communities and future development will receive the appropriate services from our cities and the County is a key component to retaining and attracting businesses and investment in our region. The Agreement supports collaboration among our Cities and County to support safe and healthy communities, enhance economic growth, deliver high quality government services, and drive investment in well-planned infrastructure. The Agreement will set the stage for responsible growth in the right places, while improving the fiscal health of Fort Bragg, Point Arena, Willits, Ukiah, and the County.

The Cities and County have been developing a spreadsheet, with the assistance of the Acting Auditor/Controller & Treasurer/Tax-Collector, that models how the property tax will be transferred in future annexations pursuant to the agreement. It is the parties' intent to finalize that agreed-upon spreadsheet so that City and County officials can use it to implement the agreement in the future.

Alternative Action/Motion:
Provide direction to staff

Strategic Plan Priority Designation: An Effective County Government

Supervisorial District: All

Vote Requirement: Majority

Supplemental Information Available Online At: N/A

Fiscal Details:
source of funding: N/A
current f/y cost: N/A
budget clarification: This master tax sharing agreement does not have any budgetary impact by itself. However, this agreement addresses a requirement for any incorporated City to annex land from the unincorporated areas of the County. Any specific future annexation would likely have a fiscal impact; this agreement is intended to ensure that revenue shifts would be equitably offset by shifts in the burden of service responsibility.
annual recurring cost: Unknown
budgeted in current f/y (if no, please describe): No
revenue agreement: N/A
AGREEMENT/RESOLUTION/ORDINANCE APPROVED BY COUNTY COUNSEL: Yes
CEO Liaison: Executive Office
CEO Review: Yes
CEO Comments:

FOR COB USE ONLY
Executed By: Atlas Pearson, Senior Deputy Clerk Final Status: **Approved**
Date: June 5, 2024 Executed Item Type: Resolution
Number: 24-093
Executed Item Type: Interim Agreement
Number: *24-085