# MONTEREY COUNTY

THE BOARD OF SUPERVISORS

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June 6, 2019

The Honorable Bill Monning
California State Senate
State Capitol, Room 4040
Sacramento, CA 95814

RE: County of Monterey Analysis of SB189 (Monning) – Property tax impact of proposed termination of Health and Safety Code Section 33492.71

Dear Senator Monning:

As you are aware, on May 7, 2019 the Board of Supervisors took a "Support if Amended" position on SB189. In taking that position, one of the key requests from the Board of Supervisors was to retain Health and Safety Code Section 33492.71 regarding distribution of property tax revenue upon FORA dissolution. SB189, as currently drafted, would terminate the provisions of Section 33492.71 causing significant property tax revenue impacts to both the County of Monterey and also to the Monterey County Regional Fire District.

Attached is the County of Monterey analysis of the impact of termination of Health and Safety Code Section 33492.71. Our analysis was prepared with input from the County Auditor/Controller, County Counsel, Resource Management Agency, County Administrative Office and Monterey County Regional Fire District.

In closing we respectfully request that SB189 be amended to retain the provisions of Health and Safety Code Section 33492.71.

Sincerely,

John M. Phillips
Chair, Board of Supervisors

cc: Supervisor Luis Alejo, District 1
Vice Chair, Chris Lopez, District 3
Supervisor Jane Parker, District 4
Supervisor Mary Adams, District 5

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Nicholas E. Chiulos, Assistant County Administrative Officer
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Attachment: SB 189 Proposal Termination of Health and Safety Code Section 33492.71
Impact on Monterey County

## SB 189 Proposed Termination of Health and Safety Code Section 33492.71 Impact on Monterey County

**Request:** It is respectfully requested that Section 33492.71 of the Health and Safety Code be retained in perpetuity under SB189. The County's only direct revenue from the former Fort Ord is the property tax. The average share of property tax Countywide for the County is 15%, and the County will receive less than 5% the available gross tax increment if H&S Code Section 33492.71 is terminated. In addition, the Monterey County Regional Fire District will take a significant revenue reduction forcing the closure of the new fire station within the community.

**Background:** Section 33492.70, et. Seq. was adopted in 1994 and became effective on January 1, 1995. The intent of the law was to assist redevelopment project areas within the Former Fort Ord territory and the Fort Ord Reuse Authority to undertake joint redevelopment of the former military base. The sharing of increment was recognized as a burden, not only to Redevelopment Agencies, but also to other affected taxing agencies. There are several provisions in Section 33492.70, et. seq. addressing such burdens.

Each Redevelopment Agency was directed to share a portion of its tax increment with FORA, after mandatory deductions. The distribution of increment, after required deductions for affordable housing and area schools, was 35% to FORA, 35% to the Redevelopment Agencies, 25% to Monterey County, and 5% to other affected taxing entities. FORA was envisioned to dissolve, once it had accomplished 80% of the planned redevelopment of the former base or by a date certain, which ever came first. After the dissolution of FORA, the tax increment revenues previously allocated to FORA were to be shared 38% to Monterey County, 54% to Redevelopment Agencies, and 8% to other taxing agencies, after deducting any remaining FORA obligations.

While no one currently employed by Monterey County was involved in the negotiations leading to the tax distribution methodology for FORA, County staff understands from discussions over the years that the after-FORA distribution was intended to result in the distribution of property taxes to the County that considered the imbalance in County revenues against the impact of Fort Ord development on County services. While incorporated cities get the benefit of sales taxes, transient occupancy taxes, development fees, etc., the County's only direct revenue is the property tax.

**Impact of SB 189:** If SB 189 is adopted in its current form, Section 33492.71 of the H & S Code will become inoperative on June 30, 2022, or when all outstanding FORA obligations, if any, are fully satisfied. When Section 33492.71 becomes inoperative, the property tax revenue share for the County will drop precipitously, because the entire territory is included in former redevelopment project areas. The County Auditor has provided analysis that the County will receive less than 5% the available gross tax increment. The average share of property tax County wide for the County is 15%, and the distribution in the various tax rate areas in the County ranges from approximately 12% to over 40%. The bulk of the increment, approximately 80%, will go to Successor Agencies to satisfy Recognized Outstanding Obligations (ROPS). Any amount not used by the Successor Agencies for ROPS will be distributed to all the taxing agencies, including the County, per a preestablished distribution methodology. However, it is not possible to forecast the residual amount because redevelopment successor agencies are entitled to use the full allocation if their recognized obligations (ROPS) warrant it.

The termination of H&S Code Section 33492.71 will have a detrimental impact on the Monterey County Regional Fire District with a drastic reduction of revenue which will cause for the closure of the East Garrison Fire Station and layoffs to nine fire personnel. Within the East Garrison Project Area, the County, recognizing the critical importance of adequate fire protection, chose to allocate 65.5% of the County's property tax share within East Garrison to the Fire District. Based on that commitment, the District agreed to staff a fire station in East Garrison, which opened in May of 2018. The East Garrison Fire Station provides advance life support, fire and rescue services to over 4000 residents and visitors of the East Garrison subdivision, CAL State University of Monterey Bay, Schoonover Park, the Fort Ord National Monument and all the unincorporated areas of the former Fort Ord. Upon the expiration of H&S Code Section 33492.71, the District's revenues will drop from approximately $376,000 in FY2018/19 to about $95,000. The impact grows even more as the East Garrison area continues to develop. By the anticipated year of East Garrison development completion, the District's share of the County's allocation, under the FORA $30M debt scenario would go from approximately $780,000 to approximately $185,000. This calculation is based on a recent update to the East Garrison Successor Agency fiscal model, incorporating a recent updated absorption schedule.

The table attached shows the allocation of the Tax Increment using the 2017/18 Fiscal Year actuals, assuming FORA dissolution under four scenarios: (1) Current Conditions; (2) SB 189 adopted as currently written, with $30M FORA debt; (3 ) SB 189 adopted, with no FORA debt; (4) with H&S Section 33492.71 retained.

## FORA AREA INCREMENT DISTRIBUTION PER COUNTY AUDITOR INTERPRETATION OF H&S CODE SECTION 33492.71

| Line | 2017/18 FISCAL YEAR | Reference | *Scenario 1* Current Distribution with FORA Active | *Scenario 2* FORA Dissolved, $30M Debt, with SB 189 | *Scenario 3* FORA Dissolved, No Debt, with SB 189 | *Scenario 4* FORA Dissolved, No Debt, with H&S 33492.71 Retained | |
|---|---|---|---|---|---|---|---|
| 1 | Gross Tax Increment from Fort Ord Project Areas | Note A | $ 11,315,831 | $ 11,315,831 | $ 11,315,831 | $ 11,315,831 | |
| 2 | Total Tax Increment Available for Distribution | | $ 7,606,954 | $ 7,606,954 | $ 11,315,831 | $ 7,606,954 | Note B |
| | *Distribution per County Auditor Interpretation of H&S 33492.71* | | | | | | |
| 3 | FORA Share @ 35% | Line 2 x 35% | $ 2,662,434 | $ 2,662,434 | $ - | $ 2,662,434 | |
| 4 | FORA Debt Service (Estimated based on $30M bond) | | $ - | $ 2,200,000 | $ - | $ - | |
| 5 | **FORA Share Available after Debt Payment** | Line 3 Minus 4 | **$ 2,662,434** | **$ 462,434** | **$ -** | **$ 2,662,434** | |
| 6 | RDAs Share | 35% of Line 2 for Scenario 1<br>35% of Line 2 + 54% of Line 5 for Scenarios 2 & 4<br>Line 2 Minus Line 7 & 8 for Scenario 3 | $ 2,662,434 | $ 2,912,148 | $ 9,031,471 | $ 4,100,148 | |
| 7 | **County Share** | 25% of Line 2 for Scenario 1<br>25% of Line 2 + 38% of Line 5 for Scenarios 2 & 4 | **$ 1,901,739** | **$ 2,077,463** | **$ 465,077** | **$ 2,913,463** | Note C |
| 8 | Other Taxing Agencies Share | 5% of Line 2 for Scenario 1<br>5% of Line 2 + 8% of Line 5 for Scenarios 2 & 4 | $ 380,348 | $ 417,342 | $ 1,799,283 | $ 593,342 | Note D |
| | | Total Distribution | $ 7,606,954 | $ 5,406,954 | $ 11,315,831 | $ 7,606,954 | |
| 9 | County Share as a Percent of Total Increment | Line 7 ÷ Line 1 | 16.81% | 18.36% | 4.29% | 25.75% | |

| ***Calculation of Increment Available for Distribution*** | Reference | Amount |
|---|---|---|
| Total Tax Increment (TI) from FORA Area Projects | Line 1 | $ 11,315,831 |
| Housing Set Aside @ 20% | | $ 2,263,166 |
| Total TI after Housing Set Aside | | $ 9,052,665 |
| MPUSD Portion @ .1442 | | $ 1,305,394 |
| MPC Portion @.0155 | | $ 140,316 |
| **Adjusted TI Available for FORA Area Distribution** | Line 2 Scenario 1, 2, & 4 | $ 7,606,954 |

**Notes:**

A Amount provided by Auditor's Controller's Office based on actual collections for Fiscal Year 2017-18.

B Total Tax Increment Available for Distribution under Scenario 3 is different than the other scenarios because schools do not get a portion of the increment prior to calculating the distribution amounts to other entities. Schools are treated equally as other entities in Scenario 3.

C Calculations are based on H&S Code 33607.5, which is the current calculation for other RDA projects without FORA. There are specific tier pass through percentages.
For example, Tier 1 pass through is 25% (years 1-10th of the project) and Tier 2 pass through is 21% (years 11-30th of the project).
The County share for Scenario 3 does take into account the 65.5% agreement to the Monterey Co Regional Fire.
The amount given to the Monterey Co Regional Fire from the County Share is $79,346 (part of line 9) for Scenario 3

D Other Taxing Agencies breakdown for Scenario 3 is as follows:

| | |
|---|---|
| Administration Fee | $ 147,227.23 |
| City | 197,689.25 |
| Special Districts | 226,727.38 |
| K-12 | 1,050,140.57 |
| College | 113,557.25 |
| County Office of Education | 63,943.96 |
| | $ 1,799,284.64 |