PUBLIC COMMENT MARCH 25 – FINANCE COMMITTEE

I have questions about the Revenue Neutrality Agreement with the County of SB. I represent myself, and not any group or organization.

1. The County represented to me that Goleta does not contribute 30% of their Sales Tax Revenue to the County. See attached. What is the mechanism to pay?
2. I asked the County for a summary of Property Tax for the 8 municipalities within the County. See attached. The numbers they sent me appear to be gibberish.
3. Do you have a ballpark figure for the contributory dollar value of the 30% Sales Tax and the 50%(?). ?? ie Annualized $$ for both items.

Attached is a series of articles from 2004 to 2020. The most alarming is the 2020 quote from Mona Miyasato. ***If*** I read it correctly, the neutrality agreement is heavily tilted in favor of the County. Partial Quote:

In past conversations about the RNA, county executive Mona Miyasato said that what Goleta services cost the county hadn't been examined since the last talks in 2014. At that time, according to a county webpage, the county paid $11.3 million toward safety-net services like public health and behavioral wellness, and services like the court system, and elections; the city had paid about $9 million that year.

So, if there is a 2 million dollar offset (11-9) between the County and Goleta, how do we/they justify the other 3-6 million.

I DO NOT advocate litigation. My plan is to encourage the County to re-open the case. I will meet resistance and my chances of success are below 50%. However, everybody else has failed, so I feel obligated to give it a try. I have a few cards up my sleeve.

In my prior life I did a lot of contract analysis, but it was in the private sector. Please be somewhat ready to provide your data if the issue is re-opened.

Also you might consider asking the County for 50% of the property tax revenue from the 3-5 thousand RHENA units within 1 mile of city borders.

Thank you for your time.
Mark Preston

RNA – Section 6.1
Ammend by mutual agreement

Gmail | Mark Preston <preston.mark7@gmail.com>

Tax Allocations, Property Tax

3 messages

Mark Preston <preston.mark7@gmail.com> — Fri, Mar 22, 2024 at 12:15 PM
To: Trevor Lysek <TLysek@countyofsb.org>, "cc: Betsy Schaffer" <BSchaffer@countyofsb.org>, Ed Price <EPrice@countyofsb.org>, Claudia Ornelas <COrnelas@countyofsb.org>, Erica Ruiz <ERuiz@countyofsb.org>, Arielle Beltran <ArBeltran@countyofsb.org>
Cc: "Hartmann, Joan" <jhartmann@countyofsb.org>, Laura Capps <lcapps@countyofsb.org>
Bcc: Eileen Preston <preston.eileen7@gmail.com>

Trevor,

Thank you for your listing of Sales Tax Distribution. It was a bit more complicated, but that is OK. I put your sales tax data into an EXCEL spreadsheet and the numbers tied out.

I am utterly baffled at the property tax part of the sheet. My goal was simple.

Column 1: For every dollar collected within a municipality, how much flows back to that municipality?

Column 2: For every dollar collected within a municipality, how much goes to Santa Barbara County

Column 3: I am not sure what your third column represents. ** can you further explain ABB Factors, or send a link to definition.

Column 1 and 2 simply make no rational sense. I Lived in Buellton for 34 years. According to this, if I paid $100 in property tax, $15.26 would go to the City of Buellton, and $9,73 would go to the County. Am I correct?

I currently live in Goleta and have paid property taxes since 2020. This sheet says that for every $100 I pay the City of Goleta gets $5.11 and the County gets $11.11. Correct?

Santa Maria $12.53 to the City of Santa Maria, and $17.49 to the county. Correct?

These numbers make no sense, but if they are correct then I will request some plausible explanation

****

Attached is your sheet sent on 15 March. I have also included an excel sheet for confirming the property tax allocations..

Thank you for your efforts.
Mark Preston
805 403-3706

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2 attachments

city-county tax allocation REV 3-22.xlsx
13K

city-county tax allocation REV 3-22.xlsx
13K

Joan Hartmann <jHartmann@countyofsb.org> — Fri, Mar 22, 2024 at 1:25 PM
To: Mark Preston <preston.mark7@gmail.com>
Cc: Gina Fischer <gFischer@countyofsb.org>

Hi Mark,

MUNICIPALITY	PROPERTY TAX			SALES TAX									CURRENT SALES TAX	CONSTITUENTS' SUPERVISOR
	% To City of Every Dollar Collected within the City*	% To County of Every Dollar Collected within the City*	% of Every Dollar Collected Countywide**	Voter (5) Approved Special Tax	Local 1% (Bradley Burns) (1,3)	State Allocation Method (1,2)	Locally Allocated (1,4)	Total City/County % Segment of Tax Rate	County Share (4)	Other Entities (4)	State of California (1)	Total		
BUELLTON	15.26%	9.73%	0.1750%	0.0000%	1.0000%	0.0043%	0.0042%	1.0084%	2.2988%	0.5052%	3.9375%	7.7500%	7.75%	HARTMANN
CARPINTERIA	9.42%	18.93%	0.2764%	1.2500%	1.0000%	0.0052%	0.0097%	2.2648%	2.2988%	0.4988%	3.9375%	9.0000%	9.00%	WILLIAMS
GOLETA	5.11%	11.11%	0.4321%	1.0000%	1.0000%	0.0043%	0.0219%	2.0262%	2.2988%	0.4875%	3.9375%	8.7500%	8.75%	HARTMANN / CAPPS
GUADALUPE	13.42%	12.68%	0.0849%	1.0000%	1.0000%	0.0046%	0.0116%	2.0162%	2.2988%	0.4974%	3.9375%	8.7500%	8.75%	NELSON
LOMPOC	16.72%	20.94%	0.5666%	1.0000%	1.0000%	0.0061%	0.0617%	2.0678%	2.2988%	0.4459%	3.9375%	8.7500%	8.75%	NELSON / HARTMANN
SANTA BARBARA	12.00%	22.02%	3.0602%	1.0000%	1.0000%	0.0117%	0.0487%	2.0604%	2.2988%	0.4532%	3.9375%	8.7500%	8.75%	WILLIAMS / CAPPS
SANTA MARIA	12.53%	17.49%	1.3320%	1.0000%	1.0000%	0.0112%	0.1429%	2.1541%	2.2988%	0.3596%	3.9375%	8.7500%	8.75%	LAVAGNINO / NELSON
SOLVANG	6.31%	16.61%	0.0941%	1.0000%	1.0000%	0.0043%	0.0122%	2.0165%	2.2988%	0.4972%	3.9375%	8.7500%	8.75%	HARTMANN
UNINCORPORATED COUNTY	0.00%	18.47%	18.5822%	0.0000%	1.0000%	2.0108%	0.2880%	3.2988%	0.0000%	0.5137%	3.9375%	7.7500%	7.75%	BOARD

Property Tax Notes:

* Uses FY 2023-24 Tax Revenue Increment data to determine percentage of property tax revenue from within the incorporated cities and unincorporated area that is allocated to the cities and County. Excludes dependent special districts.

** Uses FY 2023-24 AB8 Factors, which are applied to Annual Secured and Unsecured Property Tax collections countywide. Excludes factors for dependent special districts.

Sales Tax Notes:

1) The basic sales tax rate in California is 7.25%, which includes 6% designated for the State, 1% designated for local discretion, and .25% that goes to the Local Transportation Fund (LTF). As a result of the 1991 Realignment Act, 2011 Realignment Act and Proposition 172, of the 6% State sales tax, 3.9375% remains with the State, while the balance is redirected to Counties for those purposes as .05%, 1.0625%, and .05% respectively.

2) Realignment Act and Proposition 172 revenues are allocated based on proscibed methdologies, which are subject to change annually. Citizens' Options for Public Safety (COPS) funds allocation percentages change over time based on population.

3) Bradley Burns revenue is discretionary and allocated by the County or city governments.

4) Local Measure A (.5%) and LTF (.25%) revenues are allocated annually by Santa Barbara County Association of Governments (SBCAG), to the cities, the County, and contracted transportation services providers.

5) Local jurisdictions may add sales tax by local election of the voters.

2014

The Citizen's Coalition to End Goleta's Revenue Neutrality Agreement with Santa Barbara County

2014 / PAULINANTTRAN

1. SB County, with its $850 million budget, takes from Goleta taxpayers over $5 million a year. Goleta's budget is only $22 million.

2. SB County takes 50% of our portion of the Goleta's property tax and 30% of our sales tax till the end of time. The County does not make the same extraction from any other city.

3. The Revenue Neutrality Agreement between Goleta and SB County is considered by many to be the "worst Revenue Neutrality Agreement in California." No other agreement in California runs into perpetuity.

4. Unlike the County, Goleta has been fiscally responsible with its limited funds. However, many traditional city services are not provided due to a lack of funds.

ANALYSIS OF GOLETA'S REVENUE NEUTRALITY AGREEMENT

August, 2008

1.0 Overview of LAFCO's Revenue Neutrality Agreement (RNA) Policy

The largest barrier hindering incorporation of new cities in California is something called "revenue neutrality." Amended to a 1985 law in 1992 and currently listed as Section 56815 of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, revenue neutrality has caused incorporations across California to grind to a virtual halt. Prior to revenue neutrality (1992), California averaged about four incorporations per year, which was natural given the rapid growth in the state. Since revenue neutrality was adopted, there has been less than one new incorporation per year in California on average. In fact, since 1992 only ten cities have actually incorporated. Revenue neutrality was enacted in 1992. It took an additional five years before the first city, Citrus Heights incorporated in 1997.

This unnatural restriction on self-government has predictably led to strange developments. For example, San Fernando Valley has thus far been unsuccessful in its long struggle to incorporate even though if allowed to, it would be California's second most populous city.

Section 56815 appears rather innocuous at first glance. It says that incorporation "should result in a similar exchange of both revenue and responsibility for service delivery among the county, the proposed city, and other subject agencies." In reality, it has had a stifling effect on self-government in California. Instead of self-determination being the principle underlying incorporation — which should be the case — the welfare of county budgets has become the overriding factor. The revenue neutrality process in incorporations has become what some call alimony payments in the dissolution of an unhappy marriage, i.e., the county and the new city.

The legislation was written by a paid lobbyist of the counties' lobbying arm in Sacramento (CSAC, or the California State Association of Counties). It was then tacked on to other legislation, had no public hearings, and was passed almost without notice or discussion literally in the middle of the night during the annual Sacramento flurry of legislation typical at the end of a session.

The state had recently raided county budgets for educational expenditures, so at the time revenue neutrality passed in 1992, county budgets were in desperate straits; however, once a special interest law has been passed, its benefactors fight vigorously to defend it. CSAC has thus far successfully fended off attempts to revisit the question of how proper revenue neutrality really is.

In reality, there is no standard mechanism to implement revenue neutrality. The law does not specify any formula for satisfying revenue neutrality. It does state that the county can agree to the incorporation without insisting on revenue neutrality, or that revenue neutrality can be satisfied through "tax sharing agreements, lump-sum payments, payments over a fixed period of time, or any other terms and conditions. . . ." In short, **whatever deal the county and new city strike satisfies the law.**

Revenue neutrality may very well be unconstitutional, but it has yet to be fully litigated–and doing so would likely be costly. Citrus Heights began litigating revenue neutrality when the County of Sacramento tried to prevent it from incorporating through an exorbitant revenue neutrality demand of over $5 million per year indefinitely. However, before the suit was decided, Citrus Heights cut a deal with the county to lower the payments to $2 million per year with a cap of 25 years. Remember: this money does not purchase any services for Citrus Heights; it is merely a ransom that Citrus Heights had to pay to get its freedom.

2.0 Summary of Goleta's Revenue Neutrality Agreement (RNA)

In 2001, members of the "Goleta NOW!" organization negotiated an agreement with the County of Santa Barbara that allocated 50% of Goleta's property taxes and 30% of Goleta's sales taxes to the County in perpetuity. An additional 20% of Goleta's sales taxes and 40% of Goleta's Transient Occupancy Tax ("Bed Taxes") would be allocated to the County for ten years.

During the campaign for incorporation (Measure H), Margaret Connell, representing Goleta Now!, publically misrepresented the facts, stating that the RNA payments to the County are for "county wide services," and that "all cities make similar payments to counties for these services." In fact, RNA payments are not for any services that the County provides to the City of Goleta. The City of Goleta already pays over $7M per year for services such as the courts, district attorney, public health, and county records. The RNA payment is above and beyond this payment and does not represent any additional services, despite erroneous statements by incorporation advocates.

Goleta currently pays approximately 34% of our General Fund Revenue to the County of Santa Barbara. In comparison, the other 9 cities that have incorporated since Revenue Neutrality became mandatory pay on average 6.2% of their General Fund Revenue. Additionally, the Revenue Neutrality Agreements of the other nine cities end after less than 12 years on average (the longest being 25 years), while Goleta's continues on in perpetuity (see Figure 1).

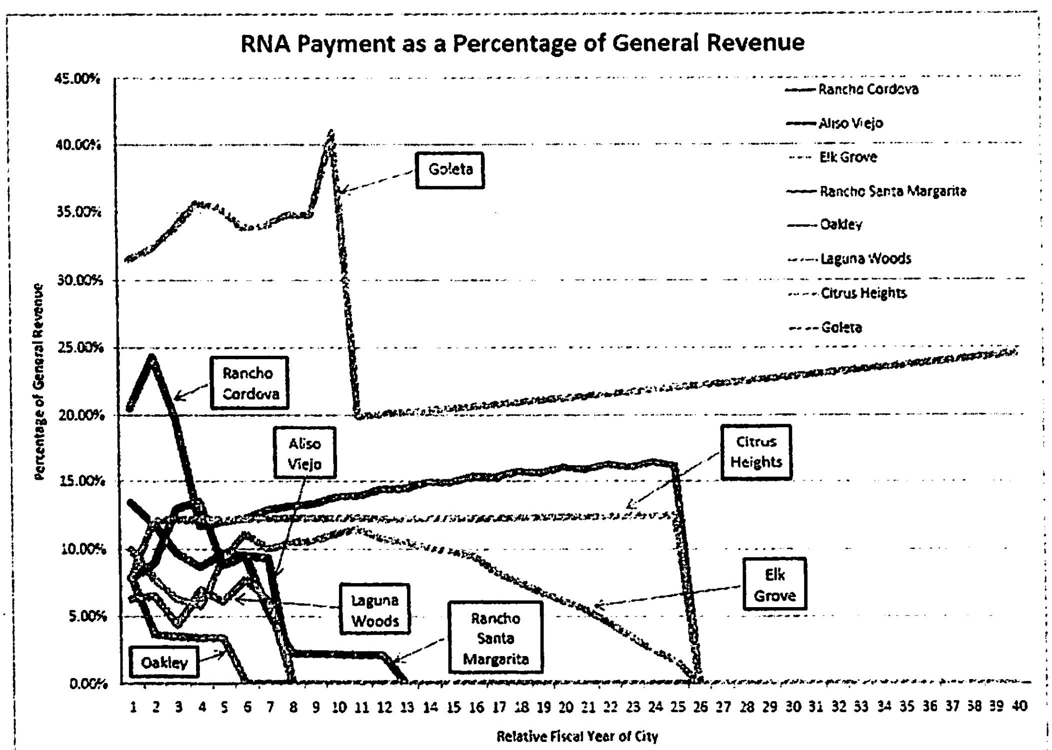

Figure 1: Comparison to Other Recently Incorporated California Cities

It is important to note that California's two newest cities, Wildomar and Menifee Valley, both in Riverside County, came to an agreement with the County that incorporation was actually beneficial in the long run to both the new city and to the County. Hence, the County of Riverside actually pays the two new cities between $238K and $2.1M per year for the cities' first ten years in order to "help" the new cities get started. Since the agreement was approved by both the new cities and the County of Riverside, LAFCO also approved it, even though the Comprehensive Fiscal Analyses did not support findings of revenue neutrality.

3.0 Flow of Tax Revenue for the City of Goleta

As stated above, the County of Santa Barbara already receives a portion of tax revenue from the City of Goleta, in addition to the RNA-mandated payment. In 2007, this payment amounted to $7.44M. This is calculated using legislated percentages for the sharing of property and sales tax revenue. The City of Goleta allocates 9.96% of our Property Tax revenue, and 3.45% of our Sales Tax revenue directly to the County to pay for services shared by all County residents.

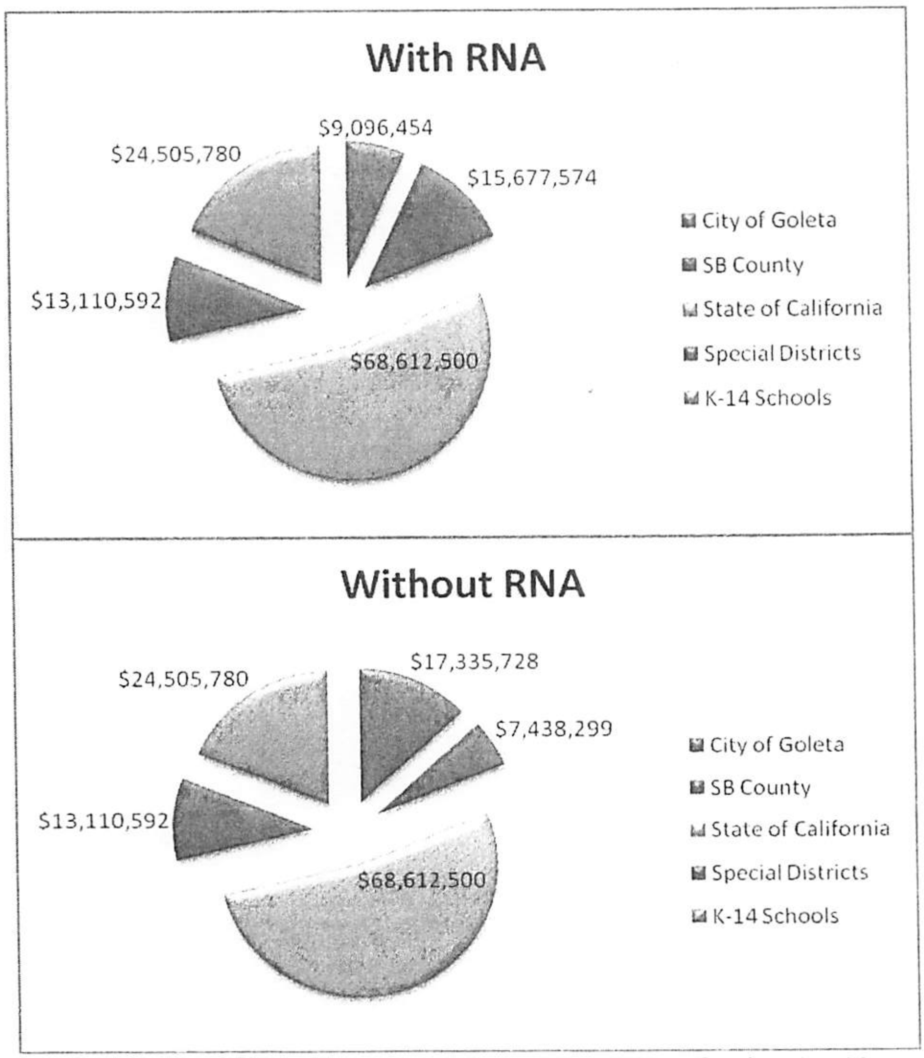

Figure 2: Estimated Flow of Tax Revenue for the City of Goleta in 2007

4.0 Conclusion

While the legality and constitutionality of LAFCO's Revenue Neutrality Agreement policy has never been challenged in court, several important precedents have been set over the past 16 years since it was enacted. The cities of Citrus Heights and Rancho Cordova, both in Sacramento County, ended up in lawsuits that were settled out of court, resulting in substantial reductions to their annual RNA payments, and, for Citrus Heights, adding an ending date to the agreement. Additionally, in October 2003, the State Office of Planning and Research issued Incorporation Guidelines that served to clarify the intent and the limits of any Revenue Neutrality Agreement. These guidelines clearly state that it is inappropriate to include the costs of regional services common to the entire County in revenue neutrality agreements. It appears that Goleta's Revenue Neutrality Agreement is currently inconsistent with state policy and that changes are required.

Due to the fact that any legal challenge would be costly and protracted, good-faith negotiations with the County of Santa Barbara should continue to be pursued. Goleta's RNA does allow for arbitration, should negotiations fail, which would be a logical second step prior to any litigation. As a final alternative, litigation should be investigated. Several law firms in the State of California have been successfully utilized by cities seeking to renegotiate revenue neutrality agreements, and could be a good starting point for any legal action against the County of Santa Barbara. Again, due to the cost and schedule impacts, this should be viewed as a last alternative.

Opinions Are Anything But Neutral on Goleta's Revenue-Neutrality Deal

NOOZHAWK 10-10-31-2008

Some might consider it a prenuptial agreement. To others it's alimony. Either way, Goleta's revenue-neutrality agreement with Santa Barbara County is complex, and it's the focus of a simmering custody battle between the two governments.

Goleta currently gives the county half of its sales and property taxes and 40 percent of its bed taxes. That's the first part of the agreement, which was executed as a condition of the city's incorporation in 2002.

Beginning in 2012, however, the city will keep 100 percent of the bed tax and 20 percent of the sales tax it was sharing with the county. But that formula will leave half of Goleta's property taxes and 30 percent of its sales tax going to the county, in perpetuity.

Sound complicated? It is.

It wasn't always this way. Before 1992, there were about four incorporations each year in California, due at least in part to the state's growing population. But when Citrus Heights made its move to incorporate in the late 1980s, Sacramento County objected, because of the revenue it would lose as a result. Property taxes, sales taxes, bed taxes and other revenue in the incorporated area would go to the new city instead.

The early '90s were also financially sketchy for California counties as the state had taken to dipping into county coffers to make up for its budget deficits.

Those circumstances led to the creation of revenue neutrality, a 1992 policy by which incorporating cities must strike a deal with their county to mitigate the loss of revenue as a result of the incorporation, if the city generated more revenue than the county would save in transferring the cost of services to the new city. Since the creation of revenue neutrality, the rate of incorporation has dropped sharply, due in part to what could sometimes be onerous terms on the fledgling cities. Nevertheless, the revenue-neutrality agreement is required and must be signed by both principal parties for an incorporation to take place.

Not all revenue-neutrality agreements are the same. The 1992 legislation, now part of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, was unclear about the specifics of revenue neutrality, and untested by case law. As a result, revenue-neutrality agreements executed by the few cities that incorporated after 1992 tend to have varying terms.

That's the situation Santa Barbara County and the prospective city of Goleta were facing in 2001.

County finances were tight that year."The revenue loss (from Goleta incorporation) was one of our big concerns," then-2nd District Supervisor Susan Rose said of the circumstances at the time Goleta was looking to go its separate way.

Meanwhile, after several unsuccessful attempts to incorporate, a new city of Goleta appeared to be on the horizon. The latest effort was led by the slow-growth group GoletaNow!, several members of which wound up on Goleta's first city council.

"We couldn't become a city until we had a revenue-neutrality agreement," said Cynthia Brock, a GoletaNow! member who was on the team negotiating with the county, alongside Jack Hawxhurst and Jonny Wallis. All three were elected to the first council; Wallis is not seeking re-election this time.

Both the county and the chief petitioners were working in good faith, Brock said.

The result of those negotiations was an agreement that would start out by handing over roughly $5.5 million to the county, and repay a $1.5 million startup loan from the county.

The $5.5 million was not a flat fee, however. The Goleta RNA is based largely on percentages: if Goleta is prosperous, the county gets more money. If Goleta collects less money, the county gets less.

It was an attempt to cushion the city during times of economic hardship, said Margaret Connell, a former councilwoman who is making another run for office in Tuesday's election. Other cities that have paid based on flat fees have found themselves floundering when city revenue took a dip, she said.

Goleta, it turns out, did well in its formative years and was able to increase its annual budget to roughly $23 million. Correspondingly, the city's obligations to the county have risen to $7.44 million as of 2007.

That notion does not sit well with council candidate Don Gilman. The businessman voted yes on the 2001 Measure H incorporation initiative, and also for the revenue-neutrality agreement that was part of it.

"Unfortunately, the voters were led into believing it was payment for services," he said. He thought the money would be going to municipal services, only to find out the RNA was a payment on top of services the city was already paying for, he said.

There is a newer version of the California Code ↓

View our newest version here →

2005 California Government Code Sections 56815-56815.2 Article 3. Revenue Neutrality

GOVERNMENT CODE
SECTION 56815-56815.2

56815. (a) It is the intent of the Legislature that any proposal that includes an incorporation should result in a similar exchange o both revenue and responsibility for service delivery among the county, the proposed city, and other subject agencies. It is the further intent of the Legislature that an incorporation should not occur primarily for financial reasons.

(b) The commission shall not approve a proposal that includes an incorporation unless it finds that the following two quantities are substantially equal:

(1) Revenues currently received by the local agency transferring the affected territory that, but for the operation of this section, would accrue to the local agency receiving the affected territory.

(2) Expenditures, including direct and indirect expenditures, currently made by the local agency transferring the affected territory for those services that will be assumed by the local agenc receiving the affected territory.

(c) Notwithstanding subdivision (b), the commission may approve a proposal that includes an incorporation if it finds either of the following:

(1) The county and all of the subject agencies agree to the proposed transfer.

(2) The negative fiscal effect has been adequately mitigated by tax sharing agreements, lump-sum payments, payments over a fixed period of time, or any other terms and conditions pursuant to Sectio 56886.

(d) Nothing in this section is intended to change the distributio of growth on the revenues within the affected territory unless otherwise provided in the agreement or agreements specified in paragraph (2) of subdivision (c).

(e) Any terms and conditions that mitigate the negative fiscal effect of a proposal that contains an incorporation shall be include in the commission resolution making determinations adopted pursuant to Section 56880 and the terms and conditions specified in the questions pursuant to Section 57134.

56815.2. By July 1, 2001, the Governor's Office of Planning and Research, in consultation with the Controller, shall convene a task force composed of representatives of cities, counties, special districts, and local agency formation commissions, as nominated by their statewide organizations and associations, with expertise in local government fiscal issues for the purpose of creating statewide guidelines for the incorporation process. The guidelines shall be completed by January 1, 2002, by the Office of Planning and Research and shall serve as minimum statewide guidelines for the incorporatio process. The guidelines shall include, but not be limited to, information to assist incorporation proponents to understand the incorporation process, its timelines, and likely costs. They shall also provide direction to affected agencies regarding the type of information that should be included in the comprehensive fiscal analysis of an incorporation, as well as suggestions for alternative ways to achieve fiscally neutral incorporations. The guidelines shall be advisory to the commissions in the review of incorporation proposals.

Goleta and County to Meet to Chat About Revenue

City Formation Cost It Millions in Taxes Given to County

By **Jean Yamamura**
Thu Nov 12, 2020 | 9:46am

Goleta City Attorney Mike Jenkins, seen here in December 2019, is taking the County of Santa Barbara's revenue-sharing agreement with the city head on, saying he doesn't seek a lawsuit but not ruling it out either. | Credit: Paul Wellman (file)

In what feels like the opening pebble toss in a match between Goliath and David, the City of Goleta fired a formal request to the County of Santa Barbara to amend the Revenue Neutrality Agreement (RNA). The two sides meet on Thursday to discuss the obscure document, which Goleta claims has hobbled the city's ability to maintain its services to its residents while unfairly benefiting the county.

The county supervisors held a closed-door session on Tuesday regarding Goleta, and the only comment made in public afterward was County Counsel Mike Ghizzoni re-stating the text in the day's agenda for the closed meeting: that the letter opened the county to "significant exposure to civil litigation … involving the 2002 Revenue Neutrality Agreement."

That agreement was approved by voters when Goleta was officially carved out of the county in 2002. The purpose was to compensate Santa Barbara County for the property and sales tax it lost to the newly formed city — or to neutralize the financial effect. The city now sends one-third of its sales tax to the county and half its property taxes, or about $7 million annually.

Like the rest of the world, Goleta has suffered serious losses of revenue because of COVID-19. Not only are citizens unemployed, spending less, and producing less sales tax, but tourists are staying home. Goleta's hotel bed tax, which was a mainstay revenue source, dropped by $3 million between March and June of this year.

The city tried to raise an additional one percent sales tax this summer, but the proposal failed to get a supermajority vote of four members of the City Council to be put on the November ballot. That tax, city attorney Michael Jenkins explained on Wednesday, would have belonged entirely to the city; none of it would have been part of the RNA payment to the county. It was expected to reap about $7 million annually. Following that defeat, both Jenkins and City Manager Michelle Green proposed to the council to bring the RNA back to the county for a discussion, said Jenkins, as a means to increase the city's revenue.

Without substantial help, the city's letter states, Goleta faces a shortfall of $1.3 million in its response to the coronavirus health crisis. It has been unable to provide recreation

Without substantial help, the city's letter states, Goleta faces a shortfall of $1.3 million in its response to the coronavirus health crisis. It has been unable to provide recreation services, affordable housing, senior assistance, and other necessary services because of its hamstrung finances. Goleta argues that the total $122 million the county has received under the RNA has more than compensated it for the loss of the area's revenues. Jenkins noted that the county has also added a revenue source in the form of cannabis since the 2002 agreement was made.

In past conversations about the RNA, county executive Mona Miyasato said that what Goleta services cost the county hadn't been examined since the last talks in 2014. At that time, according to a county webpage, the county paid $11.3 million toward safety-net services like public health and behavioral wellness, and services like the court system, and elections; the city had paid about $9 million that year.

Rather than litigation, which Jenkins has not ruled out, the city's letter proposes phasing out the revenue sharing over time. Whether the county agrees remains to be seen.

Clarification: This story was revised to note that County Counsel's statement was not reflective of any confidential discussion, simply a paraphrase of the item's description in the day's agenda.