Agenda Date: 12/4/2007
Agenda Placement: 9B

NAPA COUNTY BOARD OF SUPERVISORS
Board Agenda Letter

TO:	Board of Supervisors
FROM:	Watt, Nancy - County Executive Officer County Executive Office
REPORT BY:	Helene Franchi, Principal Management Analyst, 253-4820
SUBJECT:	Proposed Annexation to the City of Napa - Golden Gate Drive/Foster Road

RECOMMENDATION

County Executive Officer and Director of Conservation, Development and Planning requests discussion of alternatives and direction to staff related to a property tax sharing agreement and application to LAFCO to annex approximately 144 acres located between Golden Gate Drive and Foster Road with the recommendation to utilize the formula included in the County-City master revenue sharing agreement for this annexation.

EXECUTIVE SUMMARY

In early June of this year, the County was notified by LAFCO that an application had been submitted by the City of Napa to annex approximately 144 acres of unincorporated property. The property, commonly referred to as the Ghisletta property, consists of approximately 6 parcels located between Golden Gate Drive and Foster Road and includes an equestrian complex owned and operated by the Napa Valley Horseman's Association.

The procedure for proposed annexations governed by California Revenue and Taxation Code section 99 requires that affected local agencies enter into a property tax agreement. The County and City entered into a master property tax agreement in 1980, which established the terms for appropriating property tax revenues between the two agencies relating to annexations of lands that were in the City's sphere of influence as of March 1980. Because the Ghisletta property was included in the City's sphere of influence after March 1980, LAFCO has advised that a separate property tax agreement must be negotiated.

Today's discussion will outline the various alternatives available to the Board and seek direction regarding the nature and timing of a property tax revenue agreement. This matter is also being discussed by the Napa City Council on December 4, 2007.

Procedural Requirements

1. Announce the agenda item
2. Staff report on the item

3. Board questions for staff
4. Public comments
5. Invite a motion
6. Second for the motion
7. Board discussion and debate
8. Take the vote
9. Announce the result

FISCAL IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
What is the revenue source?	The County currently receives approximately $15,000 annually in property tax revenue from the parcels considered for annexation. Of that, $3,200 is deposited to the General Fund with the remainder distributed to Fire, Library, Mosquito Abatement, Resource Conservation, Bay Area Air Quality Control, NVUSD, Napa Valley College, and NCOE.
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	In 1980, the County and City of Napa agreed to a formula by which property tax revenues will be apportioned in the event of annexations of land within the City's Sphere of Influence at that time. While the agreement does not technically apply in the current instance, staff from the City of Napa is recommending that the agreement's formula be used so that 55% of the County's share of annual property tax revenue would be allocated to the City upon annexation.
Is the general fund affected?	Yes
Future fiscal impact:	Continued sharing of property tax revenue.
Consequences if not approved:	If the proposed agreement is not approved, the County and the City will be required to enter into mediation pursuant to California Revenue and Taxation Code Section 99; if no resolution is reached the annexation will not occur.
Additional Information:	

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

From time to time, the County is notified of requests to LAFCO for jurisdictional changes. Such was the case in June of 2007, when the County received notification that the City of Napa has requested an annexation of six parcels totaling approximately 144 acres located between Golden Gate Drive and Foster Road. The City of Napa would like to annex the property which includes an equestrian complex owned and operated by the Napa Valley Horseman's Association to facilitate the future subdivision and development of the parcels under the City's land use authority consistent with the City's General Plan.

The affected area is within the City of Napa's 1975 Rural Urban Limit (RUL), and was recently added to the City's sphere of influence (SOI) by LAFCO. The City's RUL is recognized in the County's General Plan, which states that unincorporated land within the RUL may not be further urbanized without annexation to the City (Land Use Element Policy 7.1). The area is designated as an Urban Reserve (UR) on the County's zoning map, a designation which "is intended to identify those properties inside the sphere of influence of a city... and a city-adopted limit, such as the city of Napa's RUL, whose continued or future urbanization... is contingent upon annexation to the city" (Zoning Code Section 18.100.010).

County staff and and policy makers have long considered parcels within the City's RUL to be eligible for annexation to the City, contingent on LAFCO review and approval, and in the 2003 Housing Memorandum of Understanding (MOU) with the City, the County agreed to "continue to cooperate regarding annexations within [the] City's existing Rural-Urban Limit Line."

Prior to LAFCO taking any action on the City's pending request, the City and County must approve a property tax revenue sharing agreement pursuant to Revenue and Taxation Code section 99. Because the affected parcels were not included in the City's sphere of influence at the time the County and City entered into their master property tax exchange agreement, the master agreement does not apply, and the two entities must reach a separate property tax exchange agreement before LAFCO can deem the annexation application complete and proceed with its review.

The options available to the Board at this time include:

1. Adopt a motion of intent to utilize the formula included in the County-City master revenue sharing agreement for this annexation whereby the City would receive 55% of the County's share of annual property taxes;
2. Adopt a motion of intent to utilize a different revenue sharing formula for this annexation; or
3. Direct staff to continue negotiations with the City, recognizing that if the parties do not reach agreement by December 28, 2007, it will trigger the mediation process set forth in the Revenue and Tax Code (see below).

Should the Board elect the first or second option presented above, it should direct staff to prepare a resolution for adoption at the Board's meeting of December 18, 2007.

Should the Board elect the third option presented above, it would trigger the following steps pursuant to the Revenue and Tax Code:

(a) Selection of a third-party consultant to perform an independent fiscal analysis estimating all the tax revenues that will be derived from the subject parcel (30 days unless mutually extended by parties);
(b) If no agreement within 30 day period, County and City mutually select a mediator (days unless mutually extended by parties); and
(c) If no agreement within 30 day period, the County and City mutually select an arbitrator to determine the property tax exchange. The arbitrator's determination is non-binding and will be made within a period not to exceed 30 days.

The fiscal analysis described in the Revenue and Taxation Code speaks to a review of all tax revenues that will be derived from the annexed territory and the costs of city and county services with respect to the annexed territory. As the Board will recall, a broader review of inter-jurisdictional tax equity issues was discussed as part of the Strategic Financial Plan earlier this year; namely, whether city residents (in this case, City of Napa) are currently paying an appropriate share of the cost for the Countywide services (like the jail, probation, prosecution, health and human services) that they receive. The County has not conducted a thorough analysis of this issue, but preliminary analysis appears to indicate that City residents are not paying the same proportionate share of property taxes to the County as residents of the unincorporated area.

Because there is no inter-jurisdictional tax equity analysis available, it is not possible to determine the impact of any particular revenue-sharing formula on the inter-jurisdictional tax equity question. Given the timing of the annexation request before the Board today, the reality that we have not undertaken such a fiscal review described above, and the past formulas used in annexations, staff believes that utilizing the formula included in the County-City master revenue sharing agreement for this annexation makes the most sense. Because annexations do come up from time-to-time, staff believes that an inter-jurisdictional tax equity study should be prepared.

SUPPORTING DOCUMENTS

A . July 2007 Letter to LAFCO

CEO Recommendation: Approve

Reviewed By: Helene Franchi