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Executive Office, County of Riverside

October 5, 2009

Board of Supervisors
County of Riverside
Robert T. Anderson Administrative Center
4080 Lemon Street
Riverside, CA 92501

SUBJECT: Eastvale Incorporation Revenue Neutrality Agreement

Honorable Board Members:

On September 29, 2009, the Executive Office presented to you Agenda Item 3.13 recommending your approval of a conceptual framework on which to base a revenue neutrality agreement pertaining to the proposed incorporation of the community of Eastvale. The purpose of such an agreement is to mitigate the negative impact on the county that will result if the incorporation occurs.

Since initiating that item, the Executive Office has continued work on framing the structure of the agreement, which must be presented to the voters in Eastvale as part of the incorporation election. We continue to seek ways to simplify and streamline the terms and conditions so they are most easily understood by the electorate and more easily administered in the event incorporation occurs.

In doing so, we looked to the methods used by other counties since revenue neutrality requirements became law. It appears from CA LAFCO records there have been ten incorporations completed since the law took effect. Two of those were the Menifee and Wildomar incorporations in Riverside County, for which revenue neutrality agreements were not necessary since their incorporations saved the county money, rather than causing a net loss.

Attached is a report entitled "Overview of Terms & Conditions: Recent California Incorporations" obtained from the CA LAFCO website that compares information on seven of those ten incorporations (Attachment A). In this comparison, we see that Sacramento and Santa Barbara Counties took stances to mitigate the negative annual financial impact over the long term, as we recommend, while Orange County took the approach of accepting defined amounts over shorter periods. Sacramento's three incorporations have terms of 25, 25.5 and 31 years, while in Santa Barbara's one incorporation the county receives a portion of certain revenues for ten years and defined percentages property tax and sales tax in perpetuity.

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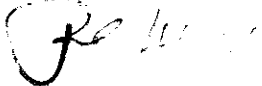
Board of Supervisors
SUBJECT: Eastvale Incorporation Revenue Neutrality Agreement
October 5, 2009
Page 2

We found Santa Barbara County's approach both to the terms of payment and relative simplicity of their agreement to be sound models for approaching revenue neutrality. We reassessed our analysis from this perspective and found that we could reach the same level of annual mitigation we originally proposed by receiving 24 percent of both property and sales tax annually.

We offer you this approach as "Alternative B" for your consideration, attached in mark-up form as Attachment B. This method yields projected payments to the County of Riverside that are within tens of thousands of dollars of the original projections, as seen in Attachment C, but in a way that will be easier for everyone involved to understand and administer.

We therefore recommend the Board of Supervisors substitute Alternative B in the original motion and direct the County Executive Office to return on October 20, 2009, with a revenue neutrality agreement based on this alternative framework. Time is of the essence. If the Board does not take action to approve a revenue neutrality agreement in some form prior to the LAFCO hearing on October 22, there is a very real risk LAFCO may impose conditions by default that might cause the county to lose an estimated \$26 million over the proposed thirty year term, and that is a risk we want to avert.

Most respectfully,



Paul McDonnell
County Finance Director

Overview of Terms & Conditions: Recent California Incorporations

City	County	City	County	City	County	City	County	City	County						
Willoway	Riverside	Wildomar	Riverside	Rancho Cordova	Sacramento	Galt	Santa Barbara	Aliso Viejo	Orange	Elk Grove	Sacramento	Rancho Santa Margarita	Orange	Citrus Heights	Sacramento
	Incorporation with Detachment from street lighting CSAs		Incorporation with Detachment from street lighting CSAs		Incorporation		Incorporation with detachment from street lighting and library CSA		Incorporation with dissolution of park CSA		Incorporation		Incorporation		Incorporation
Environmental	Negative declaration	Environmental	Mitigation measures included in terms and conditions.	Environmental	Mitigation measures included in terms and conditions.	Environmental	Negative declaration	Environmental	Negative declaration	Environmental	Mitigation measures included in terms and conditions.	Environmental	Negative declaration	Environmental	Statement of over-riding consideration, mitigation measures included in terms and conditions.
Election Date	February 5, 2008	Election Date	November 5, 2002	Election Date	November 6, 2001	Election Date	November 6, 2001	Election Date	March 6, 2001	Election Date	March 7, 2000	Election Date	November 2, 1999	Election Date	November 5, 1996
Effective Date	July 1, 2008	Effective Date	July 1, 2003	Effective Date	February 1, 2002	Effective Date	February 1, 2002	Effective Date	July 1, 2001	Effective Date	July 1, 2000	Effective Date	January 1, 2000	Effective Date	January 1, 1997
Transition Service		Transition Service		Transition Service		Transition Service		Transition Service		Transition Service		Transition Service		Transition Service	
Length of Period	Remainder of first fiscal year	Length of Period	Remainder of first fiscal year	Length of Period	Remainder of first fiscal year	Length of Period	Remainder of first fiscal year	Length of Period	Remainder of first fiscal year	Length of Period	Remainder of first fiscal year	Length of Period	Remainder of first fiscal year with an additional year for law enforcement services.	Length of Period	Remainder of first fiscal year
Payment Amount	Net cost of service	Payment Amount	Net cost of service	Payment Amount	Net cost of service	Payment Amount	Up to \$4 million in costs waived	Payment Amount	Specific amount	Payment Amount	Net cost of service	Payment Amount	Most costs waived	Payment Amount	Resolution: Net cost Settlement: \$4.5 million for remainder of first fiscal year.
Reimbursement	Reimbursement for transition year costs to be repaid over 5-year period	Reimbursement	Payment made directly from property taxes and first quarter sales tax retained by county. New city pre-pays \$3.5 million general costs and \$1.5 million for road expenditures. in transition year, and repays \$1.5 million interest-free loan remainder over a 5-year period with interest.	Reimbursement	Reimbursement for transition year costs waived up to maximum of \$2.5 million for general costs and \$1.5 million for road expenditures. \$1.5 million interest-free loan for transition year to be repaid in 11th year.	Reimbursement	Reimbursement for transition year costs waived up to maximum of \$2.5 million for general costs and \$1.5 million for road expenditures. \$1.5 million interest-free loan for transition year to be repaid in 11th year.	Reimbursement	Payment over 7-year period through sales tax increment over baseline or, if inadequate, direct payment.	Reimbursement	Payment made directly from property taxes and first quarter sales tax retained by county, with city owing any additional net cost to be repaid over a 5-year period with interest.	Reimbursement	County waived reimbursement for transition year service costs except road maintenance. Road maintenance reimbursement at end of first fiscal year.	Reimbursement	Reimbursement over a 5-year period in quarterly installments, with quarterly installments, with interest. Settlement: Reimbursement in quarterly installments beginning 2 years after incorporation.
Start-Up Loan		Start-Up Loan		Start-Up Loan	\$100,000 start-up loan to be repaid during transition year with interest	Start-Up Loan		Start-Up Loan		Start-Up Loan		Start-Up Loan		Start-Up Loan	
Contractual coverage		Contractual coverage	Rancho Cordova should consider contracting with the County for animal control, law enforcement, planning, building inspection, street lighting, road maintenance services. City County Library JPA will provide library service.	Contractual coverage	Transition period extension or service extension by mutually agreed contract for five-year term	Contractual coverage		Contractual coverage		Contractual coverage	Elk Grove should consider contracting with the county for animal control, building inspection, street lighting, road maintenance services. City County Library JPA will provide library service.	Contractual coverage		Contractual coverage	Citrus Heights should consider contracting with the county for animal control, building inspection, street lighting, road maintenance services.

City	Wildomar	Rancho Cordova	Galt	Aliso Viejo	Elk Grove	Rancho Santa Margarita	Citrus Heights
Transition Service, cont.							
Escape clause	New city may discontinue services prior to end of first fiscal year.	New city may discontinue services prior to end of first fiscal year.	by agreement of parties	at current levels of service at no additional cost to City, and/or enhanced levels of service on terms mutually agreed	New city may discontinue services prior to end of first fiscal year. Solid waste collection service may not end until termination of county agreements with private service providers.	low enforcement at current service levels	at current levels of service
Service levels		at current levels of service	at or above the current level of service		at current levels of service		
Mitigation payment							
Term	10 years	31 years	10 years / Perpetuity	7 years	25 years	9 years	25.5 years
Agreement form	County Board of Supervisors resolution	Separate Tax Sharing Agreement shall be executed by new city's mayor	Separate Revenue Neutrality Agreement	Separate Revenue Neutrality Agreement	Separate Revenue Neutrality Agreement	Separate Revenue Neutrality Agreement	Terms and conditions; settlement agreement following litigation
Limited	County pays the new city the County's net savings from incorporation, i.e., on average \$0.27 million annually for 10 years, including 3% annual inflation adjustment. If City sales tax revenues exceed CFA projections, the County payment is reduced dollar-for-dollar.	Property tax revenue share remitted to county starts at 97.5%, is reduced incrementally to 82.5% in year 10, 70% in year 20, 57.5% in year 30, and phased out in year 32.	Time-limited agreement for 40% of TOT, 50% of sales tax allocated to county for transition year and mitigation period. Ongoing agreement for 50% of property tax and 30% of sales tax to be allocated to county.	\$1.2 million annually for mitigation period, with incentives structured for new city to annex adjacent areas.	Quarterly remittance of transient occupancy tax revenues, in addition to a declining share of property tax revenues. Property tax revenue share remitted to county starts at 90%, is reduced slightly through the first 18 years of the term and then phased out at the rate of 10% annually.	Lump sum of \$12 million to be repaid from general revenues in first 2 years, and thereafter from a combination of general revenues and sales tax increments.	Resolution: \$5.6 million annually in quarterly installments with inflation adjustment. Settlement: all property taxes (approx. \$2.2 million annually)
Default provisions		If triggering factors occur, the tax sharing agreement may be reopened with dispute resolution procedures outlined by LAFCO.	In the event of default by the new city, the County Auditor may set up an escrow account to divert city property taxes to the county.	Resolution requires parties to effect a direct transfer from the Board of Equalization or the County Auditor. Prior to that, City Council appropriation required on annual basis. In the event of default by the new city, the County Auditor may set up an escrow account to divert city property taxes to the county.	If triggering factors occur, the tax sharing agreement may be reopened with dispute resolution procedures outlined by LAFCO.	Resolution requires parties to effect a direct transfer from the Board of Equalization or the County Auditor. Prior to that, City Council appropriation required on annual basis. In the event of default by the new city, the County Auditor may set up an escrow account to divert city property taxes to the county.	

City	Wildomar	Rancho Gordona	Calistoga	Aliso Viejo	El Cerrito	Rancho Santa Margarita	Glenn Heights
Assets		County transfers impact fees intended for use in new city	County shall provide accounting for distribution of funds set aside for use in the area		County transfers impact fees intended for use in new city	Local park trust funds transfer	County transfers impact fees intended for use in new city
Local service-related	Local parks transfer		All real property exc. Fire stations and flood control district property. Park property and equipment transfer.	Local parks, street lights, storm drainage facilities, roads transfer. Conditions explicitly state that sheriff and library facilities do not transfer.		Local parks, street lights, storm drainage facilities, roads transfer. All county-owned real property except a regional park transfers.	
Data and Records				The parties shall expeditiously prepare and record evidence for real property transfers following incorporation.			
Easements						Transfer if related to an asset that transfers, as specified in Revenue Neutrality Agreement.	
Stormwater				Local storm drain facilities transfer		Local storm drain facilities transfer	
Wastewater							
Redevelopment		County retains control of Mather AFB project partly in new city	Redevelopment assets and liabilities transfer				
Liabilities	Taxes for bonded debt of County and other agencies left intact continue. Lighting maintenance assessments and responsibilities transfer.		Redevelopment assets and liabilities transfer	City assumes liabilities of county park CSA	County continues special tax levy for community facilities district consistent with bond covenants.		
Dispute Resolution		Mutual agreement or mediation required to amend tax sharing agreement.	Mutual agreement required to amend revenue neutrality agreement, or legal action.	Mutual agreement required to amend revenue neutrality agreement, or legal action filed in Superior Court.	Mutual agreement or mediation required to amend revenue neutrality agreement, or legal action filed in Superior Court.	Mutual agreement required to amend revenue neutrality agreement, or legal action filed in Superior Court.	
Employee Protection							
Revenues							
Grants			City shall participate in county's CDBG program through completion of current contracts.				

City	Wildomar	Rancho Cordova	Goleta	Aliso Viejo	Elk Grove	Rancho Santa Margarita	Citrus Heights
Expenditures							
Reorganization election					Election costs borne by the City.		Costs for Council election borne by the city
Incorporation study costs				Map and legal description production costs covered by applicant or new city.		The new city shall reimburse LAFCO for unbudgeted costs for consultants and counsel incurred in incorporation process, as well as map and legal description production costs.	
Accounting			County collects and distributes TOT at no charge to city.	Property tax revenue administration costs to be shared by the city and the county.	Property tax revenue administration costs to be shared by the city and the county.		
Standard provisions							
Governance	City governed by five-member council elected at large.	City governed by five-member council elected at large.	City governed by five-member council elected at large.	Ballot includes question on future council representation by district or at large (\$7101)	Terms of office for City Council (\$7377-57379). Initial district boundaries to be adopted by the first City Council.	Terms of office for City Council (\$7377-57378)	Terms of office for City Council (\$7377-57379)
Appointive positions	City Manager, City Clerk and Treasurer appointive rather than elective	City Manager, City Clerk and Treasurer appointive rather than elective	City Manager, City Clerk and Treasurer appointive rather than elective	City Manager, City Attorney, City Clerk and Treasurer appointive rather than elective	City Manager, City Clerk and Treasurer appointive rather than elective	City Manager, City Attorney, City Clerk and Treasurer appointive rather than elective	City Manager, City Clerk and Treasurer appointive rather than elective
Ordinances	Adopt applicable county ordinances	Adopt all county ordinances and general plan		Adopt applicable county ordinances	Adopt applicable county ordinances and general plan	Adopt applicable county ordinances	Adopt applicable county ordinances and general plan
Appropriations limit	\$13,266,694	\$34,250,000	\$24,100,000	\$9,700,000	\$22,040,000	\$10,000,000	\$21,000,000
Property tax	Property tax transfer via formula	Property tax transfer with 4 separate options	Property tax transfer with 2 separate options	Property tax transfer via formula	Property tax transfer	Property tax transfer via formula	Property tax transfer
Tax continuation	Taxes and assessments continue in effect	General taxes continue in effect	Taxes and assessments continue in effect	Taxes and transportation fee programs continue	General taxes continue in effect	New city has authority to continue all taxes and assessments.	General taxes continue in effect
Streets	Transfer on effective date	Transfer on effective date		Transfer on effective date	Transfer on effective date	Transfer on effective date	Transfer on effective date
Development agreements		Development agreements made prior to effective date remain valid (\$65865.3)		Development agreements made prior to effective date remain valid (65865.3)	Development agreements made prior to effective date remain valid (65865.3)	Development agreements made prior to effective date remain valid (65865.3)	Development agreements made prior to effective date remain valid (65865.3)

Sources: incorporation resolutions and agreements
Note: Italicized text indicates items included in written agreement between the parties and/or Board of Supervisors resolution.

Eastvale Incorporation
County Revenue Neutrality Offer
Alternative B

1. Establish the base year County deficit amount as whatever amount is established by LAFCO in their approved CFA.
- ~~2. Assume Net County Cost would escalate from the base year amount established by LAFCO at approximately 3.5% annually.~~
- ~~3. Calculate the County's annual deficit as the difference between the adjusted Net County Cost and amount of actual revenue for that year as reported by the City Treasurer in the City's year-end financial statements, adjusted as necessary on reconciliation with the City's audited annual financial report.~~
- ~~4. Calculate the annual neutrality payment from the City to the County as the sum of the County's base year deficit plus 40 percent of the net growth in the deficit over that base year amount for any given year, as follows:~~

$$\text{Annual Neutrality Payment} = \text{Base Year Deficit} + ((\text{Year X Deficit} - \text{Base Year Deficit}) * 40\%)$$

2. Annual payment from the City to the County of 24 percent of the property tax received and 24 percent of the sales tax received in any given year during the term of the agreement.
- ~~5.3. Deferral of neutrality payments for FY2011, FY2012 & FY2013.~~
- ~~6.4. Repayment of amount deferred in ten equal annual installments beginning in FY2014.~~
- ~~7.5. Accrual of interest on the amounts owed deferred at a rate of 3% compounded quarterly.~~
- ~~8. Payment of the estimated total annual amount owed, with interest, within 60 days following the end of the City's fiscal year.~~
- ~~9.6. Payment of reconciling adjustments within 60 days following completion of the City's audited annual financial report.~~
- ~~10.7. Term of agreement to extend through the end of the 30th year from date of incorporation.~~

Revenue Neutrality Model Scenario 1 v3.2
 Base + 40% Growth for 30 Years

Notes	Base Year FY2008	Year 1 FY2011 Adj	Year 2 FY2012	Year 3 FY2013	Year 4 FY2014	Year 5 FY2015	Year 6 FY2016	Year 7 FY2017	Year 8 FY2018	Year 9 FY2019	Year 10 FY2020	Total / Average
SCENARIO 1												
Assumptions												
(1) Inflation Factor	0.0%	0.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
(2) Interest Rate	0.0%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Revenues Transferred												
(4) Property Taxes	1,565,000	1,303,000	1,313,000	1,414,000	1,517,000	1,717,000	1,733,000	1,757,000	1,781,000	1,803,000	1,824,000	16,162,000
(5) Sales Tax	2,439,500	2,213,000	2,599,000	2,688,000	2,881,000	3,072,000	3,249,000	3,472,000	3,695,000	3,879,000	4,040,000	31,788,000
(6) Property Transfer Tax	271,000	281,000	285,000	313,000	337,000	391,000	396,000	403,000	410,000	415,000	422,000	3,653,000
(7) Franchise Fees	502,686	535,000	549,000	568,000	585,000	625,000	629,000	633,000	637,000	641,000	644,000	6,046,000
(7) Fines & Forfeitures	279,000	271,000	279,000	289,000	298,000	318,000	320,000	322,000	324,000	326,000	327,000	3,074,000
(8) Total Revenues Transferred	5,057,186	4,603,000	5,025,000	5,272,000	5,618,000	6,123,000	6,327,000	6,587,000	6,847,000	7,084,000	7,257,000	60,723,000
(9) Net County Cost	4,095,394	4,095,394	4,238,733	4,387,088	4,540,637	4,699,559	4,864,043	5,034,285	5,210,485	5,392,852	5,581,602	48,044,677
(9) Additional Future Revenues	15,650	13,030	13,130	14,140	15,170	17,330	17,330	17,570	17,810	18,030	18,240	161,620
(10) County Surplus / (Deficit)	(946,142)	(494,576)	(773,137)	(870,772)	(1,062,193)	(1,406,271)	(1,445,627)	(1,535,145)	(1,618,705)	(1,653,118)	(1,657,158)	(12,516,703)

	946,142	494,576	773,137	870,772	1,062,193	1,406,271	1,445,627	1,535,145	1,618,705	1,653,118	1,657,158	12,516,703
Revenue Neutrality Payment - Alternative A												
Estimated County Deficit	946,142	494,576	773,137	870,772	1,062,193	1,406,271	1,445,627	1,535,145	1,618,705	1,653,118	1,657,158	12,516,703
Deferral		765,516	876,940	915,994								2,598,450
Cumulative Deferral		765,516	1,642,456	2,558,450								
(11) Repayment of Deferral		-	-	-	255,845	255,845	255,845	255,845	255,845	255,845	255,845	1,790,915
(11) Interest on Deferral		-	-	-	218,825	90,172	83,087	76,755	70,333	63,174	55,559	657,904
Alternative A Annual Payment		-	-	-	992,563	1,130,194	1,145,936	1,181,743	1,215,167	1,228,932	1,230,549	8,125,084
Total Neutrality Payment - Alt. A		-	-	-	1,467,233	1,476,211	1,484,868	1,514,343	1,541,345	1,547,951	1,541,952	10,573,902
Alternative A Interest Calculation												
(12) Interest on FY2011 Deferral		11,483	23,310	24,009								58,802
(13) Interest on FY2012 Deferral			13,154	26,703								39,857
(14) Interest on FY2013 Deferral				27,480								27,480
(15) Cumulative Annual					76,753	69,078	61,403	53,727	46,052	38,377	30,701	376,092
(16) Total Interest		11,483	36,464	78,192	92,686	90,172	83,087	76,755	70,333	63,174	55,559	657,904

	24%	14%	20%	21%	24%	29%	29%	29%	30%	29%	28%	27%
Revenue Neutrality Payment - Alternative B												
Percentage Property & Sales Taxes for 30 Years												
Deficit as percentage of Property & Sales Taxes	24%	14%	20%	21%	24%	29%	29%	29%	30%	29%	28%	27%
Percentage of Property Taxes	24%	307,859	310,222	334,085	358,421	405,675	409,455	415,126	420,796	425,984	430,956	3,818,591
Percentage of Sales Taxes	24%	576,380	522,865	614,065	660,693	725,821	767,640	820,328	873,017	916,490	954,530	7,510,541
Alternative B Annual Payment	946,142	830,724	924,287	969,178	1,039,114	1,131,496	1,177,096	1,235,454	1,293,813	1,342,484	1,385,486	11,329,132
Deferral		(830,724)	(924,287)	(969,178)								
Repayment of Deferral					272,419	272,419	272,419	272,419	272,419	272,419	272,419	1,906,933
Interest on Deferral					202,083	73,553	65,381	57,208	49,035	40,863	32,690	520,813
Total Neutrality Payment		-	-	-	1,513,616	1,477,468	1,514,896	1,566,081	1,615,267	1,665,766	1,690,595	11,032,888
Alternative B Interest Calculation												
Cumulative Balance Deferred		830,724	1,755,011	2,724,190	2,451,771	2,179,352	1,906,933	1,634,514	1,362,095	1,089,676	817,257	
Interest on FY2011 Deferral		12,461	25,296	26,054								
Interest on FY2012 Deferral			13,864	28,145								
Interest on FY2013 Deferral				14,538								
Interest on Cumulative Balance Deferred		12,461	39,160	68,737	81,726	81,726	65,381	57,208	49,035	40,863	32,690	400,456
Total Interest		12,461	39,160	68,737	81,726	81,726	65,381	57,208	49,035	40,863	32,690	1,041,626
Gain/(Loss) of Alternative B over Alternative A		65,209	47,347	53,184	46,552	1,302	31,160	53,711	78,646	113,552	154,937	645,599
Gain/(Loss) of Alternative B over Projected Deficit		336,148	151,150	98,407	(23,079)	(274,776)	(268,531)	(299,691)	(324,892)	(310,634)	(271,673)	(1,187,571)
Gain/(Loss) of Alternative A over Deficit		270,940	103,803	45,222	(69,631)	(276,078)	(299,691)	(353,402)	(403,538)	(424,186)	(426,610)	(1,833,170)