

Mendocino County Master Tax Sharing Agreement 2024 Key Term Sheet

Term Sheet Master Tax Sharing Agreement 2024

Parties: Mendocino County, City of Fort Bragg, City of Point Arena, City of Ukiah, and City of Willits

Task and Purpose: Develop a tax sharing agreement to govern the distribution of identified tax revenue between the County and the Cities following annexations by the Cities.

Cost-Benefit Analysis:

	County	Cities
Benefits	<ul style="list-style-type: none"> • Immediate reduction in service area responsibility • Reduction in infrastructure and service costs • Shifts housing production to cities • Minimizes urban sprawl • <i>Enhanced long-term revenue growth</i> 	<ul style="list-style-type: none"> • Broadened municipal service availability • Potential to scale services and costs • Focus on Economic Development and Housing • Centralizes municipal infrastructure • <i>Enhanced long-term revenue growth</i>
Costs	<ul style="list-style-type: none"> • Temporary revenue reduction in sales tax (mitigated by reduced service area & scaled shift of sales tax over 15 years) 	<ul style="list-style-type: none"> • Increased net cost of service (mitigated by scaled shift of sales tax) • Inherit deferred maintenance and lack of needed infrastructure

Core Principles:

1. Simplicity
2. Mutual benefit through economic growth
3. Maintains normal revenue sources (i.e. majority of property taxes to County and Bradley Burns sales tax to cities)
4. Protects funding for countywide services and relieves ongoing service costs
5. Provide City appropriate financial resources to meet assumed municipal service costs.

Key Terms:

1. Tax Sharing Provisions.
 - a. **Property Tax Revenue:** After an annexation of unincorporated territory by a city becomes final, the County must distribute to the city annexing the area a portion of the County's general fund property tax revenue (County Auditor's Fund Code A0001) from tax rate areas ("TRAs") within the annexed area as follows:
 - i. Half of County's portion of the annual tax increment (increased tax revenue resulting from increased assessed valuations) that does not exceed 2% of the property tax revenue in the prior year from the annexation area.
 - ii. All of 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 allocation received by the relevant city equals 15% of the total property tax revenue generated in the annexation area

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- iii. No additional distribution once the relevant city share reaches 15% of the total property tax revenue in the annexation area.
 - b. Sales Tax Revenue: From the effective date of the annexation until the start of the first full fiscal year following the effective date, the relevant city will distribute to the County 100% of the Bradley-Burns Revenue¹ the City collected from the newly-annexed Tax Rate Area. In each subsequent full fiscal year, the percentage of sales tax revenue the relevant city shall distribute to the County shall be reduced by 1/15.
 - c. Transient Occupancy Tax (TOT) Revenue: From the effective date of the annexation until the start of the first full fiscal year following the effective date, the relevant City will distribute to the County 100% of the TOT Revenue the City collected from the newly-annexed Tax Rate Area. In each subsequent full fiscal year, the percentage of TOT revenue the relevant City shall distribute to the County shall be reduced by 1/5.
2. Regional Housing Needs Plan. The Parties agree that the County’s Regional Housing Needs Plan (the “RHNP”)² allocation was based on its unincorporated lands, that annexation will necessarily limit the County’s ability to satisfy its obligations under the Housing Element Law, and that the RHNP allocation should be adjusted to reflect the impact of the annexation on the County’s obligations. Therefore, the Parties agree that, in the event that the relevant city or a third non-party proposes annexation of specific territory, the Parties will work together in good faith to attempt to reach a “mutually acceptable agreement for transfer of a portion of the County’s allocation to the city” as reflected in Government Code section 65584.07(d).
3. State Action. If legislative, judicial, and/or voter initiative action limits a city’s ability to apply a city approved transaction and use tax to an annexed area, the parties shall promptly meet and confer in good faith to amend this agreement to address the resulting financial impacts in accordance with the Core Principles.
4. Balanced Annexations. For the Tax Sharing Provisions above to apply to annexations of certain designated areas, as defined, those annexations must be “Balanced.” For an annexation by Ukiah or Fort Bragg to be considered “Balanced,” such annexation must generally be attended by the relevant City annexing an equal amount of territory within the Balance Area.
5. Service Transfer Plan. In anticipation of any annexation, a City and the County will develop a service transfer plan to coordinate the transfer of public services to ensure orderly transition for all areas affected.
6. Separate Agreements. A city and the County may develop alternate terms to address unique conditions affecting any specific annexation; *provided*, however, the terms of any separate agreement do not substantially affect the terms in the MTSA absent amendment to the MTSA.

¹ 1% of the sales price of commodities subject to statewide sales tax.

² The number of housing units the County is required to achieve under the Housing Element in its General Plan as approved by the California Department of Housing and community Development.

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7. Term. Unless extended by unanimous agreement of the Parties, the MTSA shall remain in effect for twenty (20) years as of the Effective Date; thereafter it has a rolling extension that automatically renews this Agreement every year for an additional five (5) years, until Notice of Termination is provided under Section 10 of the Agreement. Tax sharing provisions implemented during the life of the Agreement shall survive termination of the Agreement.

8. Withdrawal and Termination. Withdrawal upon no less than five years' notice with an effective date of July 1st. County may terminate unilaterally, or Parties may terminate unanimously; provided in both cases on no less than five years' notice and termination effective date of July 1st.