SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

998

FROM: County Executive Office

SUBMITTAL DATE:
June 3, 2010

SUBJECT: Jurupa Incorporation Revenue Neutrality Agreement in Concept

RECOMMENDED MOTION: That the Board of Supervisors approve, and direct the Executive Office to return with an agreement based on, the tax sharing framework listed in Attachment A, deemed necessary to remediate the financial impact on the county that would result from incorporation of the community of Jurupa.

BACKGROUND: LAFCO is currently processing an application for incorporation of the community of Jurupa. State law prohibits LAFCO from approving incorporation if the base year net revenue impact on the county is negative, unless mitigating terms and conditions are negotiated with the county. The public review draft of the Jurupa incorporation study comprehensive fiscal analysis (Jurupa CFA) calculates a net revenue loss to the county of $4.2 million in the FY2008 base year, based on the county retaining responsibility for providing fire services within the incorporation area. The terms proposed in Attachment A ramp up revenue neutrality payments to just above that amount. In consideration of the county retaining fire services, and the substantial ongoing subsidy that requires, the term of this agreement is indefinite.

Denise C. Harden, Principal Management Analyst

Departmental Concurrence

FINANCIAL DATA			
	Current F.Y. Total Cost:	$	In Current Year Budget:
	Current F.Y. Net County Cost:	$	Budget Adjustment:
	Annual Net County Cost:	$	For Fiscal Year:

SOURCE OF FUNDS: NA

Positions To Be Deleted Per A-30 ☐

Requires 4/5 Vote ☐

C.E.O. RECOMMENDATION: APPROVE

BY: Christopher M. Hans

County Executive Office Signature

Dep't Recomm.: ☐ Consent ☒ Policy

Per Exec. Ofc.: ☐ Consent ☒ Policy

Prev. Agn. Ref.: | **District:** 2nd | **Agenda Number:** 3.83

The Jurupa CFA calculates $19.3 million in transferrable FY2008 base year revenue in the incorporation area, and $15.1 million in transferrable net county cost for municipal-type services to be taken over by the new city. Of that $15.1 million in revenue, $6.6 million, nearly half, is from sales tax. This represents 16.7 percent of the $39.53 million in total sales tax received by the county in FY2008.

The difference of $4.2 million between revenue and net cost transferred represents the balance of the county's non-transferrable net costs that remain the county's statutory responsibility in perpetuity. These include essential ongoing countywide responsibilities such as funding the district attorney, public defender, jails, court services, child and adult protective services, public and environmental health, and general government functions. It also includes a portion of the costs of providing fire services, for which the incorporation proponents are proposing to retain responsibility.

The terms recommended include 100 percent deferral of the revenue neutrality payment to the county in the first transition year, payment of $2.25 million in Year 2, payment of $1.9 million in Years 3-6, or until the sum of property and sales taxes in the incorporation area reaches $13.43 million. Once the sum of property and sales taxes reaches $13.43 million, revenue neutrality payments escalate as percentages of property and sales tax revenue based on trigger amounts. When the sum of property and sales taxes reaches $13.43 million the county receives 19 percent of total property and sales tax revenue, at $14.34 million the county receives 24 percent, at $15.27 million the county receives 26 percent, and at $16.22 million the county receives 29 percent of total property and sales tax revenue.

Under this framework, the county only receives specified amounts during the first six years. Thereafter, the county assumes risk during years of decline, but also may gain during years of economic growth. It is hoped, though not guaranteed, that periods of growth over time will help offset a portion of the county general fund subsidy of fire services, which is currently estimated to range from $6.2 million to $8.4 million per year within the first ten years of incorporation.

We anticipate LAFCO will hear this matter at their July Commission meeting. The Executive Office recommends the Board approve the attached framework on which to base a formal document to be submitted to LAFCO in advance of meeting.

Jurupa Incorporation
County Revenue Neutrality Agreement

Deal Points

1. Assumptions:
    a. 2008 base year revenue neutrality figure is $4.2M net of county fire.
    b. County retains responsibility for fire services until new city is financially capable and willing to take over.
2. To accommodate the start up period and provide relief while transition year costs are repaid, during Years 1-6, the base revenue neutrality payment would be made as follows:
    a. Year 1: 100% deferred
    b. Year 2: $2.25 Million
    c. Years 3-6: $1.9 Million or until sum of property and sales taxes reaches $13.43M
3. Beginning in year 7, if the threshold is not reached sooner, the base revenue neutrality payment would be made as a percentage of total annual recognized property and sales tax revenues when trigger amounts are reached, as follows:
    a. 19% of total property & sales tax revenues when the total reaches $13.43M
    b. 24% of total property & sales tax revenues when the total reaches $14.34M
    c. 26% of total property & sales tax revenues when the total reaches $15.27M
    d. 29% of total property & sales tax revenues when the total reaches $16.22M
4. Term = Indefinite. Under the assumptions above, the modeling indicates the city would not have the capacity to take on fire services within the next 20 years. Therefore, in order to partially defray the region's costs of services, the county would expect to receive neutrality payments indefinitely.
5. The terms of the agreement may be renegotiated:
    a. Prior to the end of the first year of incorporation, county may request to consider coverage for costs to maintain fire service; and,
    b. At such time the city achieves the capacity to take over fire services and wishes to do so.

Advantages:

- Enables Jurupa to maintain adequate operating reserves throughout the first 10 years
- Minimizes negative impact on annual deficit to level proposed by proponents
- Increases to full neutrality payment based on economic triggers rather than hard dates
- Provides county funding to partially offset retention of fire services
- Allows Jurupa time to develop ability to take over fire services when economics improve