



MEMORANDUM
COUNTY EXECUTIVE OFFICE
ADMINISTRATION
County of Placer

TO: Board of Supervisors DATE: October 6, 2020
FROM: Todd Leopold, County Executive Officer
SUBJECT: Limited Term Property Tax Increment Proposal – City of Lincoln

ACTION REQUESTED

Consideration of the City of Lincoln’s request of a limited term revenue sharing agreement between the City of Lincoln and Placer County regarding existing Tax Rate Areas 003-002, 003-007, 003-017, 003-020, located within the City of Lincoln.

BACKGROUND

In January of 2019, the City approached the County to request financial support to address its ongoing revenue deficiencies to enhance public safety protection for City of Lincoln residents. Following a June 11, 2019 staff presentation to your Board regarding the County’s existing property tax revenue exchange agreements structure and modeling process, your Board directed staff to engage further with the City of Lincoln to see if there was any assistance that could be provided. This direction resulted in a number of recurring discussions among senior staff and elected representatives from each of the jurisdictions to discuss limited term revenue sharing options for your Board’s consideration.

On July 7, 2020, County staff presented to the Board of Supervisors the initial limited term revenue sharing request from the City of Lincoln for your consideration. At the same time, the City and County have been in joint discussions regarding a variety of other regional collaborative initiatives. Due to the unknown financial impact that each of these would have on the financial position of the County, the Board requested that staff continue to work with the City over the next few months and come back to the Board with a status update of those projects prior to a discussion of a limited term revenue sharing proposal.

Initiative Status Update

Initiative	Financial Impact	Status
Development Impact Fee – Tier II – <i>Provides for reimbursement of expenses for upfront payment towards the future Placer Parkway</i>	\$30 million+ reimbursement impact	The cities within the County have agreed upon an updated Tier II fee agreement. The City of Lincoln City Council approved the agreement on September 22, 2020.
Placer County Conservation Plan Implementation Plan	Unknown	The City Council is scheduled to take up this issue on October 13, 2020.
North Auburn Regional Sewer Agreement (COJA) – <i>Updating Sewer and Wastewater fee structure for North Auburn residents into the Lincoln Regional Sewer facility</i>	Est. \$10 million+ in both infrastructure and maintenance costs	Staff continue to evaluate the rate methodology, as well as discuss future infrastructure maintenance and management of the system.

The County and the City jointly prepared a Limited Term Property Tax Increment Agreement (see attached) that determines the distribution of future property tax increment revenue annually from four identified tax rate areas (TRAs 003-002, 003-007, 003-017, 003-020). The agreement, as designed, would redirect future property tax increment revenue from the County to the City, beyond the existing property tax distribution methodology, to assist the City of Lincoln with financial resources to improve public safety service levels within their City for a specified period of time.

The following includes a summary and discussion of the material terms of the Agreement for your consideration.

- The Term of the agreement is 8-years, with a 2-year extension option.
- The extended option for two full additional fiscal years beyond which it would otherwise expire would be enacted if Lincoln voters approve a supplemental sales tax or transactions tax to augment City Safety Services and/or other associated City services by 2028. Without that approval the agreement would terminate at the end of the initial term.
- Calculation based on increment calculated annually within the assigned tax rate areas. The increment will be split as follows:
 - The County will retain 2% of their increment share in each of the identified tax rate area

- The City will receive the remaining County increment percentage in each of the identified tax rate areas
- The Agreement commences in Fiscal Year 2020-2021. Each jurisdiction would continue receiving its historical proportions of property tax revenue reflected from the prior year serving as the base year.
- Revenue cap limits are included in each fiscal year of the initial term not to exceed \$1.5 million annually up to the maximum initial term cap amount of \$8.0 million. An annual cap of \$2.0 million would be applied if the extended term is enacted up to the extended term maximum cap amount of \$3.7 million.
- Annual report from the City of Lincoln to the County Executive Office and Auditor Controller on the expenditure of the funds is required.

FISCAL IMPACT

The proposed sharing of property tax revenues estimates that the County's future revenue reduction would not exceed \$8,000,000 over the initial 8-year term. The additional two-year extension would result in an estimated overall revenue reduction to the County not to exceed \$3,700,000. The total amount of this agreement would be capped at a maximum revenue transfer of \$11,700,000 based upon the current structured agreement.

ATTACHMENT

Limited Term Property Tax Increment Agreement

**LIMITED TERM PROPERTY TAX INCREMENT AGREEMENT BETWEEN THE COUNTY OF
PLACER AND THE CITY OF LINCOLN AS TO TAX RATE AREAS 003-002, 003-007, 003-
017, 003-020**

This LIMITED TERM TAX INCREMENT AGREEMENT (“Agreement”) is entered into by and between the COUNTY OF PLACER, a political subdivision of the State of California (“County”) and the CITY OF LINCOLN, a California municipal corporation (“City”) (collectively, the “Parties”).

RECITALS

- A. On June 6, 1978, the voters of the State of California amended the California Constitution by adding Article XIII A which limited the total amount of property taxes which could be levied on property by local taxing agencies having such property within their territorial jurisdiction to one percent (1%) of full cash value.
- B. Subsequently, the California Legislature added Section 99 to the California Revenue and Taxation Code, which requires a city seeking to annex property to its incorporated territory and a county affected by such annexation to agree upon an exchange of property taxes derived by such property and available to the county and city following annexation of the property to the incorporated territory of the city.
- C. During the period of 1991 through 2009 the County and City entered into multiple tax exchange agreements for real property that has since been annexed into and is currently located in the City’s boundaries (“Existing Agreements”). As of the date of this agreement, the current tax rate areas associated with the Existing Agreements are: 003-002, 003-007, 003-017 and 003-020.
- D. The City Council adopted Level of Service standards for the City’s law enforcement and fire services but the City is unable to achieve the same due to economic challenges. There has also been an increase in mutual aid calls to the County to assist in responding to emergencies within the City limits. The Parties recognize that this is not a sustainable model for either the City or County. The City seeks a limited shift in property tax increment for the Subject TRAs to bridge the current services challenges and in order to identify and implement a financial mechanism for the City to fund and staff law enforcement and fire services in the future.
- E. The City and County recognize it is in the region’s best interests that every city as well as the County be able to provide adequate law enforcement and fire services to its residents. Adequate levels of service are important for the health and safety of the citizens and a balanced service.

AGREEMENT

NOW, THEREFORE, the Parties agree as follows:

Section 1. Recitals. The City and the County each acknowledge the factual accuracy of the Recitals and agree that the Recitals are incorporated in this Agreement as though fully set forth in full.

Section 2. Purpose and Scope. The purpose of this Agreement is to provide a limited term shift in the property tax increment received by the Parties in the Subject TRAs. This Agreement is limited

in term and scope as set forth herein. This Agreement does not permanently alter, reset or shift the property tax exchange percentages established by each of the Existing Agreements, nor does it permanently shift the percentages of property tax increment allocated to the County and City for the Subject TRAs.

Section 3. Definitions.

“AFFECTED TAX RATE AREAS” (or “Subject TRAs”) shall mean as to this Agreement: **003-002, 003-007, 003-017, 003-020.**

“CITY Safety Services” shall mean as to this Agreement the City’s police and fire services. The City Council approved the following levels of service standards: .85 sworn officers per 1,000 population and .66 fire fighters per 1,000 population.

“ERAF” shall mean as to this Agreement, the Educational Revenue Augmentation Fund enacted by the State Legislature in July 1992 to shift local tax revenues from cities, counties and special districts to a State controlled Education Revenue Augmentation Fund.

“EXISTING AGREEMENTS” or “EXISTING AGREEMENT” shall mean as to this Agreement the existing tax exchange agreement(s) for the Subject TRAs.

“EXISTING PROPERTY TAX INCREMENT FACTOR” shall mean for purposes of this Agreement the property tax increment factor and allocated to the County General Fund and the City of Lincoln in each of the TRAs, to be defined as follows:

	TRA 003-002	TRA 003-007	TRA 003-017	TRA 003-020
General Fund	23.0070%	20.4448%	20.7250%	22.8771%
City of Lincoln	14.4780%	9.9778%	9.6413%	11.2499%
Total	37.4850%	30.4226%	30.3663%	34.1270%

Section 4. Affected Tax Rate Areas. This Agreement shall only impact the Affected Tax Rate Areas identified and defined in Section 3.

Section 5. Term.

5.1 Initial Term. The initial term of this Agreement shall commence in Fiscal Year 2020-21 and shall extend through Fiscal Year 2027-28 (“Initial Term”). For purposes of Section 6 of this Agreement, the commencement date for Fiscal Year 2020-21 is July 1, 2020. For purposes of the effective date of this Agreement, it shall be the last date of execution of this Agreement.

5.2 Extended Term. Should the City voters approve a supplemental sales tax or transactions tax to augment City Safety Services and/or other associated City services (“Voter Measure”) at any time during the Initial Term of this Agreement, this Agreement and the provisions of Section 6 shall be extended for two (2) full fiscal years beyond which the Initial Term would have expired (“Extended Term”). The fraction of a fiscal year during which such a tax measure is passed does not count to the calculation of the two full fiscal years.

5.3 No Further Extensions. Except as set forth in subsection 5.2, there shall be no extensions of this Agreement.

Section 6. Property Tax Increment Factor Distribution.

6.1 Base Revenue. The parties agree to the following principles for purpose of this Agreement: (a) Base revenue was originally established upon the passage of Proposition 13, (b) Changes in assessed value year over year is called tax increment revenue, (c) Once the tax increment is calculated it is then added to the base revenue for any of the Subject TRAs, (d) The base revenue plus tax increment equals the new base revenue which is carried over into the next fiscal year for any of the Subject TRAs, (e) Tax increment revenue is distributed three times per fiscal year, with the final distribution including a true up of any changes, including refunds.

6.2 Limited Term Shift in Property Tax Increment Factor for Subject TRAs. Commencing with Fiscal year 2020-21 and solely for the Initial Term or if triggered, the Extended Term, the County agrees the property tax Increment factor distribution as to the City and County for the Subject TRA's shall be distributed by the Auditor as follows: two percent (2%) to the County and the remaining percentage of the County's Increment Factor to the City ("Limited Term Increment") and as illustrated below:

	TRA 003-002	TRA 003-007	TRA 003-017	TRA 003-020
General Fund	2.0000%	2.0000%	2.0000%	2.0000%
City of Lincoln	35.4850%	28.4226%	28.3663%	32.1270%
Total	37.4850%	30.4226%	30.3663%	34.1270%

This Limited Term Increment shall expire upon termination of this Agreement as set forth in Section 13 and the factor shall be automatically reset to the Existing Property Tax Increment Factor as defined in Section 3.

6.3 Property Tax Increment Revenue Cap for Initial Term. The amount of Limited Term Increment conveyed to the City shall be capped per fiscal year at one million five hundred thousand (\$1,500,000) with a maximum amount of eight million dollars (\$8,000,000) ("Initial Term Maximum") conveyed to Lincoln for the Initial Term of the Agreement. Should the City achieve the cap in any given fiscal year, the City agrees it will not receive any further Tax Increment Factor for that fiscal year but the County may continue to receive Tax Increment Factor based on the Limited Term Increment calculation set forth in subsection 6.2. Should the City achieve the Initial Term Maximum prior to the end of the Initial Term, the Parties agree that the Property Tax Increment Factor shall revert to the Existing Property Tax Increment Factor as defined in Section 3 for all remaining fiscal years included in the Initial Term.

6.4 Property Tax Increment Cap for Extended Term. If the Extended Term is triggered pursuant to section 5.2, the amount of Limited Term Increment conveyed to the City shall be capped in the first fiscal year of the Extended Term at two million dollars (\$2,000,000) with a maximum amount of three million seven hundred (\$3,700,000) for the Extended Term. If the Extended Term is triggered, the total amount of Limited Term Increment authorized under this Agreement shall be capped at a total maximum amount of eleven million seven hundred thousand dollars (\$11,700,000).

6.5 Use of Limited Term Revenue. The City agrees that the Limited Term Revenue shall be expended on City Safety Services.

6.6 No Guarantee of Amount of Limited Term Revenue. Nothing in this section is intended to guarantee the City receives any particular dollar amount of Limited Term Increment during the Term of this Agreement nor are the provisions of sections 6.3 or 6.4 guaranteed.

6.7 Limited Term Revenue True Up. The Parties acknowledge that the final distribution in any given fiscal year of Property Tax Increment Revenue includes required refunds. Should at the end of the Limited Term Agreement for any of the Subject TRAs result in a negative amount for the final distribution, the Parties will share in covering the deficit in the same percentages outlined in 6.2 in the final distribution based on the same percentages identified in subsection 6.2. The Auditor agrees to notify the Parties at the time of the final distribution in any such fiscal year if there is a deficit.

6.8 Limited Term Increment ERAF True Up. The Parties acknowledge and agree that the Limited Term Increment will be adjusted for an ERAF True Up prior to distribution to the City. This True Up is subject to the difference between the County's and City's ERAF percentages.

Section 7. City Reporting. The City shall submit an accounting to the County Executive Office and the Auditor-Controller no later than December 15 following the close of each fiscal year subject to this Agreement of all expenditures of the Limited Term Increment. Failure of the City to provide said accounting or to spend the Limited Term Increment as set forth in Section 6.5 shall be cause for early termination of this Agreement.

Section 8. Exchange by County Auditor-Controller. The City and the County agree that all the exchanges of property taxes required by this Agreement shall be made by the County Auditor-Controller.

Section 9. Effect of This Agreement. This Agreement shall be applicable solely to the Subject TRAs and only for the limited time period set forth herein. This Agreement does not constitute a master tax sharing agreement or an agreement to change any of the underlying Existing Agreements. This Agreement does not constitute a renegotiation or permanent change in the tax exchange revenue percentages for any of the Subject TRAs.

Section 10. Cooperation by Parties on Regional Interests. The Parties agree to cooperate in good faith on Regional Interests, including but not limited to the Tier II Funding Commitment Agreement, the potential transportation tax initiative sponsored by the South Placer Regional Transportation Authority, the Regional Sewer and the Placer County Conservation Program.

Section 11. Termination.

This Agreement shall terminate in the event of any of the following occurrences:

11.1. Expiration of Term. Upon the expiration of the Initial Term or the Extended Term, if the same is triggered pursuant to Section 5.2.

11.2 Early Termination by Default. This Agreement may be subject to early termination if the City fails to comply with Sections 6.5, 7 or 10. Should the City default, the County shall provide the City with a written thirty (30) day notice to cure. Failure to cure within that time period shall result in this matter being scheduled before the County Board of Supervisors for consideration of early termination.

11.3 Early Termination by Mutual Agreement. The Parties may mutually agree to terminate this Agreement by scheduling this matter before the County Board of Supervisors and the City Council for a public hearing on termination.

Section 12. Third Party Challenge and Indemnification. In the event this Agreement is the subject of a third party legal challenge, including but not limited to a third party legal challenge to the City's use of the Limited Term Allocation and/or reporting pursuant to the Agreement and that challenge names the County as a defendant/respondent, City will defend any such action on behalf of itself and County, and will indemnify County against any damages which may be awarded against County in such a legal challenge.

Section 13. Administrative Charges. The City agrees to pay any actual costs and expenses incurred by either the Auditor-Controller or the CEO as a result of administering this Agreement. The County shall invoice the City within sixty (60) days of the end of each fiscal year included in the Initial Term or Extended Term, if triggered. The County shall provide documentation for all such costs and expenses. The City agrees to pay any such invoice within thirty (30) days of receipt of the same.

Section 14. General Provisions.

14.1 Modification. This Agreement may only be modified or amended in writing duly authorized and executed by both the City and the County, after action by both legislative bodies.

14.2 Notices. All notices, requests, certifications, or other correspondence provided by the Parties to this Agreement shall be in writing and shall be personally delivered or delivered by first class mail to the respective Parties at the following addresses:

County	City
Placer County Executive Officer	City Manager
County of Placer	CITY OF LINCOLN
175 Fulweiler Avenue	600 6 th Street
Auburn, CA 95603	Lincoln, CA 95648

Notice by personal delivery shall be effective immediately upon delivery. Notice by mail shall be effective upon receipt or three (3) days after mailing, whichever is earlier.

14.3 Agreement or Consent. Wherever this Agreement requires a party's agreement or consent, the party shall make its decision to give or withhold such agreement or consent in good faith and shall not withhold such agreement unreasonably or without good cause.

14.4 Construction of Captions. Captions of the sections of this Agreement are for convenience and reference only. The words in the captions in no way explain, modify, amplify, or interpret this Agreement.

14.5 Authority to Execute Agreement. The undersigned declare each has the authority of its legislative body to execute two (2) originals of this Agreement. That authority is further evidenced by the citation to the passage of the authorizing resolution and conveyance of a certified copy of the same with the two executed versions of this Agreement.

14.6 Venue. This Agreement is made in the County of Placer in the State of California. Any action to enforce or interpret its terms shall be brought in Placer County Superior Court.

14.7 Severability. Should any part, term or provision of this Agreement be decided by the

courts to be illegal or in conflict with any law of the State of California, or otherwise be rendered unenforceable or ineffectual, the validity of the remaining parts, terms or provisions hereof shall not be affected thereby.

14.8 Counterparts. The two original versions of this Agreement may be executed in counterparts, each of which shall constitute an original.

CITY OF LINCOLN, a municipal corporation

Jennifer Hanson, City Manager

ATTEST:

_____, City Clerk

Date approved by City Council: _____

Resolution No. _____

APPROVED AS TO FORM:

Kristine Mollenkopf, City Attorney

COUNTY OF PLACER

Todd Leopold, County Executive Officer

ATTEST:

Clerk of the Board

Date approved by Board of Supervisors: _____

Resolution No. _____

APPROVED AS TO FORM:

Karin Schwab, County Counsel

