



ITEM NO.: 3a
MEETING DATE: July 29, 2013

AGENDA SUMMARY REPORT

SUBJECT: CITY OF UKIAH TAX SHARING AD/HOC COMMITTEE, CITY ATTORNEY, AND STAFF: PRESENT BACKGROUND INFORMATION, CONTENT AND STATUS OF AGREEMENT; PRESENT FINANCIAL FORMULA AND NEW PROPOSAL FOR CITY COUNCIL DISCUSSION AND POSSIBLE DIRECTION FOR FUTURE STEPS

Background: The City Council workshop will consist of three parts: Part One will be a presentation from the Tax Sharing Ad/Hoc Committee of Councilmember Baldwin and Rodin regarding the background, discussions, and proposals that were part of the discussions with the County of Mendocino Ad/Hoc. The City Attorney will present a summary of the terms and agreement that was under discussion at the time of the last Ad/Hoc meeting with the County representatives. For background study prior to the meeting, Council members may want to review Attachments 1 and 2 of this report. Attachment 1 is the City Attorney's summary of the draft tax sharing agreement. This summary helps to lead the reader through the actual draft agreement, which is Attachment 2. Please note the City Attorney's comment (in the second paragraph of the summary) that this draft agreement includes some proposed changes to address issues and additional points of agreement and disagreement that were expressed at the last meeting of the two ad hoc committees on December 6, 2012.

Part Two of the workshop will be staff review of the financial formula that was under consideration at the time of the last meeting. The formula in question is Attachment 3, and staff will go through the formula to demonstrate how it was to be applied. This formula is based on both parties sharing from their existing sales tax revenues. At that last meeting, the City of Ukiah Ad/Hoc members told the County representatives that the formula under discussion proved too costly to the city to be practical, and requested that the County continue working with the City to reach a more acceptable formula.

Part Three of the workshop meeting will be presentation of an alternative formula, which is explained under the discussion section of this report.

Recommended Action(s): City of Ukiah Tax Sharing Ad/Hoc Committee, City Attorney, and Staff: Present Background Information, Content and Status of Agreement, Present Financial Formula and New Proposal for City Council Discussion and Possible Direction For Future Steps

Alternative Council Option(s):

Citizens advised:

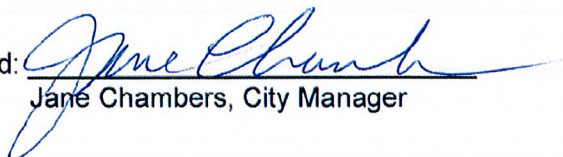
Requested by:

Prepared by: Jane A. Chambers City Manager

Coordinated with: Council Members Baldwin and Rodin, City Attorney

Attachments: Attachment 1(Summary of Draft Tax Sharing Agreement) Attachment 2 (Draft Agreement) Attachment 3 (Formula Spread Sheets) Attachment 4 (City of Ukiah and County of Mendocino Adopted Principals) Attachment 5 (Map Graphic Presentation)

Approved:


Jane Chambers, City Manager

Discussion: The City of Ukiah Ad/Hoc members have met several times after the last meeting with the County. These meetings have resulted in a new formula proposal for the City Council's consideration, and ultimately, for the consideration of Mendocino County, if the City Council agrees. This new formula builds on those previously discussed with the County. The formula is in keeping with the principals that had been adopted for tax sharing, (See Attachment 4) and provides both parties with a financially feasible alternative to previous proposals. The new proposal achieves the following goals:

- 1) Is based on new development that will take place on vacant and/or underutilized land within the area covered by the agreement.
- 2) It shares new development revenues with the County of Mendocino, and allows the County to share new development revenues with the City as well, achieving the goal of equaling out land use demands between incorporated and unincorporated areas.
- 3) Allows both parties to benefit from tax revenue growth in existing businesses, while sharing new growth based on the formula.
- 4) The proposal assumes that the provisions already contained in the agreement that had been drafted as of the last meeting with Mendocino County will be largely adopted by both parties (i.e., there is no need for the parties to start over on the vast majority of the work already completed).

Attachment 5 is a graphic presentation of Prime Vacant/Underutilized Land in City of Ukiah. The map and graphic shows that there will be about 335,000 square feet of retail commercial space added if those parcels are developed as commercial, for which they are zoned. City staff estimates, based on current sales tax revenues generated from 335,000 sq. ft. in the city, an additional \$1 million of sales tax revenue could be generated over time by the build out of these parcels.

The Ad/Hoc proposes a formula that would share sales tax revenue from "New" business, as defined in the proposed agreement, with the County of Mendocino on a 60/40 basis. The City would receive 60% of the new revenue, and the County 40%. For example, if in the next 7 years, the entire 335,000 square feet was built out, the County would receive an additional \$400,000 over and above any other sales tax and property tax, it would receive as a result of new development within the city limits.

The Ad/Hoc proposes that the County of Mendocino would share "New" business, as defined in the proposed agreement, with the City of Ukiah, on a 60/40 basis. The County would retain 60% of the new business revenue, and the City would receive 40%. The City invites the County to perform an estimate of sales tax that could be generated based on new development on a similar basis to the estimate provided in Attachment #1.

This proposed formula has many advantages over the one previously under discussion. It is affordable to both parties, as it is based on new revenues, rather than an attempt to share existing revenues. It is easily administered, in that new revenue is defined by the agreement and can be readily applied as new businesses begin to pay sales taxes. It should be less complex to administer. It is also a feasible formula for continuing into the long-term future as envisioned in the agreement under discussion by the parties.

There are additional formula provisions contained in the draft agreement pertaining to annexed areas and costs related to development. The City Ad/Hoc members and staff will address these as part of the proposed formula discussion.

Fiscal Impact:

Budgeted FY 12/13 New Appropriation Not Applicable Budget Amendment Required

Amount Budgeted	Source of Funds (title and #)	Account Number	Addit. Appropriation Requested
\$			\$