



CITY OF SACRAMENTO
CALIFORNIA

OFFICE OF THE
CITY MANAGER

January 3, 1980

CITY HALL
915 I STREET - 95814
(916) 449-5704

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: The Processing of Annexations

SUMMARY

Under the appropriate provisions of AB 8, which is the long-term implementing legislation relating to Proposition 13, and Proposition 4, which governs a jurisdiction's appropriation limit, property tax revenues associated with annexations are processed differently than in the past. All affected local governmental jurisdictions are required to negotiate and reach agreement on the amount to be exchanged and the distribution of property tax proceeds before an annexation becomes effective. The Law authorizes the County to negotiate revenue exchanges on its behalf and for any affected special district (s) within the proposed annexation area. Annexation revenue negotiations occur between the City and County. Discussions have begun with the County to develop a comprehensive revenue distribution formula to be uniformly utilized in all subsequent annexation proceedings. This will avoid inequities and a piecemeal approach to revenue exchanges. A comprehensive agreement, however, has not yet been reached. It is recommended that no annexations to the City be approved by the City Council until the comprehensive agreement is finalized.

BACKGROUND

After the passage of Proposition 13, there was no provision for the exchange of property tax revenues between local agencies affected by an annexation, detachment, change of boundary, etc. Although we have been processing annexations at the staff level, we have had no assurance, under the law, that the City would receive additional property tax revenues from the County to pay for additional service responsibilities resulting from annexations.

AB 8 provides mechanisms for local agencies to exchange property tax revenue when a "jurisdictional change" takes place.

APPROVED
BY THE CITY COUNCIL

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OFFICE OF THE
CITY CLERK

The statute provides for the exchange of property tax revenues to be determined through negotiation. The governing bodies of all local agencies whose service responsibilities would be altered by the change are responsible for negotiation. The County Board of Supervisors represent and negotiate on behalf of any special district (s) that is affected by a jurisdictional change. Negotiations, therefore, are essentially conducted directly between the affected county and city.

Prior to the effective date of any jurisdictional change, the affected local agencies must determine the amount of property tax revenues to be exchanged. The Law does not provide for any criteria for determining the amount of revenue to be exchanged. Also, no, jurisdictional change may become effective until each local agency included in the negotiation agrees by resolution, on the amount of revenue to be exchanged. The Law does not set forth any provisions to resolve an impasse if any agency does not agree to the exchange.

Additionally, jurisdictions affected by an annexation revenue exchange requires an adjustment be applied to each jurisdiction's Proposition 4 appropriation limit. Revenues transferred to the City from new annexed areas will allow the City's appropriation limit to be increased. Likewise, the limit of County and/or special district (s) that transfer territory and revenues to the City will be decreased.

CURRENT SITUATION

The staff of the Sacramento Local Agency Formation Commission is currently compiling information about what has been done in other counties and is endeavoring to develop a comprehensive agreement to equitably govern the exchange of property tax revenues and subsequent appropriation limitations between the County, the City, and other local jurisdictions (see attached). However, we don't expect any comprehensive agreement to be reached for at least two (2) months.

We believe that it would be beneficial to all concerned if the City, County and other jurisdictions could, in fact, reach a comprehensive distribution formula and agreement to uniformly govern the exchange of revenues rather than approach each annexation by separate negotiations on a case by case basis.

The issue now before the City Council is whether or not the City Council should approve any further annexations prior to a comprehensive agreement being finalized with the County. It is true that annexations can not become effective until the exchange of property taxes is mutually agreed upon; however, there are advantages to the City not approving annexations until such time as a comprehensive agreement is finalized with the County.

The advantages of withholding the approval of annexations until after finalization of a comprehensive agreement are as follows:

1. The City would be treating all annexation proponents equitably and would not have to differentiate between the large and small generators.
2. The City would avoid financial uncertainty by proceeding to annex areas by following uniform procedures, criteria and distribution formula for exchange of property tax revenues.

3. The City would not have committed itself to annexations and therefore the provision of providing services in the event that piecemeal negotiations reach impasse with the County.

The disadvantages are as follows:

1. The City may be accused of delaying annexations and not acting in a timely fashion.
2. Heavy political pressure would undoubtedly be brought to bear on the negotiations regarding the comprehensive agreement with respect to both the distribution formula and the expeditious completion of the negotiation process.
3. The argument could be made that current annexation proposals are insignificant with respect to the generation of revenue and therefore the risk of City approval at this time is minimal.

ANALYSIS

In reviewing the above advantages and disadvantages it would seem that the decision of the City Council will be based upon whether or not the financial uncertainty and the inequity of processing annexations on a case by case basis outweigh the heavy pressure that will be brought to bear upon the City Council.

It is the staff's opinion that the processing of annexations prior to a comprehensive distribution formula and agreement being worked out would be unwise and insure a variety of agreements for the exchange of property tax revenues depending upon the issues of specific annexations. In these uncertain times of Proposition 13, Proposition 4, and the possibility of the Jarvis II Initiative succeeding financial stability and certainty is critical to the effective operation of City government.

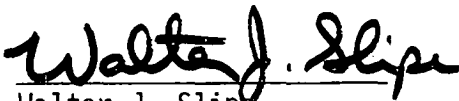
It is therefore our opinion that prior to any annexations being approved by the City Council, a comprehensive agreement and the specific mechanism of the exchange of property tax revenues be finalized.

RECOMMENDATION

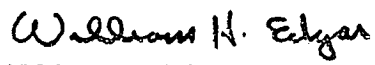
It is recommended that:

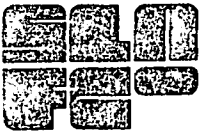
1. The City staff be instructed to process all annexation proposals at the staff level in a timely fashion.
2. The City staff be instructed to proceed in an expeditious manner to negotiate a mutually agreeable comprehensive formula with the County for the exchange of property tax revenues relating to annexations.
3. The City Council take no final action on any annexation until such time as a comprehensive agreement formula is negotiated and finalized with the County.

Recommendation Approved:


Walter J. Slipe
City Manager

Respectfully submitted,


William H. Edgar
Assistant City Manager



SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

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Albert Denr
Edd Smith, Alternate
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John S. Farrell
Executive Officer
David A. Wade
Assistant Executive Officer
Janet D. Robinson
Staff Analyst
Marilyn Ann Flemmer
Commission Clerk

December 17, 1979

CITY MANAGER'S OFFICE
RECEIVED
DEC 18 1979

TO: ✓ Bill Edgar
Jim Jackson
Dave Beattie
Nancy Woolford
Dan Smith
Toke Masuda

FROM: John S. Farrell, Executive Officer
Sacramento Local Agency Formation Commission

RE: AB & Negotiations

The attached memorandum lists the agencies we have contacted and the status in each respective jurisdiction. As the information comes in, I shall forward it on to you.

If you have any other suggestions about who to contact, please let me know.

Sincerely,

SACRAMENTO LOCAL AGENCY
FORMATION COMMISSION

John S. Farrell
Executive Officer

JSF:Mag
Attachment

MEMORANDUM

December 14, 1979

TO: John S. Farrell, Executive Officer
FROM: Janet D. Robinson, Staff Analyst
RE: AB 8 Negotiations

CONTACTED:

FRESNO: The County of Fresno has put together a negotiation process. Like those of Marin and Santa Clara, it sets up a single tax base exchange formula for every change of organization involving the County and a city. Marvin Panter will send us a description of the process and the formula as well as an example of an exchange with the City of Fresno.

MARIN: The County of Marin just recently passed a resolution which outlines the formula and process for AB 8 negotiations. Dawn Mittleman is sending us a copy of the resolution and a summary of the process.

SANTA CLARA: Paul Sagers gave me a brief description of the negotiation process that Santa Clara has proposed. Julie Nauman, Fred Silva and other Capitol local government types met with Paul in Santa Clara to discuss their formula and found that it is illegal because they take money from the schools. Paul is sending me a copy of their proposal but they will have to modify it somewhat.

LEAGUE OF CITIES: Betsy Straus said that the League has been monitoring the counties to see what they are doing and what formulas are to be used for the base exchanges. She said that Marin, Santa Clara, and Fresno have been the most successful so far. They have all adopted a single formula for all exchanges and while this is a simplistic approach, it is also fairly expedient. The League has formulated a negotiation process and ratio for exchange. Several counties are taking a look at the League's recommendations and testing it out through projections. She is forwarding the information.

JOSEPH GARDNER: They have taken a look at the League's recommendation, modified it somewhat and come up with a proposed process of their own but they are not particularly happy with it. They would like our suggestions.

SAN JOAQUIN: Mr. Dickson, Chief Administrative Officer, said that he had sent a memo to each Chief Administrative Officer in the state. I will contact Richter's office. They have processed one negotiation because the city was in a hurry. The City of Stockton did not receive any exchange funds because the county felt that the city profits enough from sales tax, property transfer taxes and state subventions. San Joaquin County's position is that the only time that property tax should be exchanged is when a city takes over a function that results in cost savings to the county (i.e., fire service). The county never gave up general funds before and it won't now. The cost of health and welfare services (which are extended to city and county residents equally) are constant. The county can't afford to slice away at its revenue base.

JDR:Ma6