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Additional Information

Item(s)

Title: RESOLUTION – Not to support any further annexation into the City unless and until a fair tax sharing agreement is in place.

Contents: Draft consultant report from the County of Fresno Administration regarding City/County tax sharing

Supplemental Information:

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Internal Draft Report

Fresno Analysis of City and County Service Costs and Tax Sharing

The Economics of Land Use



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October 2019

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1. INTRODUCTION AND KEY FINDINGS

Like many California municipalities, the City of Fresno has grown from within as well as through annexations over the last several decades. As the City continues to annex new areas into its boundary, it is seeking to ensure that this growth generates sufficient revenue to maintain adequate levels of public service. Accordingly, the City is interested in revisiting the terms for its existing property tax sharing allocation with Fresno County.

This Report provides a technical analysis of the current property tax sharing agreement between the City and County of Fresno. In particular, it compares the share of the total property tax remitted to the City and County General Funds respectively with the corresponding General Fund costs incurred by each from provided public services in the City. The Report has been prepared by Economic & Planning Systems (EPS) for the City of Fresno to inform a future update to the existing tax sharing agreement.

Study Context

The City and County of Fresno implemented a property tax sharing agreement on January 2003 that specified the allocation formula for property tax proceeds from the City's future annexations of unincorporated land. The agreement stipulates that the County maintain all of the existing or base property tax and that growth from the base be split with 38 percent allocated to the City and 62 percent to the County. The City has grown substantially since this agreement, in part due to development in annexed areas subject to the 2003 property tax allocation agreement. Given the fiscal concerns and increased cost of municipal services in Fresno, the City is seeking to take a closer look at these allocation terms going forward.

The City currently accounts for about half of the population in Fresno County. While the City and County populations have both grown at about the same rate since 2003, the year the property tax allocation agreement was established, the City has experienced more rapid growth in General Fund costs. This cost increase is largely attributable to demand for many of the public services funded through the General Fund, such as public safety, facility maintenance, and park and recreation. During this same period, however, the County has experienced a much higher growth in property tax revenue, an outcome that is partially attributable to a high level of annexation activity combined with more favorable participation in the new property tax revenues associated with urban growth.

This study recognizes that City and County budgets are not directly comparable due to differences in service responsibilities, cost structures, funding sources, and other factors. To account for these complexities, this study combines or aggregates the total cost of the "basket of public services" provided to City residents (and employees) and funded through the General Funds of each jurisdiction. While a detailed analysis of each of the General Fund cost and revenue items is beyond the current EPS scope of work, it is reasonable to assume that both will increase or decrease in more or less a proportional rate in relation to changes in service population with annexation. This simplifying assumption allows our analysis to isolate the independent impact of property tax on the City and County General Fund budgets.

Key Findings

The key findings from this analysis are described below with the supporting metrics quantified in **Table 1**.

1. Property tax represents a significant share of total General Fund revenue for both the City and County of Fresno, underscoring the important role that the tax sharing agreement plays in financing critical public services in the City (e.g., public safety, park and recreation, public works, etc.). Specifically, property tax (including property tax in lieu of VLF) accounts for 38 percent of the total City General Fund revenues and 85 percent for the County.
2. While the City and County of Fresno currently receive a roughly equal allocation of local property tax revenue overall, the City bears a disproportionate share of the General Fund costs from providing public services. In particular, data provided by the County indicates that property taxes generated within the City are split at about 50 to 50 percent between the City and County, respectively. Meanwhile, this analysis suggests that the City covers about 62 percent of the non-reimbursed General Fund expenses associated with providing public services to local residents and employees (with the County responsible for 38 percent).
3. For new annexations, the current tax sharing agreement provides the County more than 62 percent of the property tax revenue, although there is no indication that the County's share of the total General Fund cost of providing public services to these areas are any different than the rest of the City (estimated at about 38 percent of the total, as noted above). In other words, the City receives less than 38 percent of the property tax allocation in new annexation areas but covers about 62 percent of General Fund cost of providing public services to residents and employees in these locations.

Table 1 Revenue and Cost Allocation Summary Between City and County of Fresno

Item	Existing Baseline	New Annexation ¹
Total General Fund Cost Allocation²		
City Share	62%	62%
County Share	38%	38%
Property Tax Allocation³		
City Share	50%	38%
County Share	50%	62%

[1] Assumes that the incremental per unit cost in new annexation areas is similar to the City as a whole.

[2] Estimated as the sum of City and County net General Fund costs per unit of public service population (i.e. population plus half employment).

[3] Existing allocation is based on the tax rate area data provided by the County Auditor-Controller/Treasurer-Tax Collector. For new annexations, the January 2003 City-County tax sharing agreement applies to new assessed value only. The County retains all of the property tax revenue from pre-existing (i.e. prior to annexation) assessed value.

2. STUDY FRAMEWORK AND METHODOLOGY

The primary goal of this Report is to compare the allocation of property tax revenues between the City and County of Fresno with their respective public service obligations in the City and associated General Fund costs. This Chapter describes the framework, methodology, and key assumptions used in this comparison.

A brief summary of the key analytical steps is provided below and described in more detail in subsequent sections:

1. Document City-County property tax allocation
2. Add total City-County General Fund Costs
3. Net out City and County General Fund costs paid through dedicated or external sources (e.g., State and Federal funding)
4. Estimate City and County Public Service population (i.e., population plus half employment)
5. Calculate net City and County General Fund Cost per City Service Population (i.e., cost per unit served)
6. Calculate respective City and County share of net General Fund cost per unit of City service population
7. Compare City and County net General Fund cost allocation with respective property tax allocation shares

Property Tax Revenue Allocation

Property tax revenues represent the largest single revenue source for both the City's and County's General Funds. The general property tax levy in California is frozen at 1 percent of assessed value. Because much of the land within the City's existing boundary has been previously annexed from the County, the County retains a share of the property taxes generated within the City. However, since annexations have occurred gradually and under different circumstances over time, the City and County receive property tax allocations that vary among the nearly six hundred tax rate areas (TRAs) in the City. In general, TRAs that were part of the original City boundaries receive the highest property tax allocation while areas near the urban fringe receive the lowest.

As noted, property tax revenues from new annexations to the City's and County's General Funds are currently governed by a 2003 property tax sharing agreement. The agreement defines two allocations: the first is the allocation on the existing base assessed value at the time of annexation, and the second is the allocation on the increment in assessed value growth after the annexation takes place. For areas annexed since 2003, the property tax sharing agreement precludes the City from capturing any property tax from base assessed values and limits the

City’s share on new assessed value growth to 38 percent of property tax with the County retaining the remainder.¹

Table 2 summarizes the property tax allocation between the City and County within the existing City limits and for new annexations. The property tax allocation within the existing City boundaries represents a weighted average for the entire City based on the fiscal year 2018-19 pre-ERAF TRA allocation rates and assessed values in each. This data was provided by the County Auditor-Controller/Treasurer – Tax Collector. As shown, this methodology yields a City-wide property tax allocation of 50 percent to the City and 50 percent to the County.

Table 2 Fresno City-County Property Tax Allocation Rates: Existing City-wide Average and New Annexations*

Property Tax Allocation	Existing Baseline ¹	New Annexation ²	
		Existing Base	New Growth
City Share	50%	0%	38%
County Share	50%	100%	62%

*Note: Prior to Education Revenue Augmentation Fund or ERAF adjustments.

[1] Based on the tax rate area data provided by the County Auditor-Controller/Treasurer-Tax Collector for the City as a whole.

[2] For new annexations, the January 2003 City-County tax sharing agreement applies to new assessed value only. The County retains all of the property tax revenue from pre-existing (i.e. prior to annexation) assessed value.

City and County Public Service Costs

Both the City and County of Fresno provide a range of public services to residents in the City. For the most part, this analysis focuses on those public services that are funded through the City and County General Funds. The General Fund is a discretionary budget account approved by the elected representatives of each jurisdiction (e.g., City Council and County Board of Supervisors) that covers the cost of most City and County functions that are not funded or reimbursed through dedicated sources, such as enterprise funds or State or Federal programs. This analysis focuses on the General Fund because the revenues from the 1 percent property tax levy accrues to this fund in both jurisdictions.

This analysis quantifies the cost for the total basket of City and County services provided to City of Fresno residents (or employees) and directly paid for with General Fund revenue. It starts with the full list of services provided (the basket of goods) as shown in **Figure 1** and their associated costs. While some of the City and County service categories are comparable and overlap (e.g., public safety), others are complimentary (e.g., local and regional recreation), and still others are non-comparable. In any case, this analysis assumes that City residents (and

¹ Property Tax Sharing Agreement Between the City and County of Fresno dated January 6, 2003.

employees) benefit from both City and County services directly or indirectly, recognizing that certain groups may benefit more than others.

While the County provides services both within and outside City boundaries, the per unit approach to this analysis is designed to capture only the proportional share provided to City residents (based on a cost per service population, as described further below). However, it is important to note that this analysis assumes the City residents (and employees) benefit from County services even if they are only provided in the unincorporated areas. In other words, the analysis does not make any adjustments to discount County services from which a typical City resident may have a lower level of utility than those services directly provided by the City within an incorporated area. For example, it assumes that City residents benefit from regional parks maintained by the County as well as County sheriff services provided in unincorporated areas.

A more detailed analysis could further categorize County services into those focused primarily on unincorporated areas (e.g., sheriff, public works) and regional (e.g., jails, elections) with City residents and employees likely receiving less value from the County's unincorporated service provision. However, because City residents and employees frequent unincorporated areas and vice versa this allocation would be highly complicated, requiring numerous assumptions and data analysis. Moreover, County General Fund costs associated with public services provided in unincorporated areas are also impacted by growth in cities. Consequently, this analysis does not distinguish between, or make service cost adjustment based on, where County services are provided. Nevertheless, this approach is likely conservative from the City's standpoint as it potentially overstates the County's share in the overall service provision to City residents and employees.

Figure 1 Total Basket of City and County Services

CITY SERVICES*	COUNTY SERVICES*
ADMINISTRATION	
City Council Office of the Mayor City Attorney City Clerk Finance Personnel Services Information Services	Administration General Government District Attorney
PUBLIC SAFETY	
Police Fire	Sheriff/Local Law Enforcement Regional Public Safety (1)
RECREATION	
Parks & Recreation	Parks & Grounds
PUBLIC WORKS AND TRANSIT	
Public Works Transportation (FAX)	Public Works Transit
OTHER SERVICES	
General City Purpose Development and Resource Management Convention Center Debt Service	Library Health and Human Services Agriculture Aid/Relief Other

*Some categories are not exactly comparable due to the differences in the nature of service provision between the City and County.

(1) Includes probation, rural crime program, multi-agency gang task force, Action and crime prevention projects, miscellaneous criminal justice, COP Agency, and public defender costs.

Off-Setting General Fund Revenues

The General Fund budgets for the City of Fresno, and even more so Fresno County, include a number of dedicated revenue sources designed to off-set specific cost items. Accordingly, the City's and County's General Fund budgets report total and net costs with the latter used for the purpose of this analysis. The difference represents the adjustment for dedicated revenue recovery as well as State and Federal funding.

State and Federal funding affects both the City and County General Funds in different ways. Overall, the City's net costs are significantly higher in proportion to total costs than the County's, as illustrated in **Table 3** and **Table 4**. In particular, the City recovers about 40 percent of the total cost through State and Federal funding, allocated General Fund revenues, or cost recovery, whereas the County recovers nearly 80 percent. This is because the County's budget is more structurally dependent on State and Federal funding with cost categories like health and human

safety, local and regional law enforcement, and aid/relief that are heavily funded through these sources. While this analysis is not directly focused on State of Federal funding, major changes in either could affect local funding responsibilities going forward.

Table 3 City General Fund Costs: Total and Net of Off-Setting Revenue

Item	FY 2018-19 General Fund		Net as a % of Total
	Total	Net ¹	
City General Fund Cost			
City Council	\$4,637,100	\$4,637,100	100%
Office of the Mayor	\$4,133,600	\$4,133,600	100%
City Clerk	\$910,200	\$910,200	100%
Police	\$180,875,300	\$154,314,000	85%
Fire	\$69,266,300	\$54,428,000	79%
Parks & Recreation	\$29,529,500	\$14,927,500	51%
Public Works	\$9,092,700	\$5,833,500	64%
Transportation (FAX)	\$9,394,200	\$9,097,200	97%
City Attorney	\$6,380,900	\$6,230,900	98%
Personnel Services	\$35,989,600	\$3,215,700	9%
General City Purpose	\$46,088,900	\$0	0%
Information Services	\$356,400	\$356,400	100%
Development & Resource Mngmt.	\$51,617,300	\$7,891,000	15%
Finance	<u>\$7,388,500</u>	<u>\$5,913,100</u>	80%
Total GF	\$455,660,500	\$271,888,200	60%

[1] Excludes costs covered by dedicated revenues as well as those attributed to non-operating functions like capital facilities and debt service.

Sources: City of Fresno FY 2018-19 Budget; and Economic & Planning Systems, Inc.

Table 4 County General Fund Costs: Total and Net of Off-Setting Revenue

Item	FY 2018-19 General Fund		Net as a % of Total
	Total	Net ¹	
Administration (2)	\$6,046,015	\$5,605,930	93%
Sheriff/Local Law Enforcement	\$243,308,215	\$113,532,302	47%
Public Works	\$19,115,858	\$3,054,305	16%
Parks & Grounds	\$4,531,595	\$2,052,814	45%
General Government (3)	\$96,388,236	\$63,156,646	66%
Regional Public Safety (4)	\$93,643,769	\$29,488,645	31%
District Attorney	\$73,613,512	\$48,086,037	65%
Health and Human Services	\$760,175,381	\$18,584,758	2%
Transit	\$3,321,000	\$0	0%
Library	\$361,190	\$361,190	100%
Agriculture	\$13,784,711	\$3,092,450	22%
Aid/Relief (5)	\$344,719,720	\$24,472,427	7%
Other	<u>\$7,837,867</u>	<u>\$168,000</u>	<u>2%</u>
County General Fund Total Cost	\$1,666,847,069	\$311,655,504	19%

(1) Excludes costs covered by dedicated revenues as well as those attributed to non-operating functions like capital facilities and debt service.

(2) Includes Board of Supervisors and County Administrative Office.

(3) Includes Auditor-Controller/Treasurer Tax Collector, Assessor Recorder, Purchasing, County Counsel, Human Resources, Misc. and Interest Expenditures, Court Ancillary Services, and County Clerk - Elections.

(4) Includes probation and related functions.

(5) Includes Cal Works, Dependent Children Foster Care, Aid to Adoptions, In Home Supportive Services Public Authority, Aid to Refugees, and General Fund Relief.

Sources: County of Fresno Adopted Budget FY 2018-19; and Economic & Planning Systems, Inc.

Public Service Population

In order to facilitate an “apples-to-apples” comparison, this analysis focuses on City and County costs per unit of population served. A public service population is a commonly used measure designed to cover the residents, employees/employers, visitors, and others to which a jurisdiction provides public services and infrastructure. Because this analysis is focused on property tax revenues generated within the City of Fresno, it is based on the public service population within this same geography.

While there is a variety of ways to measure a public service population, the number of residents and employees is the most common metric for evaluating per unit demand for municipal services. This is because population and employment data are readily available at the

jurisdiction level and is generally correlated with public service responsibilities (e.g., total costs increase with more population and employment).²

Of course, residents and employees are not necessarily equal in terms of their impact on public services. In addition, residents and employees are often the same people, albeit with different service requirements depending on the time of day and other factors. While there are a variety of ways to differentiate the relative impact of residents and employees (and account for their overlap), a common measure for service population is total residents plus half of employees. This measure reflects the notion that employees spend an average of about 50 percent of their time in the City (or County) relative to residents.

Table 5 calculates the public service population for the City and County of Fresno based on the most recent population and employment data available. In Chapter 3, the net City and County General Fund budgets are divided by the respective jurisdictions public service population as a proxy for per unit costs. This analysis references the service population methodology going forward.³

² Visitors can also have a significant impact on public service costs (and revenues). However, reliable and geographically-specific data on visitation is not readily available.

³ EPS also tested service cost allocation between the City and County providers based on population (rather than service population) methodology. Both approaches result in similar cost allocation outcomes.

Table 5 City and County of Fresno Service Population Estimate

Components of Service Population	Total
Population¹	
City	531,580
County	1,007,252
Employment	
City ²	197,685
County ³	352,400
Service Population⁴	
City	630,422
County	1,183,452

[1] Based on data from the California Department of Finance for 2018.

[2] Based on U.S. Census On the Map (primary jobs). Year 2015 inflated to 2018 based on the rate of population growth.

[3] Based on data from the California Economic Development Department, for 2018.

[4] Calculated by adding total residential population and half of employment.

Sources: Department of Finance; American Community Survey; Census 2010; EDD, and EPS.

Other Assumptions and Considerations

In addition to those described above, this analysis incorporates a number of other methodologies and simplifying assumptions, as summarized below.

- 1. The analysis assumes that the increase or decrease in both City and County General Fund costs associated with changes in public service obligations to new annexation areas will be constant on a per unit basis (i.e., proportional to the change in service population).**

This analysis is focused on cost allocation between services provided by the City and County for existing residents or employees in the City of Fresno. It is assumed that cost allocation for new annexation will be similar to those for existing residents or employees. While the cost for the City may be higher, on average, due to additional demand for services along the fringe and expansion of the overall geography of service responsibilities, prior fiscal analyses and interviews with service providers suggest that the cost increase on a per service population basis are real but not likely to be significant.⁴

The impact on the County's General Fund budget is more complex as new annexations may increase the per service population costs due to reduced economies of scale for service

⁴ Fiscal Impact of the General Plan Alternatives, Economic & Planning Systems, Inc. *March 2012*.

providers. However, the reduction in geographic responsibilities can also reduce County cost if services are more efficiently provided by a city and are shifted as such. In some cases, counties may also enter into contract or mutual aid service agreements with cities, making analysis of service cost in new annexations less predictable. Given that the net impact of these factors is complex and difficult to estimate with precision, the assumption of constant returns to scale for both the City and County is appropriate.

2. This analysis focuses on property tax revenues as a critical General Fund revenue source and assumes that other revenue sources will fluctuate more or less in proportion to General Fund cost and service population growth.

Given the City's focus on property tax as part of the tax sharing allocation agreement, this analysis is focused on the role of property taxes as a critical funding source for General Fund costs. Both City and County General Fund costs are funded through a range of revenues that are determined by a variety of factors including locally approved taxes and fees (e.g., business license and transient occupancy), State formula (e.g., sales tax and motor vehicle-in lieu), among others. While annexation will affect these revenues in a variety of ways, these impacts are unrelated to the property tax agreement per se and thus outside the scope of this analysis.⁵

While a detailed analysis of other General Fund revenues is beyond the current EPS scope of work, it is reasonable to assume that they will increase or decrease in proportion to General Fund costs with annexation. This is because the increase (or decrease) in service population resulting from annexation affects both General Fund revenues and costs for both jurisdictions. In particular, annexation may bring with it an increase in the City's General Fund cost that is likely to be more or less proportional to its increase in other General Fund revenues (i.e., with the exception of property tax). Meanwhile, annexation will likely have an equivalent, albeit directionally opposite, net impact on the County's General Fund budget (i.e., reducing both costs and revenues). There is no prima facie reason why these impacts will be substantially different in relative terms. While this is a simplifying assumption, it allows this analysis to isolate the independent impact of property tax on the City and County General Fund budgets.

3. This analysis does not evaluate or compare differences City and County service levels or per unit cost structures as a basis for an "appropriate" property tax allocation.

As shown in **Figure 1**, some of the costs provided by the City and County are supplementary, while others are fairly comparable. While the total "basket of goods" approach combines all costs for allocating purpose, no adjustments are made to reflect for differences in service level between comparable costs provided by the City and those provided by the County. For example, the City may have faster response times for public safety or higher road standards for road maintenance compared to unincorporated areas, or benefit from proximity to existing City service infrastructure relative to that by the County (e.g., corporation yard for parks maintenance). If so, this analysis results in a more conservative outcome from the City's standpoint as it likely overstates the County's share in the overall service provision.

⁵ While the existing tax sharing agreement between the City and County specifies sales tax allocation, which will be affected by new annexation, analysis of sales taxes is outside the scope of this analysis.

Additionally, this analysis does not make distinctions in cost structure due to economies of scale, management efficiencies, salaries, service density, pension obligations, or any other factors distinguishing City and County services. It is understood that due to the structural difference between the entities as well as their orientation towards difference service goals attributes to service costs that may not be directly comparable. For example, the County's sheriff provision cost is higher than the City's police cost on a per service population basis because the County has a much larger and less efficiently laid out area to service relative to the City.

Given the requirement that municipalities and counties balance their budgets, ultimately General Fund expenditures reflect both local policy and spending priorities, management and cost structures, and available resources. Given the complex interrelationship between these factors, addressing their implications on the property tax sharing agreement is beyond the scope of this analysis.

4. This analysis does not account for the cost implications of special district formation.

The most notable special district formation is the Community Facilities District (CFD), frequently formed on new development along the City's fringe after annexation. This tax is designed to fund an enhanced level of operating services that generally exceed the City's (or County's) baseline service provision. This funding does not flow into the City's or County's General Fund and is excluded from this analysis.

5. This analysis does not account for deferred maintenance issues.

EPS understands that service providers in the City and County have experienced deferred maintenance issues affecting the condition and performance of various community facilities (e.g., parks, roads, public structures). While deferred maintenance is generally perceived as a capital rather than operating issue, there is a direct linkage between service provision and future deferred maintenance costs. For example, a lower level of periodic road maintenance will trigger a higher replacement cost in the future. However, given the complexity and difficulty in quantifying the impact of deferred maintenance issues on service cost allocation, it is excluded from this analysis. Rather, any deferred maintenance issues are implicitly assumed to be proportionally allocated between the City and County, on par with service cost allocation.

6. The analysis assumes, with several notable exceptions, that non-General Fund budget categories are not affected by property tax allocation.

Although the EPS analysis is focused on the City's General Fund, it is important to consider interrelationships with other City funds as well as State and Federal budget decisions. Since the City's General Fund only accounts for about 20 percent of the Fresno's total budget, other Funds, such as Enterprise, Special Revenues, and Internal Service, provide and maintain public services and facilities that can affect the success of the General Plan. Total City revenue by fund is shown in **Table 6**. Most of these other funds rely on dedicated revenue sources (e.g., fee for service, special taxes, etc.) and are thus less susceptible to discretionary decisions by City officials.

Nevertheless, these other funds are also affected by economic cycles and other factors that have in the past created shortfalls that have had implications on the General Fund. As noted above, for example, the General Fund is being used to pay down debt service for the Convention Center and associated parking, where a revenue decrease resulted in a less than adequate level of proceeds to service debt. Reduction in impact fee proceeds is another example where the

General Fund is used to cover debt service for capital improvements because of the reduced revenue stream.

Table 6 City of Fresno Adopted Fiscal Year (FY) 2019 Revenue Projection by Fund

Item	FY 2019 Total	% of Total
General Fund	\$360,175,800	25%
Special Revenue Funds	\$129,608,900	9%
Capital Funds	\$62,610,400	4%
Debt Service	\$31,999,100	2%
Enterprise Funds	\$746,900,900	52%
Internal Service Funds	<u>\$116,687,400</u>	<u>8%</u>
Total	\$1,447,982,500	100%

3. ANALYSIS AND RESULTS

This Chapter presents the analysis and results based on the methodology and assumptions described in Chapter 2.

Budgetary Environment

The City of Fresno makes up about half of the County with regard to the population base. While the City and County have both grown at about the same rate in population since 2003, the year the property tax allocation agreement was set in place, the City has experienced a more rapid rate of growth in General Fund cost relative to the County, as shown in **Table 7**. This cost increase is attributed to demand for many of the public services funded through the General Fund, such as public safety, facility maintenance, and park and recreation. However, the County has experienced a much higher growth in property tax revenue since 2003, an outcome at least partially attributed to significant annexation activity during this period and the fact that cities generally receive a lower share of property tax revenue in these newly annexed areas.

Table 7 Fresno City and County General Fund Expenditures, Property Tax, and Population

Item	Year			Growth (2004-2018)		
	2004	2011	2018	Total	%	Avg. Annual
Population						
City	452,910	499,787	531,580	78,670	17%	1.2%
County	853,057	939,813	1,007,252	154,195	18%	1.2%
City as % of County	53%	53%	53%	51%		
General Fund Costs						
City	\$260,314,000	\$336,984,000	\$455,660,500	\$195,346,500	75%	4.1%
County	\$976,094,000	\$1,257,216,000	\$1,666,847,069	\$690,753,069	71%	3.9%
City as % of County	27%	27%	27%	28%		
Property Tax Revenue (1)						
City	\$50,000,000	\$101,000,000	\$131,683,000	\$81,683,000	163%	7.2%
County	\$77,089,000	\$203,317,000	\$238,563,015	\$161,474,015	209%	8.4%
City as % of County	65%	50%	55%	51%		

(1) Includes the property tax in lieu of VLF share.

Sources: State of California Department of Finance; City of Fresno; County of Fresno; Economic & Planning Systems, Inc.

Meanwhile, property tax continues to represent a significant share of total General Fund revenue for both the City and County of Fresno. As shown in **Table 8**, property tax accounts for 26 percent of the total City General Fund revenues and 42 percent for the County. While the City's General Fund revenues are slightly more diversified, the results underscore the important role that the property tax sharing agreement plays in financing critical General Fund activities. With Property Tax in Lieu of VLF added in, the County relies on property tax revenue to cover nearly three-quarters of the net General Fund cost compared to about one-half for the City, as shown in

Table 9. However, if property tax is considered as a share of total cost, rather than net cost, the relationship would reverse as the County receives a larger share of the dedicated revenue offsets, as discussed above.

Table 8 Fresno City and County General Fund Revenue Comparison

General Fund Revenue Category	City (2019 Adopted)		County (2019 Recommended)	
	Amount	%	Amount	%
Property Tax ¹	\$88,783,000	26%	\$118,787,397	42%
Property Tax in Lieu of VLF ¹	42,900,000	12%	119,775,618	43%
Sales Tax	97,665,000	28%	23,170,000	8%
Licenses, Permits & Franchises	33,990,000	10%	4,645,000	2%
Room Tax	13,426,000	4%	-	0%
Other Taxes and Fees ¹	4,126,700	1%	-	0%
Real Estate Transfer ¹	1,118,300	0%	2,000,000	1%
Charges for Service	35,731,000	10%	2,821,586	1%
Inter-Governmental Revenue	7,027,000	2%	5,910,000	2%
Inter-Governmental Reserve	3,400,000	1%	-	0%
Intra-Governmental Revenue	14,591,000	4%	2,700,000	1%
All Other	<u>2,883,000</u>	<u>1%</u>	<u>492,125</u>	<u>0%</u>
Total	\$345,641,000	100%	\$280,301,726	100%

[1] Adjusts General Fund estimates provided on page A-81 of 2019 Adopted Budget for City of Fresno and adjusted based on detail on page A-3 of this document.

Source: County of Fresno 2018-19 Recommended Budget; 019 Adopted Budget for City of Fresno.

Table 9 Fresno City and County Property Tax as a Share of the Net General Fund Cost

Item	City	County
Net General Fund Cost	\$271,888,200	\$311,655,504
Property Tax	\$88,783,000	\$118,787,397
Property Tax In Lieu of VLF	\$42,900,000	\$119,775,618
Total Property Tax Revenue	\$131,683,000	\$238,563,015
Total Property Tax Revenue as % of Net Cost	48%	77%

City and County Per Unit General Fund Cost

Net costs by category are shown in **Table 10** for the City and **Table 11** for the County with the resulting net per service population estimates by category. This approach results in the total per service population cost of \$431 in City services and \$263 in County services.

Table 10 City of Fresno Net General Fund Expenditures Per Service Population

City General Fund Cost	FY 2018-19 Net General Fund ¹	Cost Per Service Population ²
City Council	\$4,637,100	\$7.36
Office of the Mayor	\$4,133,600	\$6.56
City Clerk	\$910,200	\$1.44
Police	\$154,314,000	\$244.78
Fire	\$54,428,000	\$86.34
Parks & Recreation	\$14,927,500	\$23.68
Public Works	\$5,833,500	\$9.25
Transportation (FAX) ³	\$9,097,200	\$14.43
City Attorney	\$6,230,900	\$9.88
Personnel Services	\$3,215,700	\$5.10
General City Purpose	\$0	-
Information Services	\$356,400	\$0.57
Development & Resource Mngmt.	\$7,891,000	\$12.52
Finance	\$5,913,100	\$9.38
City Total Cost	\$271,888,200	\$431

[1] Excludes costs covered by dedicated revenues as well as those attributed to non-operating functions like capital facilities and debt service.

[2] Divides net General Fund cost by service population estimated in Table 5.

[3] Public safety fleet.

Sources: City of Fresno FY 2018-19 Budget; and Economic & Planning Systems, Inc.

Table 11 County of Fresno Net General Fund Expenditures Per Service Population

County General Fund Cost	FY 2018-19 Net General Fund ¹	Cost Per Service Population ²
Administration (3)	\$5,605,930	\$4.74
Sheriff/Local Law Enforcement	\$113,532,302	\$95.93
Public Works	\$3,054,305	\$2.58
Parks & Grounds	\$2,052,814	\$1.73
General Government (4)	\$63,156,646	\$53.37
Regional Public Safety (5)	\$29,488,645	\$24.92
District Attorney	\$48,086,037	\$40.63
Health and Human Services	\$18,584,758	\$15.70
Transit	\$0	-
Library	\$361,190	\$0.31
Agriculture	\$3,092,450	\$2.61
Aid/Relief (6)	\$24,472,427	\$20.68
Other	<u>\$168,000</u>	-
County General Fund Total Cost	\$311,655,504	\$263

(1) Excludes costs covered by dedicated revenues as well as those attributed to non-operating functions like capital facilities and debt service.

(2) Divides net General Fund cost by service population estimated in Table 5.

(3) Includes Board of Supervisors and County Administrative Office.

(4) Includes Auditor-Controller/Treasurer Tax Collector, Assessor Recorder, Purchasing, County Counsel, Human Resources, Misc. and Interest Expenditures, Court Ancillary Services, and County Clerk - Elections.

(5) Includes probation and related functions.

(6) Includes Cal Works, Dependent Children Foster Care, Aid to Adoptions, In Home Supportive Services Public Authority, Aid to Refugees, and General Fund Relief.

Sources: County of Fresno Adopted Budget FY 2018-19; and Economic & Planning Systems, Inc.

The resulting net cost allocation is shown in **Table 12**. This cost ratio is assumed fixed for new annexations going forward, which is a simplifying and conservative assumption as city service cost along the fringe tends to be higher than average due to the longer distance needed to travel given its large geography and lack of economies of scale from service providers. The actual difference in cost is difficult to determine given a range of complex factors that include differences in land uses and demand for particular services, extent of development, proximity to existing City or County services, differences in the level and standard of service between the City and County, and other factors. This analysis assumes that the level of service between City and County service providers is comparable.

Table 12 Baseline Net Annual Cost Allocations Between City and County of Fresno

Item	Total Annual Cost ¹	Per Service Population Cost	Allocation ²
Existing Citywide Average¹			
City Share	\$271,888,200	\$431	62%
County Share ³	<u>\$166,018,255</u>	<u>\$263</u>	<u>38%</u>
Total Cost	\$437,906,455	\$694	100%

[1] Based on totals from Table 10 and Table 11.

[2] This analysis assumes that the cost allocation for new annexation will be similar to the existing per service population baseline.

[3] Reflects the County's cost share provided within the City of Fresno based on pro rata service population.

General Fund Cost and Property Tax Comparison

Table 13 compares the City-County property tax split with the estimated General Fund public service expenditures per service population of each jurisdiction, respectively. As shown, while the City and County of Fresno receive a roughly equal share of local property tax revenue, this analysis suggests that the City bears a disproportionate share of the General Fund related costs from providing public services. In particular, City-generated property taxes are split at about 50-50 between the City and County, respectively, but the City covers about 62 percent of the non-reimbursed General Fund expenses associated with providing public services to local residents and employees. The County is responsible for the remaining 38 percent of General Fund expenditures to City residents and employees.

For new annexations, the City receives less than 38 percent of the property tax allocation in new annexation areas but covers about 62 percent of General Fund costs associated with providing public services to residents and employees in these locations. Specifically, the current tax sharing agreement provides the County more than 62 percent of the property tax revenue (the existing base plus 62 percent of the increment), although there is no indication that its share of the total General Fund cost of providing public services to these areas are any different than the rest of the City.

Table 13 Revenue and Cost Allocation Summary Between City and County of Fresno

Item	Existing Baseline	New Annexation ¹
Total General Fund Cost Allocation²		
City Share	62%	62%
County Share	38%	38%
Property Tax Allocation³		
City Share	50%	38%
County Share	50%	62%

[1] Assumes that the incremental per unit cost in new annexation areas is similar to the City as a whole.

[2] Estimated as the sum of City and County net General Fund costs per unit of public service population (i.e. population plus half employment).

[3] Existing allocation is based on the tax rate area data provided by the County Auditor-Controller/Treasurer-Tax Collector. For new annexations, the January 2003 City-County tax sharing agreement applies to new assessed value only. The County retains all of the property tax revenue from pre-existing (i.e. prior to annexation) assessed value.

Sensitivity Analysis

EPS has modified the analysis described above to account for changes in a number of key assumptions. In particular, this sensitivity analysis is designed to test the implications of (1) calculating General Fund cost on a per capita rather than per service population basis, (2) inclusion of City General Fund debt service payments for the Convention Center and Chukchansi Park Stadium, and (3) discounting County payments for regional parks and Sheriff. Each are described separately below.

Sensitivity 1 – Per Capita Cost Estimates

While the base case analysis is calculated using a service population (defined as population plus one-half employment) factor, EPS also tested the City and County budget cost allocations on respective per capita basis for comparison purposes. While cost per capita is higher for both the City and the County (relative to per service allocation basis), the resulting allocation between the two does not change. As such, results of the analysis are the same as the base case, as shown in **Table 14**.

Table 14 Sensitivity 1 - Summary of Fresno City and County Expenditures Per Capita

Item	Net General Fund Cost Per Capita	
	\$	%
Existing City-Wide Average		
City Share	\$511	62%
County Share	<u>\$309</u>	<u>38%</u>
Total Cost	\$821	100%
Assumed Allocation in Annexation Areas		
City Share		62%
County Share		<u>38%</u>
Total Cost		100%

Sensitivity 2 – Addition of Ballpark Debt Service

While the base case analysis is focused on the City’s and County’s General Fund, this sensitivity tests the addition of the City’s debt service for the Convention Center and Chukchansi Park Stadium. This is because the General Fund is being used to pay down debt service for the Convention Center and associated parking (currently the operating revenue from these facilities do not cover debt service). Meanwhile, the Convention Center and Chukchansi Park Stadium serve a regional purpose and needs of City and County residents alike.⁶ The debt service for these two facilities is added to the net General Fund costs because these obligations are financed entirely through the General Fund. Resulting cost per service population for the City is shown in **Table 15** with resulting allocation between the City and County shown in **Table 16**. As shown, addition of the City’s debt service only changes the cost allocation by about 1 percent.

⁶ Stadium appropriations include funding for ongoing debt service payments and capital upkeep and repairs on the 16-year old Chukchansi Stadium.

Table 15 Sensitivity 2 - City of Fresno Net General Fund Expenditures Per Service Population

Item	FY 2018-19 Net General Fund ¹	Cost Per Service Population ²
City General Fund Cost		
City Council	\$4,637,100	\$7.36
Office of the Mayor	\$4,133,600	\$6.56
City Clerk	\$910,200	\$1.44
Police	\$154,314,000	\$244.78
Fire	\$54,428,000	\$86.34
Parks & Recreation	\$14,927,500	\$23.68
Public Works	\$5,833,500	\$9.25
Transportation (FAX)	\$9,097,200	\$14.43
City Attorney	\$6,230,900	\$9.88
Personnel Services	\$3,215,700	\$5.10
General City Purpose	\$0	-
Information Services	\$356,400	\$0.57
Development & Resource Mngmt.	\$7,891,000	\$12.52
Finance	\$5,913,100	\$9.38
Total GF	\$271,888,200	\$431
City Non-General Fund Cost		
Convention Center Debt Service ³	\$8,358,600	\$13.26
City Total Cost	\$280,246,800	\$445

[1] Excludes costs covered by dedicated revenues as well as those attributed to non-operating functions like capital facilities and debt service.

[2] Divides net General Fund cost by service population estimated in Table 5.

[3] Includes the Chukchansi Stadium debt service.

Sources: City of Fresno FY 2018-19 Budget; and Economic & Planning Systems, Inc.

Table 16 Sensitivity 2 - Summary of Fresno City and County Expenditures Per Service Population

Item	Net General Fund Cost Per Service Population	
	\$	%
Existing City-Wide Average		
City Share	\$445	63%
County Share	<u>\$263</u>	<u>37%</u>
Total Cost	\$708	100%
Assumed Allocation in Annexation Areas		
City Share		63%
County Share		<u>37%</u>
Total Cost		100%

Sensitivity 3 – Regional Parks and Sheriff Service Adjustment

The base case analysis assumes that City residents (and employees) benefit from regional parks maintained by the County as well as County sheriff services provided in unincorporated areas. However, an argument could be made that City residents don't fully benefit from these County services to the same extent they do from City services. As a result, EPS tested proportional cost allocation between the City and County services after discounting the County's regional parks and sheriff service cost by 50 percent. As shown in **Table 17** below, this change increases the City's cost allocation by 6 percent and decreases the County's cost share proportionally.

Table 17 Sensitivity 3 - Summary of Fresno City and County Expenditures Per Service Population

Item	Net General Fund Cost Per Service Population	
	\$	%
Existing City-Wide Average		
City Share	\$431	68%
County Share	<u>\$203</u>	<u>32%</u>
Total Cost	\$634	100%
Assumed Allocation in Annexation Areas		
City Share		68%
County Share		<u>32%</u>
Total Cost		100%