

Discussion Related to City of Ukiah's Proposed Annexation



June 23, 2026



Introduction

The following slides include various data points to help examine how the Master Tax Sharing Agreement (MTSA) affects County finances and operations in relation to the City of Ukiah's Proposed Change of Organization and Annexation, also known as the "Sapling" map.

While this presentation is around financial impacts, there are some topics which the Board of Supervisors should take into consideration while reviewing the data. A few considerations are discussed on the next slide.

Please note, this presentation strictly looks at revenue and expenses impacted by the MTSA, it does not factor in any other assumptions. This presentation should not be considered a cost benefit analysis. The data used in this analysis is based on actual data in today's dollars assuming the County is in year 15 of the MTSA.

The Executive Office is happy to bring back additional analyses including benefit and consequence assumptions once the Board has had the opportunity to publicly discuss and staff understands what to include.

While reviewing the data please keep in mind the City of Ukiah has indicated there are no economic development projects, in the near future, within the proposed area of annexation.



Considerations for Discussion

The following should be considered during any annexation:

- Benefits of an annexation
- Consequences if an annexation does not proceed
- Community support
- County and City collaboration
- County's fiscal sustainability and ability to fulfill its state and constitutional obligations.
 - County Policy #13 (Annexations), which states that annexations will not be favored until a formula for distribution of public revenues generated by areas to be annexed is developed to pay for continuing County obligations.
 - Mandated services
- Economic development expectation
- Potential alternatives to achieve the same goal as an annexation
- Timeline



Non-Departmental Revenue

| Fiscal Year (FY) 26/27 Budget | Amount | % of Total |
|--|---------------------|-------------------|
| • Secured Property Tax (Less Allocation for Roads & Library) | \$46,374,306 | 50.15% |
| • Property Tax in Lieu of VLF | \$16,203,199 | 17.52% |
| • Supplemental/Penalty & Delinquent Tax/Property Tax Transfer/ Williamson Act/Homeowners Relief | \$ 3,311,500 | 3.58% |
| • <u>Unsecured Property Tax</u> | <u>\$ 1,230,500</u> | <u>1.33%</u> |
| <i>Subtotal of All Property Tax</i> | <i>\$67,119,505</i> | <i>72.58%</i> |
| • Transient Occupancy Tax (TOT) | \$ 8,500,000 | 9.19% |
| • Sales Tax (Bradley-Burns) (Excludes Measure P) | \$ 7,031,895 | 7.60% |
| • Cost Plan Charges | \$ 6,525,000 | 7.06% |
| • Interest | \$ 2,000,000 | 2.16% |
| • Franchise Fees | \$ 1,300,000 | 1.41% |
| • Tobacco Settlement | \$ 900,000 | .97% |
| • Federal Land in Lieu of Tax | \$ 850,000 | .92% |
| • Cannabis Tax | \$ 840,000 | .91% |
| • Other | \$ 700,400 | .76% |
| • Transfer Out (Debt Service) | (\$ 2,431,299) | (2.62%) |
| • Transfer Out (Internal Service Fund Munis Reimplementation) | (\$ 500,000) | (.54%) |
| • Transfer Out (Realignment MOU) | (\$ 376,785) | (.40%) |
| Total | \$92,478,716 | 100.00% |



Sales Tax Breakdown

Unincorporated Sales Tax Rate:

| | |
|--|---------|
| • State General Fund | 3.9375% |
| • County Bradley-Burns | 1.0000% |
| • County Public Safety (Prop 172) | 0.5000% |
| • County Realignment | 1.5625% |
| • Countywide Transportation Fund | 0.2500% |
| • Mendocino County (Measure B) Behavioral Health | 0.1250% |
| • Mendocino County (Measure O) Library | 0.2500% |
| • Mendocino County (Measure P)* | 0.2500% |

*Measure P is a general tax which included intent language: to fund essential services, including fire protection and prevention.

Total Rate

7.8750%

Outside of the normal growth projection for sales tax (except for future economic development) the proposed annexation will not increase revenue for the county due to the taxes already being captured countywide (incorporated and unincorporated areas).



Bradley-Burns Sales Tax Impacts

As presented a few moments ago, Bradley-Burns sales tax is roughly 7.60% of the County's Non-Departmental Revenue for FY 2026/27 Budget.

Based on Q4 2025 HdL reports, the proposed annexation includes 15 of the County's top 25 sales tax producers.

The proposed annexation, by year 15, would share roughly \$3,000,000 in today's dollars, of the County's Bradley-Burns sales tax.

- Roughly 42% of the County's Bradley-Burns sales tax for FY 2026/27 Budget.

There are many unknowns which can take place over the next 15 years. However, to normalize calculations, if the make up of Non-Departmental Revenue remains similar to FY 2026/27 Non-Departmental Revenue budget, by year 15 of the proposed annexation, the County would be sharing roughly 3.24% of Non-Departmental Revenue. $\$3,000,000 / \$92,478,716 = 3.24\%$

While 3.24% may not seem significant to some, there are many competing priorities, and FY 2026/27 budget was balanced using \$2.5M in one-time funds for appropriate expenses.



Economic Development

The City of Ukiah has indicated there are no economic development projects, in the near future, within the proposed area of annexation.

Economic development has the potential to increase County general fund. Any general fund revenue generated, listed below, would be shared.

- Bradley-Burns sales tax
- Transient Occupancy tax
- Property tax

There may be an increases to Prop 172, Realignment, County Measure B, County Measure O, and County Measure P through sales tax. All these revenues are restricted or allocated to non-general fund expenses.



Property Tax Impacts

According to the MTSA, property tax revenue growth also known as “annual tax increment” (ATI) in the proposed annexed area will be shared as follows:

- 50% of the County's portion of the ATI up to 2% (Prop 13 max) will be shared with the City (1% will go to County, 1% will go to City).
- Any ATI above 2% will be shared with the City.
- This formula will be in place until the City's property tax apportionment factor in the proposed annexed area reaches 15%.

Based on City of Ukiah's initial calculations, on the larger proposed annexation “Valley Oak” map, the City will not reach the 15% until year 2092. Knowing the “Sapling” map encompasses a smaller area, the likelihood of reaching 15% by 2092 is lower.

The County will only see a 1% growth in property tax revenue in the proposed annexed area well into the future.

The impact to County revenue is difficult to calculate as the property tax system cannot handle an “If This Then That” scenario. The entire distribution will need to be manually calculated and then entered into the system until the City's ATI reaches 15% in the proposed annexed area.



Property Tax Impacts Contd.

To complicate matters, each individual Tax Rate Area (TRA) will need to be manually tracked.

The proposed annexation includes 25 separate TRAs.

- There are roughly 1,450 unique parcel numbers impacted by the proposed annexation.
- There is roughly 1,750 acres impacted by the proposed annexation.
- The proposed annexation also splits some parcels in half with a portion being included in the annexation and a portion remaining outside of the annexation.
- The proposed annexation also splits some lighting districts in half.

Below are some questions that remain from Auditor's Office perspective:

- What will be the status of the water, sanitation, and lighting districts?
- How does the annexation affect Williamson Act revenue to the County?

The Auditor-Controller's office has significant concerns with the manual process created by the MTSA. The current MTSA creates competing priorities with the manual calculation, setting tax rates, extending the roll, and year-end balancing. The Auditor's Office cautions these competing priorities will require a significant amount of additional staff time beyond the current capacity.



General Fund Revenue Impacts

The following draft financial analysis represents the impact to the general fund (Non-Departmental Revenue) under the MTSA over the next 16 years. For normalization purposes, assumes all other revenues remain consistent.

- Bradley-Burns sales tax revenue assumptions are based off third party consultant (HdL) projections and are aligned with City of Ukiah’s proposed increase to Bradley-Burns sales tax.

Note: Revenue from gas tax is not factored in because gas tax is considered non-discretionary and cannot be used on general fund expenses.

| County of Mendocino | | | | | | | | |
|--|------------------------|--------|---------|---------|---------|---------|-----------|------------------|
| Analysis of City of Ukiah Proposed Annexation (Sapling) | | | | | | | | |
| Internal Working Document - DRAFT | | | | | | | | |
| | Assumed Fiscal Year>>> | 27/28 | 28/29 | 29/30 | 30/31 | 31/32 | 42/43 | |
| | Factors | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 16 | Cumulative Total |
| Revenues | | | | | | | | |
| Bradley-Burns Sales Tax ¹ | 3% | - | 171,519 | 353,329 | 545,894 | 749,695 | 3,891,572 | 27,274,963 |
| Property Tax ² - <i>in process of calculating</i> | | | | | | | | |
| Transient Occupancy Tax ³ | 0.50% | - | 46,360 | 93,184 | 140,475 | 188,236 | 248,565 | 3,135,458 |
| Misc (Cannabis/Business License/PBS Fees) - <i>in process of calculating</i> | | | | | | | | |
| Total Revenues (Increase)/Decrease | | - | 217,879 | 446,513 | 686,369 | 937,931 | 4,140,137 | 30,410,421 |

Please see appendix for details behind notations.



General Fund Expense Impacts

The following draft financial analysis represents the known impact to the general fund budget units under the MTSA over the next 16 years. For normalization purposes, assumes all other expenses remain consistent.

Estimating there will be no reduction in public safety expenses - mandated services will be discussed on the following slide.

| County of Mendocino | | | | | | | | |
|---|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| Analysis of City of Ukiah Proposed Annexation (Sapling) | | | | | | | | |
| Internal Working Document - DRAFT | | | | | | | | |
| | Assumed Fiscal Year>>> | 27/28 | 28/29 | 29/30 | 30/31 | 31/32 | 42/43 | |
| | Factors | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 16 | Cumulative Total |
| Expenditures | | | | | | | | - |
| Staffing for ACTTC Office (1 FTE)/ Increase in Consultant Costs | 3% | 171,176 | 176,312 | 181,601 | 187,049 | 192,661 | 266,687 | 3,450,382 |
| Estimated increase in operational costs for goods (excluding fuel) purchased by County in proposed annexed area due to increase in sales tax rates. .50% City of Ukiah Measure P and .50% City of Ukiah Measure Y | | | | | | | | |
| <i>There is a 3.00% for price escalation factored in year over year.</i> | 4% | 16,800 | 17,304 | 17,823 | 18,358 | 18,909 | 26,174 | 338,636 |
| Health & Human Services - no reduction in expenses | | - | - | - | - | - | - | - |
| Roads - no reduction in expenses | | - | - | - | - | - | - | - |
| Public Safety - no reduction in expenses | | - | - | - | - | - | - | - |
| Total Expenditures (Decrease)/Increase | | 187,976 | 193,616 | 199,424 | 205,407 | 211,569 | 292,861 | 3,789,018 |



County Mandated Services

The County is responsible for many mandated services regardless if performed in the incorporated or unincorporated. Some but not all are listed below.

- Auditor/Controller
- Assessor/Clerk Recorder
- Corrections (Jail, Probation, and Juvenile Hall)
- Health Services (Environmental, Public and Behavioral Health)
- Judicial System (District Attorney, Public Defender, Alternate Defender, and Conflict Defender)
- Sheriff Office (SO)/Coroner Cases
- Social Services
- Weights and Measures (Agriculture)
- Treasurer/Tax Collector

Any revenue loss has the potential to impact services countywide, including public safety, which is essential to fulfill the County's constitutional and statutory obligation to provide for the public welfare.



Sheriff's Office Statistics

The proposed annexed area does reduce a portion of the Sheriff's Office calls for service.

Below is the percentage of Sheriff's Office call data when comparing the City of Ukiah's proposed annexation area "Sapling" to countywide call data.

- Incidents: 12.70%
- Cases: 15.10%
- Arrests: 23.76%
- Dedicated Resources: 13.81%

It is important to note the Sheriff's Office anticipates there will be no reduction in staffing. A Sheriff Deputy's position encompasses more than just patrol service. The following tasks are the responsibility of the Sheriff's Office regardless if the call for service occurred in the incorporated or unincorporated area:

- Coroner services
- Civil process services
- Court security and protection



Road Statistics

The County Department of Transportation is tasked with maintaining roughly 1,016 miles. The proposed annexation would remove roughly 18 miles from the County’s responsibility.

Below are the roads in the proposed annexed area along with the corresponding year they are scheduled for repair based on the 20-year plan.

| County Road Name | Fiscal Year | | County Road Name | Fiscal Year | | County Road Name | Fiscal Year |
|-----------------------------|-------------|--|--------------------------|-------------|--|-----------------------------|-------------|
| North State Street, CR 104 | 2029/30 | | Zinfandel Drive, CR 222B | 2033/34 | | Canyon Drive, CR 253C | 2033/34 |
| South State Street, CR 104A | 2029/30 | | Despina Drive, CR 251 | 2033/34 | | Rosemary Lane, CR 253D | 2033/34 |
| South Dora Street, CR 209 | 2031/32 | | Lovers Lane, CR 222 | 2033/34 | | Fircrest Drive, CR 210 | 2033/34 |
| Oak Knoll Road, CR 252 | 2031/32 | | Busch Lane, CR 247 | 2033/34 | | South Dora Street, CR 209 | 2033/34 |
| Laws Avenue, CR 253B | 2031/32 | | Feed Lot Lane, CR 250B | 2033/34 | | Jefferson Lane, CR 267 | 2033/34 |
| Tedford Avenue, CR 253 | 2031/32 | | Kuki Lane, CR 250A | 2033/34 | | Oak Knoll Road, CR 252 | 2033/34 |
| Malaga Drive, CR 251A | 2033/34 | | Ford Road, CR 250 | 2033/34 | | Meadow Brook Drive, CR 252E | 2033/34 |
| Tokayo Avenue, CR 215F | 2033/34 | | Laws Avenue, CR 253B | 2033/34 | | Plant Road, CR 142 | 2033/34 |
| Chablis Drive, CR 251C | 2033/34 | | Tedford Avenue, CR 253 | 2033/34 | | Taylor Drive, CR 143 | 2033/34 |
| | | | | | | Stipp Lane, CR 124B | 2033/34 |

The proposed annexed area would reduce the County’s responsibility for roughly 18 miles of road. The County estimates there would be no cost savings/reduction in expenses by removing the roads from the County’s responsibility. The County would likely shift roads around and/or into the 20-year plan. This shift of the 20-year plan would be dependent upon economic factors in those respective years.



Current Competing Priorities for General Fund

The following is a list of either known expenses competing for general fund revenue or unknowns which could impact the general fund.

- Economic stability (locally, nationally, internationally) - inflation
- HR1 Impacts on Social Services expenses and general impact to constituents and county economy.
- IHSS - \$1B federal funds frozen to CA due to potential waste, fraud, and abuse.
- Labor negotiations
- Potential health plan increases
- Retirement contributions



Considerations for Discussion

As pointed out in slide 2, the following should be considered during any annexation:

- Benefits of an annexation
- Consequences if an annexation does not proceed
- Community support
- County and City collaboration
- County's fiscal sustainability and ability to fulfill its state and constitutional obligations.
 - County Policy #13 (Annexations), which states that annexations will not be favored until a formula for distribution of public revenues generated by areas to be annexed is developed to pay for continuing County obligations.
 - Mandated services
- Economic development expectation
- Potential alternatives to achieve the same goal as an annexation
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Appendix



Bradley-Burns Sales Tax Sharing Under MTSA

1. As of the relevant Annexation Effective Date, the Annexor City shall collect all Bradley-Burns Sales Tax in the Annexed Tax Rate Area (ATRA) (the "ATRA Bradley-Burns Revenue") and shall distribute to the County a share of the ATRA Bradley-Burns Revenue in accordance with this subparagraph. Thereafter, for each subsequent full Fiscal Year, the amount of Annexed Tax Rate Area (ATRA) Bradley-Burns Revenue the Annexor City distributes to the County in accordance with this Agreement shall be reduced by $1/15$ (one-fifteenth) which the Parties agree shall be rounded to 6.667%. Therefore, for the first full Fiscal Year, the Annexor City shall distribute 93.333% of the ATRA Bradley-Burns Revenue to the County; for the second full year, the Annexor City shall distribute 86.666% of the ATRA Bradley-Burns Revenue to the County; for the third full year, the Annexor City shall distribute 79.999% of the ATRA Bradley-Burns Revenue to the County; and so forth, reducing each subsequent year by 6.667%, until, as of the start of the fifteenth (15th) full Fiscal Year following the Annexation Effective Date, the Annexor City shall no longer distribute ATRA Bradley-Burns Revenue to the County.



Property Tax Sharing Under MTSA

2. As of the relevant Annexation Effective Date, the County shall distribute to the Annexor City the County's general fund property tax revenue (County Auditor's Fund Code A0001) generated in the annexation area as follow: Half of the County's portion of the "annual tax increment" (as defined in Revenue and Taxation Code section 96.5 as of the Effective Date) that does not exceed 2% of the property tax revenue in the prior year from the annexation area. All of the County's portion of the "annual tax increment" that exceeds 2% of the property tax revenue in the prior year from the annexation area, until the total property tax revenue received by the Annexor City equals 15% of the total property tax revenue generated in the annexation area. Once the total property tax revenue received by the Annexor City equals 15% of the total property tax generated in the annexation area, no additional portion of the County's "annual tax increment" shall be distributed to the Annexor City. In other words, the City's "property tax apportionment factor" (as calculated to Revenue and Taxation Code section 962 as of the Effective Date) in the annexation area shall not exceed 15%.



Transient Occupancy Tax Sharing Under MTSA

3. As of the relevant Annexation Effective Date, the Transient Occupancy Tax (TOT) in the Annexed Tax Rate Area (ATRA) shall be the rate of the Annexor City. The Annexor City shall collect the Transient Occupancy Tax in the ATRA (the "ATRA TOT Revenue") and shall distribute to the County a share of the ATRA TOT Revenue in accordance with this subparagraph. From the Annexation Effective Date until the start of the first full Fiscal Year immediately following the Annexation Effective Date, the Annexor City shall distribute the County 100% of the ATRA TOT Revenue. Thereafter, for each subsequent full Fiscal Year, the amount of ATRA TOT Revenue the Annexor City distributes to the County, in accordance with this Agreement shall be reduced by 1/5 (one-fifth) or 20%. Therefore, for the first full Fiscal Year, the Annexor City shall distribute 80% of the ATRA TOT Revenue to the County; for the second full Fiscal Year, the Annexor City shall distribute 60% of the ATRA TOT Revenue to the County; for the third full Fiscal Year, the Annexor City shall distribute 40% of the ATRA TOT Revenue to the County; and for the fourth full Fiscal Year, the Annexor City shall distribute 20% of the ATRA TOT Revenue to the County. As of the start of the fifth full Fiscal Year following the Annexation Effective Date, the Annexor City shall no longer distribute ATRA TOT Revenue to the County.