

# City of Hesperia

## STAFF REPORT



**DATE:** March 20, 2018

**TO:** Mayor and City Council  
Chair and Board Members, Hesperia Fire Protection District

**FROM:** Nils Bentsen, City Manager

**BY:** Michael Blay, Assistant City Manager

**SUBJECT:** Annexation to San Bernardino County Fire Protection District North Desert Service Zone and the Divestiture of the Functions of Fire, Emergency Medical Response and Ambulance from the Hesperia Fire Protection District

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### RECOMMENDED ACTION

It is recommended that the City Council and Board Members of the Hesperia Fire Protection District Board adopt Joint Resolution 2018-20 and HFPD 2018-05 approving the annexation of the Hesperia Fire Protection District into the San Bernardino County Fire Protection District-North Desert Service Zone and the divestiture of the functions of Fire, Emergency Medical Response and Ambulance. This action approves the property tax sharing agreement and pass-through revenue sharing agreement between the City of Hesperia, the Hesperia Fire Protection District, the San Bernardino County Fire Protection District, and the County of San Bernardino.

### BACKGROUND

On March 13, 2017, the Hesperia Fire Protection District (HFPD) submitted an application to the San Bernardino County Local Agency Formation Commission (LAFCO) to annex approximately 48,000 acres located within the boundaries of HFPD to the San Bernardino County Fire Protection District (SBCFPD), and its North Desert Service Zone. This change of organization, if approved, will entail the transfer of Hesperia Fire's assets, obligations, liabilities and responsibilities to SBCFPD and its related service zone. The application states the reason for the proposed annexation into the SBCFPD is to fully integrate the operations of Hesperia Fire into the San Bernardino County structure and to take advantage of the economies of scale available within the county-wide organization. SBCFPD currently serves the residents of Hesperia Fire via a contract for services.

On June 7, 2017 LAFCO issued a Notice of Filing (NOF) notifying the affected agencies of the reorganization proposal. The NOF requires the San Bernardino County Auditor-Controller to estimate the property tax revenue and proportions by agency, which is used to establish the property tax revenue amounts to be transferred. A determination of the property tax revenue associated with the jurisdictional change must occur prior to issuance of the Certificate of Filing by LAFCO. The property tax exchange associated with this action will only be effective upon completion of the reorganization proceedings. In accordance with Section 99 of the California Revenue and Taxation Code, both the City Council and the County Board of Supervisors must adopt resolutions related to this property tax exchange. The Board of Supervisors is responsible for acting on behalf of all special districts (board-governed or independent).

The SBCFPD estimates that in addition to the property tax revenue transfer from Hesperia Fire of \$3.5 million, there will be other revenues available to fund services beginning in 2018-19 as follows:

- \$0.7 million in additional property related revenue associated with the property tax transfer from Hesperia Fire. This amount includes estimated supplemental property taxes, unitary taxes, delinquent penalties and interest, former Redevelopment Agency (RDA) pass-through (other than the pass-through of the Hesperia RDA discussed in the financial impact section) and former RDA residual revenue.
- \$3.6 million of revenue from operations which includes ambulance fees, charges for services, household hazardous waste and fire prevention fees.
- \$0.9 million in special tax revenue from existing Community Facilities Districts.
- \$0.1 million in projected 2018-19 revenue growth on the property tax transfer (of \$3.5 million) from Hesperia Fire.

The SBCFPD anticipates that the cost of providing services to the annexation area in 2018-19 will be approximately \$11.2 million. However, the total of the anticipated revenues outlined above, including the property tax transfer, total only \$8.8 million, leaving a funding gap of \$2.4 million. This funding gap is caused by the terms of the two negotiated pass-through agreements between Hesperia Fire and the Hesperia RDA that are discussed in the Financial Impact section. There are currently no guidelines on the transfer of revenue from negotiated pass-through agreements, for agreements whose terms do not address this type of jurisdictional change. The Revenue Sharing Agreement will act as a backstop to the Pass-Through Revenue Sharing Agreement should it be necessary.

LAFCO has expressed concern on the financial sustainability of this Reorganization. This Reorganization would provide the same level of service currently provided in the Hesperia Fire Protection District. SBCFPD believes this Reorganization is financially sustainable based on the 5 Year Fiscal Impact Analysis provided to LAFCO, as well as additional Ground Emergency Medical Transportation revenue not included in the analysis. Additionally, decreases in retirement costs and continued revenue increases from redevelopment agency dissolution are anticipated outside the 5 year period covered by the Fiscal Impact Analysis.

## **ISSUES/ANALYSIS**

The City of Hesperia is currently served by the San Bernardino County Fire Department for fire services by way of a contractual agreement. As a result, the City receives services for Fire, Emergency Medical Response, and Ambulance from County Fire. While the County provides personnel for these services, the City is responsible for fire station buildings, fire vehicles, ambulances, and equipment. Annexation of the Hesperia Fire Protection District to the San Bernardino County Fire Protection District will transfer the responsibility for all aspects of the Fire service to SBCFPD including buildings and equipment. It will also result in the transfer of revenue from HFPD to SBCFPD with a revenue sharing agreement in place. The revenue sharing agreement will allow for a portion of this revenue to return to the City to pay for legacy inactive PERS obligations owed by the HFPD for former employees. When completed, the annexation will relieve the City (HFPD) of its obligation to provide Fire Service within the City limits and transfer this obligation in its entirety to the County (SBCFPD).

In order to proceed further in the LAFCO process, both the City Council (HFPD Board) as well as the County Board of Supervisors (SBCFPD Board) must approve the tax revenue sharing

agreements as resolutions. Failure to pass the resolutions will result in a discontinuance of the process. Should either governing body elect not to pass the resolutions, fire protection services will continue to be the responsibility of HFPD.

## **FISCAL IMPACT**

Approval of this item will enable the Hesperia Fire Protection District to annex to the San Bernardino County Fire Protection District and allow for a funding stream to pay the Hesperia District's long term pension costs.

A determination of the property tax revenue transfer associated with the reorganization must occur prior to issuance of the Certificate of Filing by the Local Agency Formation Commission (LAFCO). The property tax transfer associated with this action shall only be effective upon satisfactory completion of the annexation proceedings.

The recommended redistribution of property tax revenue as a result of the pending reorganization related to LAFCO 3218, for the provision of fire suppression and emergency medical services by the SBCFPD, and to provide for payment of the unfunded retirement obligations of the Hesperia Fire Protection District (Hesperia Fire) as well as other City costs, is as follows:

<b>AFFECTED AGENCY</b>	<b>TRANSFER TO <sup>(1)</sup></b>	<b>TRANSFER FROM <sup>(1)</sup></b>
Hesperia Fire Protection District		3,832,313
San Bernardino County Fire Protection District - Administration	207,588	
San Bernardino County Fire Protection District – North Desert Service Zone	3,252,217	
City of Hesperia	372,508	

- (1) The transfer amounts above will be adjusted to account for growth in assessed valuation, with the intention to transfer 90.2798% of Hesperia Fire's ad valorem property taxes to the SBCFPD (6% to Administration and 94% to the North Desert Service Zone), and 9.7202% of the Hesperia Fire's ad valorem property taxes to the City of Hesperia.

In addition to the property tax revenue transfer detailed above, the property tax increment revenue from negotiated pass-through agreements resulting from the former City of Hesperia Community Redevelopment Agency (Hesperia RDA) project areas, currently received by Hesperia Fire, must also be transferred to SBCFPD and the City. However, these negotiated pass-through agreements, by their terms, preclude the transfer of this tax increment revenue to a successor entity. As a result, LAFCO is requiring a contractual agreement to direct the County Auditor-Controller to transfer the tax increment from these agreements consistent with the property tax transfer percentages above. Approval of the Pass-Through Revenue Sharing Agreement (Exhibit "C") will address this LAFCO condition of approval.

The resolution also approves a Revenue Sharing Agreement (Exhibit "D") that will be implemented if the Pass-Through Revenue Sharing Agreement cannot be implemented or enforced. This Revenue Sharing Agreement would temporarily reverse the property tax transfer above (as shown in Exhibit "B"), which would return this property tax revenue to Hesperia Fire. As a party to the two negotiated pass-through agreements in question, the tax increment revenue would also return to Hesperia Fire. Pursuant to this agreement, this revenue would then be transferred to the SBCFPD and the City consistent with the percentages noted above. If

this occurs, the property tax revenue transfer identified in Exhibit “A” will be permanently reinstated when the Negotiated Pass-Through Agreements have expired.

## **ALTERNATIVES**

Provide alternative direction to staff.

## **ATTACHMENTS**

1. Joint Resolution No. 2018-20 & HFPD 2018-05 and attachments:
  - Exhibit A – LAFCO 3218 Property Tax Exchange
  - Exhibit B – LAFCO 3218 Property Tax Revenue Exchange
  - Exhibit C – LAFCO 3218 Pass-Through Revenue Sharing Agreement
  - Exhibit D – LAFCO 3218 Revenue Sharing Agreement