

DATE SUBMITTED 7/30/2021
 SUBMITTED BY ACM
 DATE ACTION REQUIRED 8/04/2021

COUNCIL ACTION (X)
 PUBLIC HEARING REQUIRED ()
 RESOLUTION ()
 ORDINANCE 1ST READING ()
 ORDINANCE 2ND READING ()
 CITY CLERK'S INITIALS ()

**IMPERIAL CITY COUNCIL
 AGENDA ITEM**

SUBJECT: DISCUSSION/ACTION: IMPERIAL COUNTY MASTER REVENUE SHARING AGREEMENT UPDATE

1. AUTHORIZATION FOR THE CITY MANAGER, AND/OR DESIGNEE, TO ENTER INTO AN AGREEMENT WITH IMPERIAL COUNTY FOR AN ALL- JURISDICTION MASTER TAX SHARING UPDATE.

DEPARTMENT INVOLVED: City Manager's Office

BACKGROUND/SUMMARY:

The Cities of Imperial, El Centro, Brawley, Calipatria, Westmorland, Calexico, Holtville and County of Imperial have concluded discussions regarding a Master Tax Sharing Agreement Update. All jurisdictions have determined the appropriate cost sharing based on the established IVECA formula. Please review the attached document.

FISCAL IMPACT: Not to exceed \$20,000.00 – *As approved in the 2021-2022 Municipal Budget on June 16, 2021*

ADMIN SERV INITIALS _____

STAFF RECOMMENDATION: It is staff's recommendation to proceed with the Master Tax Sharing Update so we can be better prepared for growth within our communities.

DEPT. INITIALS ab

MANAGER'S RECOMMENDATION: Agrees with Staff's recommendation

CITY MANAGER'S INITIALS DHM

MOTION:

SECONDED: APPROVED () REJECTED ()
 AYES: DISAPPROVED () DEFERRED ()
 NAYES:
 ABSENT: REFERRED TO:

**Imperial County
Master Revenue Sharing Agreement Update**

SCOPE OF WORK

1. Existing Conditions

BAE will compile basic information regarding existing fiscal conditions for Imperial County, to serve as context for the analysis. BAE will construct the cost and revenue projection portions of the model using a combination of average cost and revenue multipliers and case study approaches. Research for this task will include consultation with County staff, review of the County's operating budget, and compilation and analysis of relevant data, such as the current resident population and employment base within the unincorporated area and the county as a whole. BAE will consult with key County staff in preparing the model, to ensure consistency with County budgetary assumptions and methodologies. As part of this task, BAE will:

- a. Identify County's existing General Fund support from property taxes
- b. Identify County's current average share of property taxes within cities
- c. Identify County's current average per capita and per service population expenditures funded by discretionary revenue sources.

2. Estimate Fiscal Impacts to County from Prototype Projects

Starting from the background information collected in Task 1, BAE will develop a model to estimate the fiscal impacts of different land use types that could occur on land to be annexed to cities, on the County General Fund. Preliminarily, the model will identify impacts from Single-Family Residential, Multifamily Residential, Office, Hotel, and Industrial use prototypes (to be confirmed based on further discussion with LAFCo and member jurisdictions), considering anticipated General Fund service costs and anticipated new discretionary revenues that would be generated for a prototype project defined for each of the listed land use types. Once all other costs and revenues have been projected for each land use type, BAE will then solve for the property tax share that the County General Fund would need, for each prototype to be fiscally neutral to the County. These estimates will provide the basis to establish the lower bound of the property tax share that the County would need to retain post-annexation for each project type. It is assumed that cities will not propose annexations unless the proposal can provide for fiscal neutrality for the County and also provide for fiscal neutrality or better for the city, unless there are other over-riding public benefits, such as job creation, provision of affordable housing, etc.

3. Identify County Property Tax Shares in City Spheres of Influence

An important consideration in determining the appropriate portion of the County's existing property tax share to be retained in areas that would be annexed in the future is the actual amount of the one percent ad valorem property tax that currently accrues to the County General Fund. This is the amount of property tax that is available to be shared between the County and the annexing city upon annexation, which will be subject to the Master Revenue Sharing Agreement.

From LAFCo and the County, BAE will request GIS map files of city spheres of influence and County tax rate areas (TRAs), along with the post-ERAF tax increment allocation factors that dictate the amount of property tax increment that is generated in a given TRA that is allocated to each tax-receiving entity. This will allow BAE to identify the County's existing share of property tax collected within a given TRA that would be available for sharing (i.e., subject to the tax exchange agreement) with the annexing city. This information will allow BAE to understand what general proportion of the property tax share is available for sharing with the respective cities, while the information from Task 2 will identify what proportion of the County's existing share the County needs to retain in order to achieve fiscal neutrality for an annexation area that would involve a certain land use type, in a given city's sphere of influence. For example, if Task 2 determined that the County would typically require at least a 14 percent share of the one percent ad valorem property tax to achieve fiscal neutrality for a prototypical single-family residential project, in an annexation area where 20 percent of the ad valorem property tax currently goes to the County, the County would need to retain 70 percent of the property tax that is available for sharing. In an annexation area where the County's existing property tax share is 30 percent, then the County would only need to retain 47 percent of its property tax share.

4. Prepare Memo of Findings and Recommendations

BAE will prepare a memo of findings to document the research and analysis conducted in the prior tasks. The memo will conclude with recommendations regarding the minimum property tax share that the County should seek to retain for annexations of land intended for the development of the different land use types listed above, based on the findings from Task 3. Given the potential variation in the proportion of the County's existing property tax share that the County would need to retain in annexation locations, it may be more straightforward to express the property tax exchange agreement in terms of the share of the one percent ad valorem property tax that the County needs to retain (e.g., 14 percent in this example) rather than the proportion of the County's share that it needs to retain, which will likely vary by location within the County.

The memo will also include recommendations for options that the County could incorporate in an updated Master Property Tax Exchange Agreement for situations when the retention of 100

percent of the County's existing property tax share would not provide sufficient property tax revenue to keep the County whole. One example would be an agreement that in cases such as this, the annexing City would set up a CFD or other revenue enhancement mechanism for the annexation area and transfer funds to the County on an annual basis to ensure its fiscal neutrality.

The fiscal analysis of potential impacts to the County from annexations involving different land use types and different locations will provide a basis for discussions of revenue sharing agreements that can ensure fiscal neutrality for the County.

BAE will prepare an Administrative Draft Memo to submit to LAFCo staff. BAE will be available to discuss the Administrative Draft Memo with LAFCo staff via teleconference and answer any questions. Upon receipt of a single, consolidated set of LAFCo staff comments, BAE will prepare a revised Draft Memo to submit to LAFCo staff for distribution to member jurisdictions. BAE will submit the Administrative Draft and Draft Memos in electronic format.

5. Meetings with Member Jurisdictions

In conjunction with the proposed scope of work, BAE staff will participate in up to six meetings with LAFCo, County, and city staff. Preliminarily, these meetings would include:

- a. Kick-off meeting with LAFCo, County, and city representatives to discuss project objectives, methodology, and process; request background information
- b. Meeting with County staff to review County budget, discuss County service delivery in cities and unincorporated area and anticipated impacts from growth within cities
- c. Meeting with LAFCo, County, and city representatives to discuss Draft Report, answer questions, and solicit feedback.
- d. Up to three follow-up meetings with LAFCo, County, and city representatives to discuss report revisions, refinements, and master revenue sharing terms.

The budget for this task assumes that meetings are held in person in Imperial County at the LAFCo offices, and include meeting preparation, travel, lodging, and incidentals. If meetings are converted to web meetings, costs will be reduced substantially, to approximately \$500 per meeting.

6. Prepare Final Report

Based on feedback from member jurisdictions on the Draft Report and final direction from LAFCo staff, BAE will revise the Draft Report and submit a Final Report for use by LAFCo and the member jurisdictions. BAE will submit the Final Report in electronic format (.PDF).

7. Optional Tasks

Beyond the base scope of work outlined above, BAE will be available to perform a range of optional tasks to support preparation of an updated Master Revenue Sharing Agreement, including, but not limited to:

a. Analysis of Fiscal Impacts to Cities

One or more of the cities may desire fiscal analysis from the City point of view, considering the property tax share retentions recommended from the analysis of annexation impacts to the County. Further, the analysis outlined in the base scope of work does not address situations where prototype projects might generate substantial fiscal surpluses to the annexing city, after making the County whole for the County's expected service costs (e.g., hotel or retail development). In such cases, quantification of the fiscal impacts to the cities and their net fiscal impacts may be of interest to LAFCo and the member jurisdictions, to allow the jurisdictions to engage in discussions with the cities about equitable sharing of projected fiscal surpluses. (Alternatively, a revenue sharing agreement that is focused on revenue neutrality for the County could specify that as part of future annexation proceedings subject to the Master Revenue Sharing Agreement, the County could request an analysis of fiscal impacts to the annexing city that identifies any projected revenue surpluses, which could then serve as the basis for supplemental revenue sharing.) BAE will be available to conduct fiscal impact analysis for any of the cities, for any of the land use types, utilizing a methodology similar to those used for the County analysis but geared to the budget structure and fiscal conditions in each specific city. Costs for these analyses would need to be determined on a case by case basis, depending on the land uses to be considered.

b. Analysis of additional land use types

LAFCo, the County and the cities may request that BAE analyze land use types other than those included in the base scope, for their fiscal impacts to the County and identification of the required property tax share that the County would need to achieve fiscal neutrality for new annexations.

c. Additional Meetings

BAE staff will be available to attend additional meetings as an optional task. These may be conducted as web meetings or as in-person meetings. Such meetings could include presentation to City Councils, the County Board of Supervisors, or the LAFCo Board, or others as may be desirable to LAFCo or the member jurisdictions. These could be added to the scope

of the contract with LAFCo, or BAE could contract directly with the requesting jurisdiction for these services.

Budget

Following is a budget for the base scope of work. BAE will complete the Tasks 1 through 6 on a fixed-fee basis. Costs for optional tasks would need to be determined based on the specific requests; however, rough budget ranges for optional tasks are provided for reference below.

Following is a preliminary budget breakdown:

1. Existing Conditions	\$6,000
2. Estimate Fiscal Impacts to County from Prototype Projects	\$19,000
3. Identify County Property Tax Shares in City Spheres of Influence	\$6,500
4. Prepare Draft Memo of Findings and Recommendations	\$6,000
5. Meetings with Member Jurisdictions	\$16,500
6. Prepare Final Report	\$2,000
Total, without Optional Tasks	\$56,000
7. Optional Tasks (approximate costs)	
a. Analysis of Fiscal Impacts to Cities	\$22,000 per city
b. Fiscal Impacts of Additional Land Uses	\$5,000 to \$7,000, depending on use
c. Additional Meetings (per meeting)	
i. In-person	\$2,000
ii. Web meeting	\$600