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OFFICE OF THE  
CITY MANAGER

CITY OF SACRAMENTO  
CALIFORNIA

CITY HALL  
ROOM 101  
915 I STREET  
SACRAMENTO, CA  
95814-2684

July 20, 1989

APPROVED BY THE CITY COUNCIL 916-449-5704

AUG 1 1989

OFFICE OF THE  
CITY CLERK

AG 89019

City Council  
Sacramento, California

Honorable Members In Session:

Subject: **Property Tax Exchange Agreement with the County of Sacramento**

**SUMMARY**

This report recommends that the City Council approve the new Master Property Tax Exchange Agreement between the City and County of Sacramento and authorize the Mayor to execute the agreement on behalf of the City.

**BACKGROUND**

State law (Chapter 6, Section 99'b', Revenue and Taxation Code) requires that property tax exchange agreements be in place between a city and county before a city can annex territory. By definition, a Master Property Tax Exchange Agreement is permissive. The agreement is confined to the exchange of property taxes after an annexation is approved by the Local Agency Formation Commission (LAFCO).

In 1980, the City and County entered into a Master Property Tax Exchange Agreement which was renewed several times before the last expiration which occurred on January 1, 1986. Since that time, the few annexations that have occurred required special negotiations for each application. The lack of a master agreement has essentially stalled all annexation proposals of a significant size or assessed valuation.

Over the past several months, staff representatives of the City, County and special districts, have exchanged proposals in an effort to reach an agreement which would result in an equitable Master Property Tax Exchange Agreement between the City and County. The County staff had an additional burden of viewing the agreement with the City in broad enough terms that it would be equitable to the cities of Folsom, Isleton, and Galt and at the same time, provide a process to deal with the detachment of special districts.

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I am pleased to indicate that we have been successful in reaching an agreement which provides for the equitable redistribution of property taxes in areas annexed to the City.

**ELEMENTS OF THE AGREEMENT**

1. The agreement covers the redistribution of property taxes assessed against real property located in territory to be annexed to the City.
2. Detachments from special districts whose service responsibility is to be assumed by the City will occur after an annexation is approved.
3. The pre-annexation special district and County general fund shares of property tax will be redistributed to the City and the County proportional to the current City-wide and County-wide average shares of the property tax levy. This would result in a redistribution of 51.5% to the County and 48.5% to the City after an annexation is approved by LAFCO.
4. In cases where the County would suffer diminished shares of the levy due to an annexation, the redistribution of shares of the levy will be phased over five years so that the County will not suffer severe property tax revenue loss in any single year.
5. The City, the County, and special districts, continue to reserve the right to oppose specific annexation proposals in the LAFCO process.

A special recognition and appreciation is appropriate for City Revenue Manager Mike Medema, County Administration & Finance Administrator, Gary Cassady, and County Administrative Analyst Russell Fehr for their commitment to a balanced solution.

**FINANCIAL DATA**

The approval of this agreement by the City Council and the Board of Supervisors will result in a redistribution of property tax levy in the amount 51.5% to the County of Sacramento and 48.5% to the City after an annexation is approved by LAFCO.

A model has been developed which reflects the impact of an annexation in various unincorporated area communities upon the County's general fund. This model was developed to clearly depict the equity of property tax exchange based on the concepts developed for the new agreement. Table I below provides a comparison of all figures expressed in percentages. The brackets represent anticipated losses to the County's share of the levy if annexations occurred in certain unincorporated communities. The County receives a fiscal benefit (percentages not in brackets) from annexations to the City that occur in some communities. The new agreement reduces that benefit, but a fair and equitable balance occurs because the Natomas, Elk Grove/Laguna and Vineyard communities are areas that would provide a more significant loss to the County if annexation to the City occurred. Where there is an actual loss of revenue to the County due to annexation, the City and County agree to a phased redistribution over a period of up to five years to reduce the potential for a sudden and severe reduction to the County general fund anticipated revenue.

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TABLE I

COMPARISON OF OLD AND NEW TAX EXCHANGE AGREEMENTS  
CHANGES IN THE COUNTY'S SHARE OF THE LEVY

<u>Community</u>	<u>Old Agreement</u> <u>% of Change</u>	<u>New Agreement</u> <u>% of Change</u>	<u>Old to New</u> <u>% Difference</u>
Arden-Arcade	2.2	2.0	(0.2)
Rio Linda	0.7	1.0	0.3
Natomas	(13.2)	(9.2)	4.0
Fruitridge	7.1	6.3	(0.8)
Southgate	7.5	5.6	(1.9)
Elk Grove/Laguna	(6.6)	(5.7)	0.9
Rancho Cordova	1.6	0.7	(0.9)
Vineyard	(6.6)	(5.7)	0.9

**POLICY CONSIDERATIONS**

Approval of the attached agreement establishes a new property tax exchange agreement between the City and County of Sacramento. The report recognizes the need for a master agreement to cover all annexations to the City and provides a formula which equitably reduces the fiscal impact on the County over a period of up to five years if the specific annexation results in a significant loss to the County general fund.

**MBE/WBE EFFORTS**

MBE/WBE goals are not applicable.

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RECOMMENDATION

It is recommended that the City Council, by resolution, approve the Master Property Tax Exchange Agreement between the City and County of Sacramento and authorize the Mayor to execute the agreement on behalf of the City.

Respectfully submitted,

*Solon Wisham, Jr.*  
SOLON WISHAM, JR.  
Assistant City Manager

RECOMMENDATION APPROVED:

*Walter J. Slife*  
WALTER J. SLIFE  
City Manager

Attachments

August 1, 1989  
All Districts

Contact Person: Solon Wisham, Jr. 449-5704  
Assistant City Manager

**RESOLUTION NO. 89-610**

**APPROVED**  
BY THE CITY COUNCIL

ADOPTED BY THE SACRAMENTO CITY COUNCIL

**AUG 1 1989**

ON DATE OF \_\_\_\_\_

OFFICE OF THE  
CITY CLERK

**A RESOLUTION OF THE COUNCIL OF THE CITY OF SACRAMENTO APPROVING A PROPERTY TAX EXCHANGE AGREEMENT WITH THE COUNTY OF SACRAMENTO AND AUTHORIZING THE MAYOR TO EXECUTE THE AGREEMENT ON BEHALF OF THE CITY**

**WHEREAS**, State law (Chapter 6, Section 99'b', Revenue and Taxation Code) requires a property exchange agreement be in place between a City and County before a City can annex territory; and

**WHEREAS**, the City and County of Sacramento recognized the need to have such an agreement in place to provide for the equitable redistribution of property tax in areas annexed to the City;

**NOW, THEREFORE, BE IT RESOLVED** by the Council of the City of Sacramento as follows:

1. The City Council hereby approves the Master Property Tax Exchange Agreement between the City and County of Sacramento;
2. The Mayor is authorized to execute the agreement on behalf of the City.

\_\_\_\_\_  
MAYOR

ATTEST:

\_\_\_\_\_  
CITY CLERK

**FOR CITY CLERK USE ONLY**

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_