Agenda Item #12.2
For Council Meeting of: June 6, 2017

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: DEBORAH LAUCHNER, CHIEF FINANCIAL OFFICER, FINANCE DEPARTMENT
SUBJECT: AMENDMENT TO ROSELAND PRE-ANNEXATION AGREEMENT

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Finance Department and City Attorney's Office that the Council, by resolution, amend the Roseland Pre-Annexation Agreement to update Exhibit E with the actual Sales Tax revenue amount for Fiscal Year 2015-16.

EXECUTIVE SUMMARY

On November 29, 2016, the Council approved a Pre-Annexation Agreement (the "Agreement") with Sonoma County for the Roseland area annexation. The Finance Department worked with the City and County's sales tax consultants to ensure a smooth transition from the County's consultant to the City's consultant for this service. During this work, it was discovered that the revenue provided and included in the Pre-Annexation Agreement on Exhibit E was incorrect. Both consulting firms have agreed on the correct revenue that should be presented in Exhibit E and the agreement needs to be amended to reflect that amount.

BACKGROUND

The Agreement provides terms for annexation of five unincorporated County islands in southwest Santa Rosa (the "Roseland Annexation"). An unincorporated island is defined as an area of unincorporated land that is substantially surrounded by City land. Two of the five islands are located within the Roseland Area/Sebastopol Road Specific Plan and three are located outside of the Plan area. These five County islands encompass 1,614 parcels and approximately 714 acres.

On October 23, 2014, the City and Sonoma County entered into a Memorandum of Understanding and agreed to establish the Joint City/County Roseland Annexation committee ("Joint Committee") to discuss and negotiate a pre-annexation agreement addressing the cost sharing and other commitments necessary to successfully annex the Roseland Annexation Area.

On October 26, 2016, the Joint Committee unanimously supported a draft pre-annexation agreement, and agreed to advance the proposed agreement to the Board of Supervisors and City Council.

On November 1, 2016, the Board of Supervisors approved the Agreement and on November 29, the City Council approved the Agreement.

Many elements of the Agreement address annexation costs and Exhibit E of the Agreement outlines actual revenues for FY 2015-16 on which the annual subsidy calculation will be based.

As Finance Department staff worked with consulting firms that manage and report on Sales Tax revenues for both agencies, it was discovered that the actual revenue outlined in Exhibit E for this revenue source was incorrect. Both consulting firms have agreed that the actual Sales Tax revenue generated within the proposed annexation area is $547,171 instead of the amount of $533,689 listed on Exhibit E. Since this amount will be used to calculate the annual subsidy, the agreement needs to be amended to reflect the correct actual revenue.

PRIOR CITY COUNCIL REVIEW

Prior Council review is outlined above in the background section.

ANALYSIS

The Agreement outlines a process using six identified revenue sources and actual amounts for each of these revenue sources determined using FY 2015-16 as a base year. Using the amounts shown in Exhibit E of the Agreement, the City will annually calculate and invoice the County for the agreed upon subsidy that will be provided to the City for the first ten years after annexation. Sales Tax Revenue is one of the six identified revenue sources for this calculation and the actual amount of revenue from this source needs to be accurate.

Finance Department staff worked for several months with the two consulting firms that currently provide Sales Tax information and management services to both agencies. The first step was to determine the correct addresses and associated businesses that belong in the annexation area. This information was also used as part of the LAFCO application.

Staff then worked to determine the correct methodology for reporting revenue annually. This involved reviewing accounting practices and procedures that each consulting firm used in reporting the revenue to their respective agencies. Then the two firms worked with several iterations of the data to come to agreement on the amount that should be reported and used by the City going forward. The final determination of the actual revenue that should be listed in the agreement is $547,171. Since this is $13,482 lower that what is currently in the Agreement, an amendment to the Agreement is necessary to ensure the correct revenue is being used for the subsidy calculation going forward.

FISCAL IMPACT

Amending the Pre-Annexation Agreement itself does not have a fiscal impact on the General Fund, however if the Agreement is not amended, the annual subsidy could be reduced based on a calculation that includes revenue growth with Sales Tax revenue included as one of the elements considered. With the actual revenues being $13,482 lower in the Agreement, the revenue growth in the first year will skew the calculations showing revenue growth greater than it actually was.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1 – Original Pre-Annexation Agreement
- Resolution/Exhibit A (First Amendment)

CONTACT

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