

## **Attachment 9**



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## Goleta Revenue Neutrality Synopsis

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The State's Cortese-Knox Act requires the Local Agency Formation Commission ("LAFCO") during city incorporation to approve a revenue neutrality agreement protecting counties from arbitrary funding reductions to countywide services. On March 20, 2001, the County and the City of Goleta, upon its incorporation, entered into the "Revenue Neutrality Agreement By and Between the County of Santa Barbara and the City of Goleta."

Recital 1.8 of the Revenue Neutrality Agreement ("Agreement") affirms the approval of the Agreement by the vote of the electorate during the vote for incorporation. The vote resulted in the incorporation of the City of Goleta on February 1, 2002.

In February 2009, the City of Goleta ("City") submitted a proposal to LAFCO proposing to detach City territories from the Goleta West Sanitary District ("GWSD"). Any action impacting the reallocation of property taxes to GWSD is subject to Section 4.12 of the Agreement. As defined within the Agreement, the reallocation of GWSD ad valorem property taxes stipulates property tax revenue sharing of 70% to the County Fire District and 30% to the City, so long as the City boundaries do not include Isla Vista.<sup>1</sup>

The County reaffirmed the position that Section 4.12 pertained to the City's GWSD detachment proposal and that any amendments to the Agreement were not part of the negotiated property tax agreement between GWSD and the City as adopted by the County's Board of Supervisors ("Board") on May 5, 2009.<sup>2</sup>

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<sup>1</sup> "Revenue Neutrality Agreement By and Between the County of Santa Barbara and the City of Goleta," March 20, 2001, Page 5, Section 4.12 "In the event that the property taxes currently received by Goleta West Sanitary District are reallocated, City and County shall share in the manner set forth in this paragraph. As an incentive for the future annexation of the neighborhood known as Isla Vista, any increased property tax revenues that may result from a change in the allocation factor ("the revenues") shall be shared, 70% to the County and 30% to the City, so long as the City boundaries do not include Isla Vista. In the event that the City annexes Isla Vista, the City shall be entitled to 70% of the revenues and the County shall be entitled to 30%. County's share of the revenues shall be transferred in its entirety to the County Fire District.

<sup>2</sup> Resolution #09-140 "Resolution of the Board of Supervisors of the County of Santa Barbara Approving the Allocation of Property Tax Revenues Between the City of Goleta and the Goleta West Sanitary District" and "Property Tax Allocation Agreement Between the City of Goleta and County of Santa Barbara Board of Supervisors" adopted by the Board of Supervisors on May 5, 2009. Section 2: "All future ad valorem property taxes currently allocated to District for properties which are detached from the District through the Proceeding should and shall be reallocated to City as provided in the Agreement, Exhibit A." Exhibit A, "Property Tax Allocation Agreement Between the City of Goleta and County of Santa Barbara Board of Supervisors," states on page 2, #1-Allocation of Property Tax Revenues that "All future ad valorem property taxes currently allocated to District for properties which are detached from the District through the Proceeding shall be reallocated to the City." Said Agreement states on page 3, #3-Application of Independent Agreements that "This Agreement is not intended to and does not effect any independent agreements to any tax revenues which are allocated pursuant to this agreement, including the Revenue Neutrality Agreement by and between the County of Santa Barbara and the City of Goleta."



Based upon tax information for 2009-10, the property tax increment to GWSD after accounting for the tax increment attributable to the Redevelopment Agencies (RDA) total \$1,644,141 as illustrated in Scenario 1 of the table below.

**Table 1: Property Tax Increments to GWSD**

Scenario 1: Current Taxes to GWSD (after RDA)	City	Unincorporated Area	Total to GWSD
	\$1,516,697	\$127,444	\$1,644,141

As part of the Board adopted resolution allocating the distribution of property tax revenues between the City and GWSD, all future ad valorem taxes currently allocated to GWSD for territories within the City's jurisdiction shall be reallocated to the City. Based on current tax information, this amount would be \$1,516,697 after the RDA increment. However, since Section 4.12 of the Agreement asserts that any increased property tax revenues that may result from a change in the allocation factor ("the revenues") of GWSD shall be shared, 70% to the County and 30% to the City, the potential reallocation of ad valorem taxes from GWSD, should the City's proposal to detach territories from GWSD be approved by LAFCO, is illustrated below in Table 2.

**Table 2: Potential Reallocation of Property Tax Increments from GWSD**

Scenario 2: City territories detach Revenue Neutrality Agreement Section 4.12 Triggered	City	County Fire District	Total from GWSD
	\$455,009	\$1,061,688	\$1,516,697

While Section 4.12 of the Agreement directly refers to GWSD, the other provisions of the Agreement relate to the City's portion of other taxes. As part of the Agreement, a phasing formula was adopted stating that for the first 10 years of cityhood the County would receive 50% of the local share of retail sales taxes generated within City boundaries and 40% of the Transient Occupancy Tax (TOT) generated from the City's hotels and motels that were in existence at the time of incorporation. After this Mitigation Period, the County's sales tax share would drop to 30% and the TOT share would drop to zero. Beginning in FY 2012-13, when the Mitigation Period expires, the County's revenue loss is estimated to be \$1.1 million in lost sales tax revenue and \$1.3 million in lost TOT revenue for a total of \$2.4 million.

Elected representatives from the City of Goleta have indicated a desire to increase the City's share of the sales tax and TOT revenues prior to FY 2012-13. The proposal to detach City territories from GWSD does not result in the Agreement being amended or facilitate discussions regarding the current provisions of the Agreement. Should the Board agree to any changes in the Agreement, it could potentially result in the loss of GWSD revenue being reallocated to the County Fire District. Any other changes to the Agreement could impact General Fund revenues prior to FY 2012-13.