

PROPERTY TAX EXCHANGE AGREEMENT

RESOLUTION AUTHORIZING PROPERTY TAX EXCHANGE AGREEMENT RELATING TO THE RANCHO CORDOVA SPHERE OF INFLUENCE ANNEXATION, AGREEMENT REGARDING REVENUE SHARING UPON ANNEXATION OF SUNRISE-FOLSOM AREA TO CITY OF RANCHO CORDOVA, AND AGREEMENT REGARDING REGIONAL HOUSING NEEDS ALLOCATION UPON ANNEXATION OF SUNRISE-FOLSOM AREA TO CITY OF RANCHO CORDOVA

BE IT RESOLVED AND ORDERED that the Chair of the Board of Supervisors is hereby authorized and directed to execute a Property Tax Exchange Agreement Relating to the Rancho Cordova Sphere of Influence Annexation, an Agreement Regarding Revenue Sharing Upon Annexation of Sunrise-Folsom Area to City of Rancho Cordova, and an Agreement Regarding Regional Housing Needs Allocation Upon Annexation of Sunrise-Folsom Area to City of Rancho Cordova between the City of Rancho Cordova and the County of Sacramento, in substantially the forms attached, and to do and perform everything necessary to carry out the purpose and intent of this Resolution.

On a motion by Supervisor Nottoli, seconded by Supervisor MacGlashan, the foregoing Resolution was passed and adopted by the Board of Supervisors of the County of Sacramento, State of California, this 10th day of November, 2009, by the following vote, to wit:

AYES: Supervisors, Dickinson, MacGlashan, Nottoli, Yee, Peters
NOES: Supervisors, None
ABSENT: Supervisors, None
ABSTAIN: Supervisors, None

RECEIVED

NOV 12 2009

SACRAMENTO LOCAL AGENCY
FORMATION COMMISSION



In accordance with Section 25103 of the Government Code of the State of California a copy of the document has been delivered to the Chairman of the Board of Supervisors, County of Sacramento on 11/10/09

By V. Rodgers
Deputy Clerk, Board of Supervisors

Susan Price
Chair of the Board of Supervisors
of Sacramento County, California

FILED
BOARD OF SUPERVISORS

NOV 10 2009

ATTEST: Cyndi Lee
Clerk, Board of Supervisors

BY Cyndi Lee on 11/10/09
CLERK OF THE BOARD

The foregoing is a correct copy of a resolution adopted by the Board of Supervisors, Sacramento County, California

Dated 11/10/09
Clerk, Board of Supervisors

By V. Rodgers
Deputy Clerk

**PROPERTY TAX EXCHANGE AGREEMENT
BETWEEN
THE COUNTY OF SACRAMENTO AND THE CITY OF RANCHO CORDOVA,
RELATING TO THE RANCHO CORDOVA SPHERE OF INFLUENCE ANNEXATION**

This PROPERTY TAX EXCHANGE AGREEMENT (hereinafter "Agreement") is made and executed in duplicate this tenth day of November, 2009 by and between the COUNTY OF SACRAMENTO, a political subdivision of the State of California (hereinafter referred to as "COUNTY"), and the CITY OF RANCHO CORDOVA, a general law city (hereinafter referred to as "CITY").

RECITALS

A. On June 6, 1978, the voters of the State of California amended the California Constitution by adding Article XIII A thereto 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; and

B. Following such constitutional amendment, 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 which are derived from such property and available to the county and city following annexation of the property to the incorporated territory of the city; and

C. CITY has filed an application with the Sacramento Local Agency Formation Commission ("LAFCO"), entitled "City of Rancho Cordova Annexation – Annexation of the Sphere of Influence (LAFCO-07-09)," requesting its approval of the annexation of approximately 748 acres of real property to CITY, consisting of all of the area within the CITY's sphere of influence, as designated by LAFCO and approved by the voters in November 2002 ("the Sunrise-Folsom Annexation"); and

D. COUNTY and CITY wish to work together to develop a fair and equitable approach to the sharing of real property ad valorem taxes imposed and collected as authorized by the Revenue and Taxation Code in order to encourage sound urban development and economic growth; and

E. The purpose of this Agreement is to serve as a Property Tax Transfer Agreement pursuant to Section 99 of the California Revenue and Taxation Code for the Sunrise-Folsom Annexation.

COUNTY and CITY hereby agree as follows:

Section 1. Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below:

(a) "Annexation Area" shall mean that portion of the unincorporated area of COUNTY designated by LAFCO as the sphere of influence of CITY known as the "Sunrise-Folsom Annexation",

(b) "Annexation Date" shall mean the date specified by the Cortese-Knox-Hertzberg Local Governmental Reorganization Act of 2000 (California Government Code § 56000 et seq.) as the effective date of the Sphere of Influence Annexation.

(c) "Sunrise-Folsom Annexation" shall mean the annexation to the CITY as delineated in Sacramento Local Agency Formation Commission Application Control Number "LAFC 07-09", the annexation of which to CITY is subsequently approved and completed by the Sacramento Local Agency Formation Commission as provided in the Cortese-Knox-Hertzberg Local Governmental Reorganization Act of 2000 (California Government Code § 56000 et seq.).

(d) "Property Tax Revenue" shall mean revenue from "ad valorem real property taxes on real property", as said term is used in Section 1 of Article XIII A of the California Constitution and more particularly defined in subsection (c) of Section 95 of the California Revenue and Taxation Code, that is collected from within the Annexation Area, is available for allocation to the City and the County, and is currently allocated to the County General Fund and County Road Fund.

Section 2. Purpose of Agreement. The purpose of this Agreement is to set forth the exchange of Property Tax Revenue between CITY and COUNTY as required by Section 99 of the California Revenue and Taxation.

Section 3. Exchange of Property Tax Revenues. On and after the Annexation Date, the COUNTY and CITY shall exchange Property Tax Revenue as follows:

(a) CITY shall receive none of the Property Tax Revenues from the Annexation Area when and as such revenues are apportioned to jurisdictions in the tax rate area by the County Auditor pursuant to Article 2 of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code, including Revenue and Taxation Code section 96.1.

(b) CITY shall receive none of the annual tax increment from the Annexation Area when and as such revenues are apportioned to jurisdictions in the tax rate area by the County Auditor pursuant to Article 2 of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code, including Revenue and Taxation Code section 96.5.

Section 4. Exchange by County Auditor. COUNTY and CITY agree that all of the exchanges of Property Tax Revenue required by this Agreement shall be made by the County Auditor.

Section 5. Disposition of Litigation. After CITY's City Council and COUNTY's Board of Supervisors have adopted resolutions approving this Agreement, and authorizing and directing the Mayor and Board Chairperson to sign the Agreement, and after the Mayor and Board Chairperson have signed the Agreement and the resolutions, CITY and COUNTY shall submit a joint stipulation to the Court in the form attached as Exhibit A. CITY and COUNTY shall each bear their own attorneys' fees in connection with the litigation of the Petition for Writ of Mandamus and Complaint for Declaratory Relief.

Section 6. Mutual Defense of Agreement. If the validity of this Agreement is challenged in any legal action by a party other than COUNTY or CITY, the CITY agrees that the COUNTY may defend the CITY against the legal challenge at no cost to the CITY.

Section 7. Modification. The provision of this Agreement and all of the covenants and conditions set forth herein may be modified or amended only by a writing duly authorized and executed by both the COUNTY and CITY.

Section 8. Reformation. COUNTY and CITY understand and agree that this Agreement is based upon existing law, and that such law may be substantially amended in the future. In the event of an amendment of state law which renders this Agreement invalid or inoperable or which denies any party thereto the full benefit of this Agreement as set forth herein, in whole or in part, then COUNTY and CITY agree to renegotiate the Agreement in good faith.

Section 9. Effect of Tax Exchange Agreement. This Agreement shall be applicable solely to the Sunrise-Folsom Annexation and does not constitute either a master tax sharing agreement or an agreement on property tax exchanges which may be required for any other annexation to the CITY, nor does it alter, enlarge or affect any revenue sharing obligations of the City by way of incorporation on July 1, 2003.

Section 10. Entire Agreement. With respect to the subject matter hereof only, this Agreement supersedes any and all previous negotiations, proposals, commitments, writings, and understandings of any nature whatsoever between COUNTY and CITY except as otherwise provided herein.

Section 11. Notices. All notices, requests, certifications or other correspondence required to be 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:

<u>COUNTY</u>	<u>CITY</u>
County Executive County of Sacramento 700 H Street, Room 7650 Sacramento, CA 95814	City Manager City of Rancho Cordova 2729 Prospect Park Drive Rancho Cordova, CA 95670

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

Section 12. Approval, Consent, and Agreement. Wherever this Agreement requires a party's approval, consent, or agreement, the party shall make its decision to give or withhold such approval, consent or agreement in good faith, and shall not withhold such approval, consent or agreement unreasonably or without good cause.

Section 13. 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.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in the county of Sacramento, State of California, on the dates set forth above.

COUNTY OF SACRAMENTO, a political subdivision of the State of California

By *Susan Price*
Chairperson of the Board of Supervisors

(SEAL)

ATTEST: *Cydia Lee*
Clerk of the Board of Supervisors

Approved As to Form:

John F. Whit
County Counsel

CITY OF RANCHO CORDOVA, a general law city



By: *Ted L. Seeborg*
City Manager 11-5-09

(SEAL)

ATTEST: *[Signature]*
City Clerk

Approved As to Form:

Adam Anderson
City Attorney

1 Elizabeth H. Silver (SBN: 61445)
esilver@meyersnave.com
2 Joseph M. Quinn (SBN: 171898)
Jquinn@meyersnave.com
3 MEYERS, NAVE, RIBACK, SILVER & WILSON
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5 Telephone: (510) 808-2000
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Attorneys for Petitioner and Plaintiff CITY OF RANCHO CORDOVA

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9 John F. Whisenhunt (SBN 89823)
whisenhuntj@saccounty.net
10 COUNTY OF SACRAMENTO
11 Office of the County Counsel
700 H Street, Suite 2650
12 Sacramento, CA 95814
13 Telephone: (916) 440-5543
Facsimile: (916) 447-5195

**No Fee Required
Pursuant to
Government Code § 6103**

14 Attorneys for Respondents and Defendants COUNTY OF SACRAMENTO
15 and SACRAMENTO COUNTY BOARD OF SUPERVISORS

16
17 SUPERIOR COURT OF THE STATE OF CALIFORNIA
18 IN AND FOR THE COUNTY OF SACRAMENTO

19
20 CITY OF RANCHO CORDOVA;
Petitioner and Plaintiff,
21 v.
22 COUNTY OF SACRAMENTO;
23 SACRAMENTO COUNTY BOARD OF
SUPERVISORS; and DOES 1 through 100,
24 Respondents and Defendants.

Case No: 34-2008-00002478-CU-WM-GDS

**STIPULATION FOR ENTRY OF
JUDGMENT PURSUANT TO
SETTLEMENT AGREEMENT**
[Code Civ. Proc., § 664.6]

Judge: Hon. Michael P. Kenny
Dept: 31

**PROPERTY TAX EXCHANGE AGREEMENT
BETWEEN
THE COUNTY OF SACRAMENTO AND THE CITY OF RANCHO CORDOVA,
RELATING TO THE RANCHO CORDOVA SPHERE OF INFLUENCE ANNEXATION**

This PROPERTY TAX EXCHANGE AGREEMENT (hereinafter "Agreement") is made and executed in duplicate this tenth day of November, 2009 by and between the COUNTY OF SACRAMENTO, a political subdivision of the State of California (hereinafter referred to as "COUNTY"), and the CITY OF RANCHO CORDOVA, a general law city (hereinafter referred to as "CITY").

RECITALS

A. On June 6, 1978, the voters of the State of California amended the California Constitution by adding Article XIII A thereto 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; and

B. Following such constitutional amendment, 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 which are derived from such property and available to the county and city following annexation of the property to the incorporated territory of the city; and

C. CITY has filed an application with the Sacramento Local Agency Formation Commission ("LAFCO"), entitled "City of Rancho Cordova Annexation – Annexation of the Sphere of Influence (LAFCO-07-09)," requesting its approval of the annexation of approximately 748 acres of real property to CITY, consisting of all of the area within the CITY's sphere of influence, as designated by LAFCO and approved by the voters in November 2002 ("the Sunrise-Folsom Annexation"); and

D. COUNTY and CITY wish to work together to develop a fair and equitable approach to the sharing of real property ad valorem taxes imposed and collected as authorized by the Revenue and Taxation Code in order to encourage sound urban development and economic growth; and

E. The purpose of this Agreement is to serve as a Property Tax Transfer Agreement pursuant to Section 99 of the California Revenue and Taxation Code for the Sunrise-Folsom Annexation.

COUNTY and CITY hereby agree as follows:

Section 1. Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below:

(a) "Annexation Area" shall mean that portion of the unincorporated area of COUNTY designated by LAFCO as the sphere of influence of CITY known as the "Sunrise-Folsom Annexation",

(b) "Annexation Date" shall mean the date specified by the Cortese-Knox-Hertzberg Local Governmental Reorganization Act of 2000 (California Government Code § 56000 et seq.) as the effective date of the Sphere of Influence Annexation.

(c) "Sunrise-Folsom Annexation" shall mean the annexation to the CITY as delineated in Sacramento Local Agency Formation Commission Application Control Number "LAFC 07-09", the annexation of which to CITY is subsequently approved and completed by the Sacramento Local Agency Formation Commission as provided in the Cortese-Knox-Hertzberg Local Governmental Reorganization Act of 2000 (California Government Code § 56000 et seq.).

(d) "Property Tax Revenue" shall mean revenue from "ad valorem real property taxes on real property", as said term is used in Section 1 of Article XIII A of the California Constitution and more particularly defined in subsection (c) of Section 95 of the California Revenue and Taxation Code, that is collected from within the Annexation Area, is available for allocation to the City and the County, and is currently allocated to the County General Fund and County Road Fund.

Section 2. Purpose of Agreement. The purpose of this Agreement is to set forth the exchange of Property Tax Revenue between CITY and COUNTY as required by Section 99 of the California Revenue and Taxation.

Section 3. Exchange of Property Tax Revenues. On and after the Annexation Date, the COUNTY and CITY shall exchange Property Tax Revenue as follows:

(a) CITY shall receive none of the Property Tax Revenues from the Annexation Area when and as such revenues are apportioned to jurisdictions in the tax rate area by the County Auditor pursuant to Article 2 of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code, including Revenue and Taxation Code section 96.1.

(b) CITY shall receive none of the annual tax increment from the Annexation Area when and as such revenues are apportioned to jurisdictions in the tax rate area by the County Auditor pursuant to Article 2 of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code, including Revenue and Taxation Code section 96.5.

Section 4. Exchange by County Auditor. COUNTY and CITY agree that all of the exchanges of Property Tax Revenue required by this Agreement shall be made by the County Auditor.

Section 5. Disposition of Litigation. After CITY's City Council and COUNTY's Board of Supervisors have adopted resolutions approving this Agreement, and authorizing and directing the Mayor and Board Chairperson to sign the Agreement, and after the Mayor and Board Chairperson have signed the Agreement and the resolutions, CITY and COUNTY shall submit a joint stipulation to the Court in the form attached as Exhibit A. CITY and COUNTY shall each bear their own attorneys' fees in connection with the litigation of the Petition for Writ of Mandamus and Complaint for Declaratory Relief.

Section 6. Mutual Defense of Agreement. If the validity of this Agreement is challenged in any legal action by a party other than COUNTY or CITY, the CITY agrees that the COUNTY may defend the CITY against the legal challenge at no cost to the CITY.

Section 7. Modification. The provision of this Agreement and all of the covenants and conditions set forth herein may be modified or amended only by a writing duly authorized and executed by both the COUNTY and CITY.

Section 8. Reformation. COUNTY and CITY understand and agree that this Agreement is based upon existing law, and that such law may be substantially amended in the future. In the event of an amendment of state law which renders this Agreement invalid or inoperable or which denies any party thereto the full benefit of this Agreement as set forth herein, in whole or in part, then COUNTY and CITY agree to renegotiate the Agreement in good faith.

Section 9. Effect of Tax Exchange Agreement. This Agreement shall be applicable solely to the Sunrise-Folsom Annexation and does not constitute either a master tax sharing agreement or an agreement on property tax exchanges which may be required for any other annexation to the CITY, nor does it alter, enlarge or affect any revenue sharing obligations of the City by way of incorporation on July 1, 2003.

Section 10. Entire Agreement. With respect to the subject matter hereof only, this Agreement supersedes any and all previous negotiations, proposals, commitments, writings, and understandings of any nature whatsoever between COUNTY and CITY except as otherwise provided herein.

Section 11. Notices. All notices, requests, certifications or other correspondence required to be 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

County Executive
County of Sacramento
700 H Street, Room 7650
Sacramento, CA 95814

CITY

City Manager
City of Rancho Cordova
2729 Prospect Park Drive
Rancho Cordova, CA 95670

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

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Section 13. 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.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in the county of Sacramento, State of California, on the dates set forth above.

COUNTY OF SACRAMENTO, a political subdivision of the State of California

By _____
Chairperson of the Board of Supervisors

(SEAL)

ATTEST: _____
Clerk of the Board of Supervisors

Approved As to Form:

County Counsel

CITY OF RANCHO CORDOVA, a general law city

By: _____
City Manager

(SEAL)

ATTEST: _____
City Clerk

Approved As to Form:

City Attorney

**AGREEMENT BETWEEN CITY OF RANCHO CORDOVA AND COUNTY OF
SACRAMENTO REGARDING REVENUE SHARING UPON ANNEXATION OF
SUNRISE-FOLSOM AREA TO CITY OF RANCHO CORDOVA**

This agreement is entered into in duplicate this tenth day of November, 2009 between the City of Rancho Cordova, a general law city ("City"), and the County of Sacramento, a political subdivision of the State of California ("County").

RECITALS

A. Factual Background

On or about August 21, 2007 and pursuant to the Cortese-Knox-Hertzberg Act, Government Code § 56000 et seq., the City submitted to the Local Agency Formation Commission of Sacramento County ("LAFCO") an application proposing the annexation of an unincorporated territory of Sacramento County consisting of the City's sphere of influence ("Annexation Area"). LAFCO has designated the annexation application as "City of Rancho Cordova Annexation – Annexation of the Sphere of Influence (LAFCO-07-09)" ("the Annexation"). The Annexation Area is sometimes referred to as the "Sunrise-Folsom Area."

As required by Revenue and Taxation Code § 99 ("Section 99"), the City and the County commenced negotiations to determine the amount of the 1% *ad valorem* property tax subject to negotiations to be exchanged. Although the City and the County met and exchanged correspondence, and the City made an offer by letter of December 19, 2007, they did not reach agreement regarding the exchange of property tax from the Annexation Area.

B. Procedural Background

On January 31, 2008, the City filed its Complaint and Petition for Writ of Mandamus ("Complaint") in Sacramento Superior Court (Case No. 34-2008-00002478-CU-WM-GDS), naming as Defendants and Respondents the County of Sacramento and the Sacramento County Board of Supervisors. The Complaint asks the Court to issue a peremptory writ of mandamus directing the County to accept the City's offer of December 19, 2007 and adopt a resolution ratifying the parties' property tax sharing agreement within the time required by Section 99; to declare that the exchange of property tax revenues and the annual tax increment from the territory proposed for annexation is the only subject matter negotiable under Section 99; and to order the parties to limit their Section 99 negotiations to said property tax revenues and annual tax increment.

The City and the County stipulated that the Court could stay the proceedings to enable the City and County to pursue the three-part dispute resolution process set forth in Section 99, subdivision (e), in an effort to reach agreement regarding the exchange of property tax from the Annexation Area.

The three-part dispute resolution process involves the retention of a third-party fiscal consultant to perform an independent fiscal analysis of tax revenues derived from, and the costs

of the city and the county services to, the proposed annexed territory. If the information contained in the fiscal analysis does not precipitate an agreement, subdivision (e) requires the affected local agencies to participate in mediation and then an arbitration process. The City and the County jointly retained fiscal consultant Rosenow Spevacek Group, Inc. (RGS), which prepared a report dated December 23, 2008 entitled "Sunrise/Folsom Annexation Fiscal Analysis Performed for the County of Sacramento & the City of Rancho Cordova" (the "Fiscal Analysis"). The Fiscal Analysis is attached hereto and incorporated herein as **Exhibit A**. The City and the County reviewed the Fiscal Analysis but did not reach agreement on the exchange of property tax revenues. The City and the County then retained a mediator and participated in mediation; upon the completion of the mediation, no exchange of property tax revenues was agreed upon. As a third step, subdivision (e) requires that the city and the county select and pay for an arbitrator to conduct an advisory arbitration for a 30 day period. The City and the County have extended the arbitration period through December 31, 2009, provided an arbitrator is retained by September 30, 2009.

The parties stipulated to extend time for the Defendants and Respondents to respond to the Complaint and the Court entered its Order staying the proceedings through October 31, 2009. The attached agreement entitled "Property Tax Exchange Agreement Between the County of Sacramento and the City of Rancho Cordova Relating to the Rancho Cordova Sphere of Influence Annexation" ("Property Tax Exchange Agreement") (**Exhibit B** attached hereto) provides that, following that Agreement's execution, the City and County shall submit a joint stipulation to the Court for entry of judgment.

AGREEMENT

Now, therefore, the City and the County agree as follows:

I. INTENT OF THE PARTIES

Notwithstanding the parties' respective legal contentions, all parties desire to resolve the dispute set forth in the Complaint without the necessity of further litigation. This Agreement, therefore, is entered into with the intent of resolving all claims in the Complaint.

The City and the County agreed to resolve the lawsuit on the following four fundamental terms:

A. The City will recover all of its costs of providing services to the Annexation Area.

B. The County will continue to receive all of its current allocation from the one percent (1%) *ad valorem* property tax rate provided in Article XIII A, section 1, subdivision (a) of the California Constitution from the Annexation Area following the annexation.

C. Following recovery of its costs of services, the City will transmit to the County 75% of the Bradley-Burns Uniform Sales and Use tax, transient occupancy tax and utility users' tax revenues (on energy and gas usage) received by the City from the Annexation Area.

D. The City's annual recovery of its costs of providing services and its sharing of sales and use tax, transient occupancy tax and utility users' tax revenues with the County be administratively simple and efficient.

Accordingly, the process for calculating the City's costs of providing services and the revenue sharing is designed to minimize the amount of administration required, and such process therefore sacrifices precision for simplicity. The parties recognize that there may be changes in the facts and/or the law that exist as of the date of this Agreement that may necessitate the interpretation or amendment of this Agreement in the future to effectuate the fundamental intent of the parties as expressed above and set forth more herein. In particular, the parties recognize that the State of California may enact legislation, whether by the State Legislature or by the people by the initiative, or a court may issue an order that affects or changes the revenues from the Annexation Area identified in the Fiscal Analysis, including without limitation changes in the types of revenues, the percentages of any taxes or fees, the persons or entities subject to any taxes or fees or the manner in which revenues are distributed to entities. All of these changes have the potential to result in the revenue sharing process becoming inconsistent with the parties' fundamental intent. Therefore, if one of the parties believes that, because of changes in law, the revenue sharing has become inconsistent with the parties' fundamental intent, that party may request that revisions to the revenue sharing process be made to conform to the parties' intent, and, in such event, the parties shall negotiate in good faith to reach agreement on revisions, if appropriate, to the revenue sharing process.

The parties' agreement regarding the four fundamental terms is described in more detail in this Agreement, including the exhibits hereto.

II. PROPERTY TAX REVENUES

The parties' agreement that the County will retain 100% of the *ad valorem* property taxes from the Annexation Area following the effective date of the Annexation shall be implemented by adoption by City's City Council and County's Board of Supervisors of resolutions approving the attached agreement entitled "Property Tax Exchange Agreement Between the County of Sacramento and the City of Rancho Cordova Relating to the Rancho Cordova Sphere of Influence Annexation" ("Property Tax Exchange Agreement") (**Exhibit B** attached hereto) and authorizing and directing the Mayor and Board Chairperson to sign such agreement. The parties agree to adopt such resolutions no later than November 10, 2009.

This Agreement does not apply to any revenue attributable to an increase in the 1% *ad valorem* property tax rate in excess of 1% as a method of generating revenue, as provided in Article XIII A, section 1, subdivision (b) or any successor provision of the California Constitution, commonly referred to as "property tax overrides." The tax revenue attributable to such an increase shall be allocated and paid to the City.

The parties acknowledge that the monies received by the City from the Vehicle License Fee Property Tax Compensation Fund as the "vehicle license fee adjustment amount" pursuant to Revenue and Taxation Code section 97.70 are not subject to this Agreement.

III. RECOVERY OF COSTS OF SERVICES AND SHARING CITY REVENUES FROM THE ANNEXATION AREA FROM SALES AND USE TAXES, TRANSIENT OCCUPANCY TAXES AND UTILITY USERS' TAXES

The parties' agreement that the City will retain revenues from the Annexation Area to cover its costs of services to the Annexation Area during each fiscal year and that the City will transfer 75% of the sales and use tax, transient occupancy tax and utility users' tax revenues (from energy and gas usage) from the Annexation Area to the County shall be implemented following the effective date of the Annexation in the manner set forth in Exhibit C, attached hereto and incorporated herein, entitled "Annual Steps for City to Recover Costs of Services and To Share Tax Revenues with County from the Sunrise-Folsom Annexation Area."

The parties' agreement to share certain revenues from the Annexation Area does not include property tax revenues identified in Paragraph II above, tax revenues identified in Paragraph IV below, revenues derived from an increase in the rate of the transient occupancy tax in excess of 12% or revenues derived from a utility users' tax that broadens the services subject to such tax and/or increases the rate of such tax over the services subject to the tax and/or rate in effect as of the effective date of the annexation.

IV. AGREEMENT TO SHARE SALES AND USE TAX REVENUES

The provisions of Article XIII, Section 29(b) of the California Constitution authorize cities and counties to enter into contracts to apportion between them the revenue derived from any sales or use tax imposed by them pursuant to local sales and use tax law, provided that a resolution approving the contract is approved by a two-thirds (2/3) vote of both the city council and the board of supervisors. This agreement is entered into pursuant to Government Code sections 55700 to 55707 which specify the procedures under which revenues derived from the tax collected pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law provided for in Part 1.5 (commencing with Section 7200) of Division 2 of the Revenue and Taxation Code ("Bradley-Burns Act") and distributed by the State Board of Equalization to the City from the Annexation Area may be shared by the City with the County.

The parties' agreement that the City will share actual sales and use tax revenues received from the Annexation Area with the County after the City has received its costs of services shall be implemented after the effective date of the Annexation as set forth in this Agreement, including all exhibits, provided this Agreement is approved by resolutions adopted by a two-thirds' vote by City's City Council and County's Board of Supervisors. The parties agree to adopt such resolutions no later than November 10, 2009.

This Agreement does not apply to any revenue attributable to an increase by the City following the effective date of annexation of its sales and use tax, enacted pursuant to the Bradley-Burns Act, in excess of one percent, a transactions and use tax or other tax imposed on retailers for the privilege of conducting business in the City.

V. IMPLEMENTATION OF THIS AGREEMENT

A. Effective Date of Agreement

This Agreement shall become effective when executed by both parties.

B. Integration

The terms of this Agreement are intended by the parties as a final expression of their agreement and understanding with respect to such terms as are included in this Agreement and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Agreement constitutes the complete and exclusive statement of its terms, and that no extrinsic evidence whatsoever may be introduced to vary its terms in any proceeding involving this Agreement.

C. Dispute Resolution

(1) Inadmissibility. Should any disputes arise as to the performance of this Agreement, the County and the City agree to the dispute resolution process set forth below. All conduct, testimony, statements or other evidence made or presented during the meeting described in subsection (2) below shall be confidential and inadmissible in any subsequent arbitration proceedings brought to prove liability for any claimed breach or damages which are the subject of the dispute resolution process.

(2) Initiation of Process. The County or the City may initiate the dispute resolution process by notifying the other in writing of a potential dispute concerning the performance of this Agreement. This written notification shall include all supporting documentation, shall state what is in dispute, and shall request a meeting between the County Executive and the City Manager, or their respective designees. The purpose of this meeting shall be to ascertain whether a resolution of the disagreement is possible without third-party intervention. This meeting shall be scheduled to take place within thirty (30) working days of receipt of the written notification of the dispute. At the meeting, the respective representatives of the County and the City shall attempt to reach an equitable settlement of the disputed issue(s). The representatives may agree to conduct further meetings or other communications for up to thirty (30) days in an attempt to reach an equitable settlement.

(3) Third Party Neutral Resolution. If the initial meeting and any further meetings and communications provided for in subsection (2) above do not fully resolve the disagreement, the parties shall each then within ten (10) working days each appoint a single representative who is knowledgeable and experienced in matters of the sort addressed by this Agreement, including local government finance, taxation, revenues, and accounting. Those two representatives shall then, within twenty (20) working days, agree between themselves to appoint a neutral third person who is similarly knowledgeable and experienced in local government finance, taxation, revenues, and accounting, and who is not employed by or affiliated with the City or the County (the Third Party Neutral). The Third Party Neutral shall resolve the parties' dispute. He or she shall meet with, and solicit and review such written submissions and

documents as he or she deems appropriate from, the County Executive and the City Manager, or their respective designees, over a period of up to ninety (90) days from the Third Party Neutral's selection. The provisions of the California Discovery Act, commencing at CCP §§ 2016.050 et. seq. providing for requests for production of documents and depositions shall be applicable to the proceeding before the Third Party Neutral and any redress thereunder shall be made to the Third Party Neutral who shall make all appropriate orders consistent with relevant legal precedent. The Third Party Neutral shall have no authority to add to, delete or otherwise modify the provisions of this Agreement or rule upon the underlying validity of this Agreement or any of its provisions. The Third Party Neutral shall render a decision within twenty (20) days of the expiration of the ninety-day period. The Third Party Neutral's decision shall be final and controlling between the City and the County, and shall not be subject to judicial review except that judicial review shall be available to determine if the Third Party Neutral exceeded his or her authority as defined herein. The parties shall pay any monetary award and/or comply with any other order of the Third Party Neutral within sixty (60) days of his or her decision.

(4) Costs. The parties shall equally share the Third Party Neutral's fees and expenses. Each party shall bear its own costs, expenses and attorney's fees, and no party shall be awarded such costs, expenses, or attorney's fees incurred in the dispute resolution process.

D. Construction and Interpretation

It is agreed and acknowledged by the parties hereto that the provisions of this Agreement have been arrived at through negotiation, and that each of the parties has had a full and fair opportunity to revise the provisions of this Agreement and to have such provisions reviewed by legal counsel. Therefore, the normal rule of construction that any ambiguities are to be resolved against the drafting party shall not apply in construing or interpreting this Agreement.

E. Waiver

The waiver at any time by either party of any of its rights with respect to a default or other matter arising in connection with this Agreement shall not be deemed a waiver with respect to any subsequent default or other matter.

F. Notices

Any notice, demand, request, consent, or approval that any party hereto may, or is required to, give the other shall be in writing and shall be deemed to have been received three (3) days after being deposited in the United States mail, first class postage prepaid, and addressed as follows:

TO COUNTY:

County Executive
County of Sacramento
700 H Street, Room 7650
Sacramento, CA 95814

TO CITY:

City Manager
City of Rancho Cordova
2729 Prospect Park Dr.
Rancho Cordova, CA 95670

Any party hereto shall have the right to serve any notice by personal delivery, and change the address at which it will receive such communications by giving fifteen (15) days advance notice to the other party.

G. Counterparts

This Agreement may be executed in separate counterparts.

H. Litigation Affecting The City's Ability to Collect Tax Revenues

The parties will cooperate in the defense of any action brought against the City, including the City Council and/of any City official, that challenges the City's ability to levy and/or collect the sales and use tax, transient occupancy tax and/or utility users' tax or seeks a refund of any such taxes, provided that the County is entitled to receive 75% of such tax revenues pursuant to this Agreement. If a claim is made and/or litigation is brought against the City challenging the legality of any of the taxes or claiming a refund of any such taxes, the City may place the disputed revenues that it would otherwise transmit to the County pursuant to this Agreement into an impound account until the claim and/or lawsuit is resolved.

J. Exhibits

The following exhibits are included as part of this Agreement:

- (a) Exhibit A, entitled "Fiscal Analysis";
- (b) Exhibit B, entitled "Property Tax Exchange Agreement";
- (c) Exhibit C, entitled "Annual Steps for City to Recover Costs of Services and To Share Tax Revenues with County from the Sunrise-Folsom Annexation Area."

VI. AMENDMENT OF AGREEMENT

The parties agree to negotiate in good faith to amend this Agreement to address conditions imposed by LAFCO or changes in state law that substantially affect the provisions of this Agreement. The parties' negotiations shall be governed by the parties' intent as stated in Paragraph I above.

Date:

City of Rancho Cordova
Ted Gaebler, City Manager

Date:

County of Sacramento
Susan Peters, Chairperson

Date:

Sacramento County Board of Supervisors
Susan Peters, Chairperson

APPROVED AS TO FORM:

Date:

Counsel for City of Rancho Cordova

Date:

Counsel for County of Sacramento and
Sacramento County Board of Supervisors

1286407.6

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 10 COUNTY OF SACRAMENTO
 11 Office of the County Counsel
 700 H Street, Suite 2650
 12 Sacramento, CA 95814
 Telephone: (916) 440-5543
 13 Facsimile: (916) 447-5195

**No Fee Required
 Pursuant to
 Government Code § 6103**

14 Attorneys for Respondents and Defendants COUNTY OF SACRAMENTO
 15 and SACRAMENTO COUNTY BOARD OF SUPERVISORS

17 SUPERIOR COURT OF THE STATE OF CALIFORNIA
 18 IN AND FOR THE COUNTY OF SACRAMENTO

19
 20 CITY OF RANCHO CORDOVA;
 Petitioner and Plaintiff,
 21 v.
 22 COUNTY OF SACRAMENTO;
 23 SACRAMENTO COUNTY BOARD OF
 SUPERVISORS; and DOES 1 through 100,
 24 Respondents and Defendants.

Case No: 34-2008-00002478-CU-WM-GDS
 [PROPOSED] STIPULATED JUDGMENT
 [Code Civ. Proc., § 664.6]
 Judge: Hon. Michael P. Kenny
 Dept: 31

1 Petitioner and Plaintiff City of Rancho Cordova (“City”) and Respondents and Defendants,
2 the County of Sacramento and the Sacramento County Board of Supervisors (collectively,
3 “County”) having submitted a Stipulation for Entry of Judgment Pursuant to Settlement
4 Agreement (“Stipulation”), and good cause appearing therefor,

5 IT IS HEREBY ORDERED, ADJUDGED AND DECREED that the Petition for Writ of
6 Mandamus and Complaint for Declaratory Relief (“Petition”) shall be, and hereby is, dismissed
7 without prejudice.

8 IT IS FURTHER ORDERED, ADJUDGED AND DECREED that the dismissal is based
9 upon the Parties’ having voluntarily entered into two agreements by which they have settled their
10 dispute, and which are entitled “Property Tax Exchange Agreement Between the County of
11 Sacramento and the City of Rancho Cordova, Relating to the Rancho Cordova Sphere of Influence
12 Annexation” (“Property Tax Exchange Agreement”), attached as Exhibit 1 to the Stipulation, and
13 incorporated herein by this reference, and “Agreement Between City Of Rancho Cordova And
14 County Of Sacramento Regarding Revenue Sharing Upon Annexation Of Sunrise-Folsom Area To
15 City Of Rancho Cordova” (“Revenue Sharing Agreement”), including Exhibits A, B, and C to that
16 Revenue Sharing Agreement, which are attached to the Stipulation as collective Exhibit 2, and
17 incorporated herein by this reference.

18 IT IS FURTHER ORDERED, ADJUDGED AND DECREED that any amendments of the
19 Property Tax Exchange Agreement and/or the Revenue Sharing Agreement approved by the
20 Parties shall not require approval of this Court and that such agreements, as amended, shall be
21 become part of this Stipulated Judgment.

22 IT IS FURTHER ORDERED, ADJUDGED AND DECREED that the Parties’ entry into
23 the Property Tax Exchange Agreement moots the claims for relief in the Petition, by which the
24 City sought a writ of mandate and/or declaratory relief to require the County to enter into such an
25 agreement. Accordingly, this judgment does not resolve the merits of the City’s claims for such
26 relief or the County’s defenses thereto, and shall have no res judicata or collateral estoppel effect.

27 IT IS FURTHER ORDERED, ADJUDGED AND DECREED that the City’s entry into the
28 Revenue Sharing Agreement, and the Parties’ incorporation of that Agreement into the

1 Stipulation, and into this Proposed Judgment, shall not constitute a waiver by the City of its
2 contention in the Petition that the County was only lawfully entitled, in connection with the
3 annexation proceedings, to negotiate about the matters addressed in the Property Tax Exchange
4 Agreement, and that both Parties fully reserve their respective claims and defenses regarding the
5 lawful scope of County-City negotiations with regard to an annexation, as to which this judgment
6 shall have no res judicata or collateral estoppel effect.

7 IT IS FURTHER ORDERED, ADJUDGED AND DECREED that the City and the County
8 shall each bear their own attorneys' fees in connection with the prosecution or defense of the
9 Petition for Writ of Mandamus and Complaint for Declaratory Relief.

10 IT IS FURTHER ORDERED, ADJUDGED AND DECREED that the Court shall retain
11 jurisdiction over the parties to enforce this Judgment as provided for in Code of Civil Procedure
12 Section 664.6 (or any successor provision).

13 Dated: _____, 2009

14 _____
15 Honorable Michael P. Kenny
16 Judge of the Superior Court

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RECEIVED

NOV 06 2009

CITY OF RANCHO CORDOVA

RESOLUTION NO. 92-2009

SACRAMENTO LOCAL AGENCY
FORMATION COMMISSION

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RANCHO CORDOVA
APPROVING A PROPERTY TAX EXCHANGE AGREEMENT BETWEEN THE COUNTY OF
SACRAMENTO AND THE CITY OF RANCHO CORDOVA, RELATING TO THE RANCHO
CORDOVA SPHERE OF INFLUENCE (SUNRISE/FOLSOM AREA)**

RECITALS

WHEREAS, on August 21, 2007, the City of Rancho Cordova ("City") submitted an application to the Local Agency Formation Commission of the County of Sacramento ("LAFCO"), which LAFCO has designated as the "City of Rancho Cordova Annexation – Annexation of the Sphere of Influence (LAFCO 07-09) ("Proposed Annexation") to annex the City's sphere of influence to the City ("Annexation Area"); and

WHEREAS, as required by Revenue and Taxation Code Section 99(b), the LAFCO Executive Director gave notice of the filing to the Assessor and Auditor of the County of Sacramento ("County"); and

WHEREAS, as required by Revenue and Taxation Code section 99(b) the County Auditor notified the City Council and the Board of Supervisors of the County of Sacramento of the amount of, and allocation factors with respect to, property tax revenue estimated pursuant to Revenue and Taxation Code section 99(b) that is subject to a negotiated exchange between the City and the County ("Section 99 negotiations"); and

WHEREAS, the negotiation period for the Section 99 negotiations began on December 5, 2007 and, by law, is limited to 60 days; and

WHEREAS, as required by Revenue and Taxation Code section 99(b), the City and the County commenced negotiations to determine the amount of property tax revenues to be exchanged between and among them; and

WHEREAS, the City and the County were unable to reach an agreement and agreed to go through the three-part dispute resolution process set forth in Revenue and Taxation Code section 99(e); and

WHEREAS, the City and the County have agreed to extend the time periods for the dispute resolution process; and

WHEREAS, the City and the County have completed the first and the second steps of the three-part dispute resolution process set forth in Revenue and Taxation Code section 99(e)(1)(A) and (B); and

WHEREAS, the City and the County are engaged in the third step of the three-part dispute resolution process set forth in Revenue and Taxation Code section 99(e)(1)(C); and

WHEREAS, Revenue and Taxation Code section 99(b)(4) provides that the exchange may be limited to an exchange of property tax revenues from the annual tax increment attributable to the local agencies whose service area or responsibilities will be altered and provides that the final exchange resolution to be adopted by the City's City Council and the County's Board of Supervisors shall specify how the annual tax increment shall be allocated in future years; and

WHEREAS, the purpose of this resolution is to set forth the amount of property tax revenues the City of Rancho Cordova agrees will be exchanged between the City and the County in connection with the Proposed Annexation and to specify how the City agrees the annual tax increment from the area to be annexed shall be allocated in future years; and

WHEREAS, it is the intention of the City Council that there be no change or adjustment to the allocation of property tax revenues as a result of the approval of the Proposed Annexation; that is, the City does not seek any property tax from the Annexation Area or any annual tax increment from the Annexation Area. The City would, thus, have no allocation factor for the tax rate area that contains the Annexation Area; there would be no "exchange" of property tax revenues; and the City would receive no property tax revenues from the Annexation Area following annexation; and

WHEREAS, the representatives of the City and the County have reached an agreement regarding the exchange of property tax revenues, which agreement is entitled "Property Tax Exchange Agreement Between the County of Sacramento and the City of Rancho Cordova, Relating to the Rancho Cordova Sphere of Influence," which agreement is attached hereto as **Exhibit A**; and

WHEREAS, the City Manager recommends approval of the agreement; and

WHEREAS, all terms used herein shall be as defined in the Revenue and Taxation Code.

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE CITY COUNCIL OF THE CITY OF RANCHO CORDOVA that the Council resolves as follows:

1. The City Council of the City of Rancho Cordova approves the "Property Tax Exchange Agreement Between the County of Sacramento and the City of Rancho Cordova, Relating to the Rancho Cordova Sphere of Influence," and authorizes and directs the City Manager to sign it in substantially the form attached as **Exhibit A**.
2. The City Council of the City of Rancho Cordova directs the City Clerk to send a copy of this resolution and said agreement to the Executive Director of the Sacramento County Local Agency Formation Commission.

PASSED AND ADOPTED by the City Council of the City of Rancho Cordova on the 5th day of October, 2009 by the following vote:

AYES: Budge, McGarvey, Sander, Cooley, and Mayor Skoglund
NOES: None
ABSENT: None
ABSTAIN: None



Dan Skoglund, Mayor

ATTEST:



Mindy Cuppy, City Clerk

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NOV 06 2009

SACRAMENTO LOCAL AGENCY
FORMATION COMMISSION

CITY OF RANCHO CORDOVA

RESOLUTION NO. 93-2009

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RANCHO CORDOVA
APPROVING AN AGREEMENT BETWEEN THE CITY OF RANCHO CORDOVA AND THE
COUNTY OF SACRAMENTO REGARDING REVENUE SHARING UPON ANNEXATION OF
SUNRISE-FOLSOM AREA**

RECITALS

WHEREAS, on August 21, 2007, the City of Rancho Cordova ("City") submitted an application to the Local Agency Formation Commission of the County of Sacramento ("LAFCO") which LAFCO has designated as the "City of Rancho Cordova Annexation – Annexation of the Sphere of Influence (LAFCO 07-09) ("Proposed Annexation") to annex the City's sphere of influence to the City ("Annexation Area"); and

WHEREAS, as required by Revenue and Taxation Code Section 99(b), the LAFCO Executive Director gave notice of the filing to the Assessor and Auditor of the County of Sacramento ("County"); and

WHEREAS, as required by Revenue and Taxation Code section 99(b) the County Auditor notified the City Council and the Board of Supervisors of the County of Sacramento of the amount of, and allocation factors with respect to, property tax revenue estimated pursuant to Revenue and Taxation Code section 99(b) that is subject to a negotiated exchange between the City and the County ("Section 99 negotiations"); and

WHEREAS, the negotiation period for the Section 99 negotiations began on December 5, 2007 and, by law, is limited to 60 days; and

WHEREAS, as required by Revenue and Taxation Code section 99(b), the City and the County commenced negotiations to determine the amount of property tax revenues to be exchanged between and among them; and

WHEREAS, the City and the County were unable to reach an agreement regarding the amount of property tax revenues to be exchanged between and among them and the City filed a Petition for Writ of Mandamus and Complaint for Declaratory Relief in Sacramento Superior Court, Case No. 34-2008-00002478-CU-WM-GDS, on January 31, 2008 ("Complaint"), within the 60-day period; and

WHEREAS, prior to responding to the Complaint, the City and the County agreed to go through the three-part dispute resolution process set forth in Revenue and Taxation Code section 99(e) in an effort to come to agreement regarding the amount of property tax revenues to be exchanged between and among them; and

WHEREAS, the Sacramento Superior Court has stayed the proceedings in order to allow the City and the County to complete the three-part dispute resolution process;

WHEREAS, the City and the County agreed to extend the time periods for the dispute resolution process; and

WHEREAS, the City and the County have completed the three-part dispute resolution process set forth in Revenue and Taxation Code section 99(e)(1)(A) and (B); and

WHEREAS, the City and the County engaged in separate and parallel negotiations to discuss other issues of concern to them regarding the Annexation Area such as the provision of services; and

WHEREAS, the result of their negotiations pursuant to the three-part dispute resolution process set forth in Revenue and Taxation Code section 99(e) and their separate and parallel negotiations, the City and the County have agreed to resolve the issues raised in the Complaint on the terms set forth in a separate agreement and to resolve the other issues which were the subject of their separate and parallel negotiations on the terms set forth in the attached "Agreement Between the City of Rancho Cordova and the County of Sacramento Regarding Revenue Sharing Upon Annexation of Sunrise-Folsom Area to City of Rancho Cordova" (**Exhibit A1**) ("Agreement"); and

WHEREAS, the City Manager recommends approval of the Agreement; and

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE CITY COUNCIL OF THE CITY OF RANCHO CORDOVA resolves as follows:

1. The City Council of the City of Rancho Cordova approves the "Agreement Between the City of Rancho Cordova and the County of Sacramento Regarding Revenue Sharing Upon Annexation of Sunrise-Folsom Area to City of Rancho Cordova" and authorizes and directs the City Manager to sign it in substantially the form attached as **Exhibit A1**.
2. The City Council of the City of Rancho Cordova directs the City Clerk to send a copy of this resolution and said Agreement to the Finance Director of the City of Rancho Cordova.

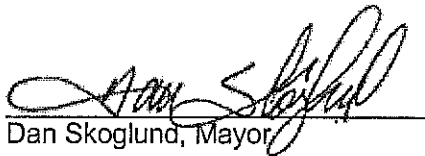
PASSED AND ADOPTED by the City Council of the City of Rancho Cordova on the 5th day of October, 2009 by the following vote:

AYES: Budge, McGarvey, Sander, Cooley, and Mayor Skoglund

NOES: None

ABSENT: None

ABSTAIN: None


Dan Skoglund, Mayor

ATTEST:


Mindy Cuppy, City Clerk

RECEIVED

NOV 06 2009

EXHIBIT A

SACRAMENTO LOCAL AGENCY
FORMATION COMMISSION

**PROPERTY TAX EXCHANGE AGREEMENT
BETWEEN THE COUNTY OF SACRAMENTO AND THE CITY OF RANCHO
CORDOVA, RELATING TO THE RANCHO CORDOVA SPHERE OF INFLUENCE**

This PROPERTY TAX EXCHANGE AGREEMENT (hereinafter "Agreement") is made and executed in duplicate this _____ day of _____, 2009 by and between the COUNTY OF SACRAMENTO, a political subdivision of the State of California (hereinafter referred to as "COUNTY"), and the CITY OF RANCHO CORDOVA, a general law city (hereinafter referred to as "CITY").

RECITALS

A. On June 6, 1978, the voters of the State of California amended the California Constitution by adding Article XIII A thereto 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; and

B. Following such constitutional amendment, 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 which are derived from such property and available to the county and city following annexation of the property to the incorporated territory of the city; and

C. CITY has filed an application with the Sacramento Local Agency Formation Commission ("LAFCO"), entitled "City of Rancho Cordova Annexation – Annexation of the Sphere of Influence (LAFCO-07-09)," requesting its approval of the annexation of approximately 748 acres of real property to CITY, consisting of all of the area within the CITY's sphere of influence, as designated by LAFCO and approved by the voters in November 2002 ("the Sunrise-Folsom Annexation"); and

D. COUNTY and CITY wish to work together to develop a fair and equitable approach to the sharing of real property ad valorem taxes imposed and collected as authorized by the Revenue and Taxation Code in order to encourage sound urban development and economic growth; and

E. The purpose of this Agreement is to serve as a Property Tax Transfer Agreement pursuant to Section 99 of the California Revenue and Taxation Code for the Sunrise-Folsom Annexation.

COUNTY and CITY hereby agree as follows:

Section 1. Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below:

(a) "Annexation Area" shall mean that portion of the unincorporated area of COUNTY designated by LAFCO as the sphere of influence of CITY known as the "Sunrise-Folsom Annexation",

(b) "Annexation Date" shall mean the date specified by the Cortese-Knox-Hertzberg Local Governmental Reorganization Act of 2000 (California

EXHIBIT A

Government Code § 56000 et seq.) as the effective date of the Sphere of Influence Annexation.

(c) "Sunrise-Folsom Annexation" shall mean the annexation to the CITY as delineated in Sacramento Local Agency Formation Commission Application Control Number "LAFC 07-09", the annexation of which to CITY is subsequently approved and completed by the Sacramento Local Agency Formation Commission as provided in the Cortese-Knox-Hertzberg Local Governmental Reorganization Act of 2000 (California Government Code § 56000 et seq.).

(d) "Property Tax Revenue" shall mean revenue from "ad valorem real property taxes on real property", as said term is used in Section 1 of Article XIII A of the California Constitution and more particularly defined in subsection (c) of Section 95 of the California Revenue and Taxation Code, that is collected from within the Annexation Area, is available for allocation to the City and the County, and is currently allocated to the County General Fund and County Road Fund.

Section 2. Purpose of Agreement. The purpose of this Agreement is to set forth the exchange of Property Tax Revenue between CITY and COUNTY as required by Section 99 of the California Revenue and Taxation.

Section 3. Exchange of Property Tax Revenues. On and after the Annexation Date, the COUNTY and CITY shall exchange Property Tax Revenue as follows:

(a) CITY shall receive none of the Property Tax Revenues from the Annexation Area when and as such revenues are apportioned to jurisdictions in the tax rate area by the County Auditor pursuant to Article 2 of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code, including Revenue and Taxation Code section 96.1.

(b) CITY shall receive none of the annual tax increment from the Annexation Area when and as such revenues are apportioned to jurisdictions in the tax rate area by the County Auditor pursuant to Article 2 of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code, including Revenue and Taxation Code section 96.5.

Section 4. Exchange by County Auditor. COUNTY and CITY agree that all of the exchanges of Property Tax Revenue required by this Agreement shall be made by the County Auditor.

Section 5. Disposition of Litigation. After CITY's City Council and COUNTY's Board of Supervisors have adopted resolutions approving this Agreement, and authorizing and directing the Mayor and Board Chairperson to sign the Agreement, and after the Mayor and Board Chairperson have signed the Agreement and the resolutions, CITY and COUNTY shall submit a joint stipulation to the Court in Sacramento Superior Court Case No. 34-2008-00002478-CU-WM-GDS initiated by CITY by its Complaint and Petition for Writ of Mandamus which names as Defendants and Respondents the County of Sacramento and the Sacramento County Board of Supervisors, and asks the Court, among other things, to issue a peremptory writ of mandamus directing the County to adopt a resolution ratifying a property tax sharing agreement for entry of judgment pursuant to the terms of this agreement. CITY and COUNTY shall each bear

their own attorneys' fees in connection with the litigation of the Petition for Writ of Mandamus and Complaint for Declaratory Relief.

Section 6. Mutual Defense of Agreement. If the validity of this Agreement is challenged in any legal action by a party other than COUNTY or CITY, the CITY agrees that the COUNTY may defend the CITY against the legal challenge at no cost to the CITY.

Section 7. Modification. The provision of this Agreement and all of the covenants and conditions set forth herein may be modified or amended only by a writing duly authorized and executed by both the COUNTY and CITY.

Section 8. Reformation. COUNTY and CITY understand and agree that this Agreement is based upon existing law, and that such law may be substantially amended in the future. In the event of an amendment of state law which renders this Agreement invalid or inoperable or which denies any party thereto the full benefit of this Agreement as set forth herein, in whole or in part, then COUNTY and CITY agree to renegotiate the Agreement in good faith.

Section 9. Effect of Tax Exchange Agreement. This Agreement shall be applicable solely to the Sunrise-Folsom Annexation and does not constitute either a master tax sharing agreement or an agreement on property tax exchanges which may be required for any other annexation to the CITY, nor does it alter, enlarge or affect any revenue sharing obligations of the City by way of incorporation on July 1, 2003.

Section 10. Entire Agreement. With respect to the subject matter hereof only, this Agreement supersedes any and all previous negotiations, proposals, commitments, writings, and understandings of any nature whatsoever between COUNTY and CITY except as otherwise provided herein.

Section 11. Notices. All notices, requests, certifications or other correspondence required to be 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:

<u>COUNTY</u>	<u>CITY</u>
County Executive County of Sacramento 700 H Street, Room 7650 Sacramento, CA 95814	City Manager City of Rancho Cordova 2729 Prospect Park Drive Rancho Cordova, CA 95670

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

Section 12. Approval, Consent, and Agreement. Wherever this Agreement requires a party's approval, consent, or agreement, the party shall make its decision to give or withhold such approval, consent or agreement in good faith, and shall not withhold such approval, consent or agreement unreasonably or without good cause.

Section 13. 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.

EXHIBIT A

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in the county of Sacramento, State of California, on the dates set forth above.

COUNTY OF SACRAMENTO, a political
subdivision of the State of California

By _____
Chairperson of the Board of Supervisors

(SEAL)

ATTEST: _____
Clerk of the Board of Supervisors

Approved As to Form:

County Counsel

CITY OF RANCHO CORDOVA, a general law
city

By: _____
Ted Gaebler, City Manager

(SEAL)

ATTEST: _____
Mindy Cuppy, City Clerk

Approved As to Form:

City Attorney

1283024.4

**AGREEMENT BETWEEN CITY OF RANCHO CORDOVA AND COUNTY OF SACRAMENTO
REGARDING REVENUE SHARING UPON ANNEXATION OF SUNRISE-FOLSOM AREA TO
CITY OF RANCHO CORDOVA**

This agreement is entered into in duplicate this ___ day of September 2009 between the City of Rancho Cordova, a general law city ("City"), and the County of Sacramento, a political subdivision of the State of California ("County").

RECITALS

A. Factual Background

On or about August 21, 2007 and pursuant to the Cortese-Knox-Hertzberg Act, Government Code § 56000 et seq., the City submitted to the Local Agency Formation Commission of Sacramento County ("LAFCO") an application proposing the annexation of an unincorporated territory of Sacramento County consisting of the City's sphere of influence ("Annexation Area"). LAFCO has designated the annexation application as "City of Rancho Cordova Annexation – Annexation of the Sphere of Influence (LAFCO-07-09)" ("the Annexation"). The Annexation Area is sometimes referred to as the "Sunrise-Folsom Area."

As required by Revenue and Taxation Code § 99 ("Section 99"), the City and the County commenced negotiations to determine the amount of the 1% *ad valorem* property tax subject to negotiations to be exchanged. Although the City and the County met and exchanged correspondence, and the City made an offer by letter of December 19, 2007, they did not reach agreement regarding the exchange of property tax from the Annexation Area.

B. Procedural Background

On January 31, 2008, the City filed its Complaint and Petition for Writ of Mandamus ("Complaint") in Sacramento Superior Court (Case No. 34-2008-00002478-CU-WM-GDS), naming as Defendants and Respondents the County of Sacramento and the Sacramento County Board of Supervisors. The Complaint asks the Court to issue a peremptory writ of mandamus directing the County to accept the City's offer of December 19, 2007 and adopt a resolution ratifying the parties' property tax sharing agreement within the time required by Section 99; to declare that the exchange of property tax revenues and the annual tax increment from the territory proposed for annexation is the only subject matter negotiable under Section 99; and to order the parties to limit their Section 99 negotiations to said property tax revenues and annual tax increment.

The City and the County stipulated that the Court could stay the proceedings to enable the City and County to pursue the three-part dispute resolution process set forth in Section 99, subdivision (e), in an effort to reach agreement regarding the exchange of property tax from the Annexation Area.

The three-part dispute resolution process involves the retention of a third-party fiscal consultant to perform an independent fiscal analysis of tax revenues derived from, and the costs of the city and the county services to, the proposed annexed territory. If the information contained in the fiscal analysis does not precipitate an agreement, subdivision (e) requires the affected local agencies to participate in mediation and then an arbitration process. The City and the County jointly retained fiscal consultant Rosenow Spevacek Group, Inc. (RGS), which prepared a report dated December 23, 2008 entitled "Sunrise/Folsom Annexation Fiscal

Analysis Performed for the County of Sacramento & the City of Rancho Cordova" (the "Fiscal Analysis"). The Fiscal Analysis is attached hereto and incorporated herein as **Exhibit A**. The City and the County reviewed the Fiscal Analysis but did not reach agreement on the exchange of property tax revenues. The City and the County then retained a mediator and participated in mediation; upon the completion of the mediation, no exchange of property tax revenues was agreed upon. As a third step, subdivision (e) requires that the city and the county select and pay for an arbitrator to conduct an advisory arbitration for a 30 day period. The City and the County have extended the arbitration period through December 31, 2009, provided an arbitrator is retained by September 30, 2009.

The parties stipulated to extend time for the Defendants and Respondents to respond to the Complaint and the Court entered its Order staying the proceedings through October 31, 2009. The attached agreement entitled "Property Tax Exchange Agreement Between the County of Sacramento and the City of Rancho Cordova Relating to the Rancho Cordova Sphere of Influence Annexation" ("Property Tax Exchange Agreement") (**Exhibit B** attached hereto) provides that, following that Agreement's execution, the City and County shall submit a joint stipulation to the Court for entry of judgment.

AGREEMENT

Now, therefore, the City and the County agree as follows:

1. INTENT OF THE PARTIES

Notwithstanding the parties' respective legal contentions, all parties desire to resolve the dispute set forth in the Complaint without the necessity of further litigation. This Agreement, therefore, is entered into with the intent of resolving all claims in the Complaint.

The City and the County agreed to resolve the lawsuit on the following four fundamental terms:

A. The City will recover all of its costs of providing services to the Annexation Area.

B. The County will continue to receive all of its current allocation from the one percent (1%) *ad valorem* property tax rate provided in Article XIII A, section 1, subdivision (a) of the California Constitution from the Annexation Area following the annexation.

C. Following recovery of its costs of services, the City will transmit to the County 75% of the Bradley-Burns Uniform Sales and Use tax, transient occupancy tax and utility users' tax revenues (on energy and gas usage) received by the City from the Annexation Area.

D. The City's annual recovery of its costs of providing services and its sharing of sales and use tax, transient occupancy tax and utility users' tax revenues with the County be administratively simple and efficient.

Accordingly, the process for calculating the City's costs of providing services and the revenue sharing is designed to minimize the amount of administration required, and such process therefore sacrifices precision for simplicity. The parties recognize that there may be changes in the facts and/or the law that exist as of the date of this Agreement that may necessitate the interpretation or amendment of this Agreement in the future to effectuate the

fundamental intent of the parties as expressed above and set forth more herein. In particular, the parties recognize that the State of California may enact legislation, whether by the State Legislature or by the people by the initiative, or a court may issue an order that affects or changes the revenues from the Annexation Area identified in the Fiscal Analysis, including without limitation changes in the types of revenues, the percentages of any taxes or fees, the persons or entities subject to any taxes or fees or the manner in which revenues are distributed to entities. All of these changes have the potential to result in the revenue sharing process becoming inconsistent with the parties' fundamental intent. Therefore, if one of the parties believes that, because of changes in law, the revenue sharing has become inconsistent with the parties' fundamental intent, that party may request that revisions to the revenue sharing process be made to conform to the parties' intent, and, in such event, the parties shall negotiate in good faith to reach agreement on revisions, if appropriate, to the revenue sharing process.

The parties' agreement regarding the four fundamental terms is described in more detail in this Agreement, including the exhibits hereto.

II. PROPERTY TAX REVENUES

The parties' agreement that the County will retain 100% of the *ad valorem* property taxes from the Annexation Area following the effective date of the Annexation shall be implemented by adoption by City's City Council and County's Board of Supervisors of resolutions approving the attached agreement entitled "Property Tax Exchange Agreement Between the County of Sacramento and the City of Rancho Cordova Relating to the Rancho Cordova Sphere of Influence Annexation" ("Property Tax Exchange Agreement") (**Exhibit B** attached hereto) and authorizing and directing the Mayor and Board Chairperson to sign such agreement. The parties agree to adopt such resolutions no later than October __, 2009.

This Agreement does not apply to any revenue attributable to an increase in the 1% *ad valorem* property tax rate in excess of 1% as a method of generating revenue, as provided in Article XIII A, section 1, subdivision (b) or any successor provision of the California Constitution, commonly referred to as "property tax overrides." The tax revenue attributable to such an increase shall be allocated and paid to the City.

The parties acknowledge that the monies received by the City from the Vehicle License Fee Property Tax Compensation Fund as the "vehicle license fee adjustment amount" pursuant to Revenue and Taxation Code section 97.70 are not subject to this Agreement.

III. RECOVERY OF COSTS OF SERVICES AND SHARING CITY REVENUES FROM THE ANNEXATION AREA FROM SALES AND USE TAXES, TRANSIENT OCCUPANCY TAXES AND UTILITY USERS' TAXES

The parties' agreement that the City will retain revenues from the Annexation Area to cover its costs of services to the Annexation Area during each fiscal year and that the City will transfer 75% of the sales and use tax, transient occupancy tax and utility users' tax revenues (from energy and gas usage) from the Annexation Area to the County shall be implemented following the effective date of the Annexation in the manner set forth in **Exhibit C**, attached hereto and incorporated herein, entitled "Annual Steps for City to Recover Costs of Services and To Share Tax Revenues with County from the Sunrise-Folsom Annexation Area."

The parties' agreement to share certain revenues from the Annexation Area does not include property tax revenues identified in Paragraph II above, tax revenues identified in

Paragraph IV below, revenues derived from an increase in the rate of the transient occupancy tax in excess of 12% or revenues derived from a utility users' tax that broadens the services subject to such tax and/or increases the rate of such tax over the services subject to the tax and/or rate in effect as of the effective date of the annexation.

IV. AGREEMENT TO SHARE SALES AND USE TAX REVENUES

The provisions of Article XIII, Section 29(b) of the California Constitution authorize cities and counties to enter into contracts to apportion between them the revenue derived from any sales or use tax imposed by them pursuant to local sales and use tax law, provided that a resolution approving the contract is approved by a two-thirds (2/3) vote of both the city council and the board of supervisors. This agreement is entered into pursuant to Government Code sections 55700 to 55707 which specify the procedures under which revenues derived from the tax collected pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law provided for in Part 1.5 (commencing with Section 7200) of Division 2 of the Revenue and Taxation Code ("Bradley-Burns Act") and distributed by the State Board of Equalization to the City from the Annexation Area may be shared by the City with the County.

The parties' agreement that the City will share actual sales and use tax revenues received from the Annexation Area with the County after the City has received its costs of services shall be implemented after the effective date of the Annexation as set forth in this Agreement, including all exhibits, provided this Agreement is approved by resolutions adopted by a two-thirds' vote by City's City Council and County's Board of Supervisors. The parties agree to adopt such resolutions no later than October __, 2009.

This Agreement does not apply to any revenue attributable to an increase by the City following the effective date of annexation of its sales and use tax, enacted pursuant to the Bradley-Burns Act, in excess of one percent, a transactions and use tax or other tax imposed on retailers for the privilege of conducting business in the City.

V. IMPLEMENTATION OF THIS AGREEMENT

A. Effective Date of Agreement

This Agreement shall become effective when executed by both parties.

B. Integration

The terms of this Agreement are intended by the parties as a final expression of their agreement and understanding with respect to such terms as are included in this Agreement and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Agreement constitutes the complete and exclusive statement of its terms, and that no extrinsic evidence whatsoever may be introduced to vary its terms in any proceeding involving this Agreement.

C. Dispute Resolution

(1) Inadmissibility. Should any disputes arise as to the performance of this Agreement, the County and the City agree to the dispute resolution process set forth below. All conduct, testimony, statements or other evidence made or presented during the meeting described in subsection (2) below shall be confidential and inadmissible in any

subsequent arbitration proceedings brought to prove liability for any claimed breach or damages which are the subject of the dispute resolution process.

(2) Initiation of Process. The County or the City may initiate the dispute resolution process by notifying the other in writing of a potential dispute concerning the performance of this Agreement. This written notification shall include all supporting documentation, shall state what is in dispute, and shall request a meeting between the County Executive and the City Manager, or their respective designees. The purpose of this meeting shall be to ascertain whether a resolution of the disagreement is possible without third-party intervention. This meeting shall be scheduled to take place within thirty (30) working days of receipt of the written notification of the dispute. At the meeting, the respective representatives of the County and the City shall attempt to reach an equitable settlement of the disputed issue(s). The representatives may agree to conduct further meetings or other communications for up to thirty (30) days in an attempt to reach an equitable settlement.

(3) Third Party Neutral Resolution. If the initial meeting and any further meetings and communications provided for in subsection (2) above do not fully resolve the disagreement, the parties shall then within ten (10) working days each appoint a single representative who is knowledgeable and experienced in matters of the sort addressed by this Agreement, including local government finance, taxation, revenues, and accounting. Those two representatives shall then, within twenty (20) working days, agree between themselves to appoint a neutral third person who is similarly knowledgeable and experienced in local government finance, taxation, revenues, and accounting, and who is not employed by or affiliated with the City or the County (the Third Party Neutral). The Third Party Neutral shall resolve the parties' dispute. He or she shall meet with, and solicit and review such written submissions and documents as he or she deems appropriate from, the County Executive and the City Manager, or their respective designees, over a period of up to sixty (60) days from the Third Party Neutral's selection. All methods of discovery procedures authorized under the California Discovery Act, commencing at CCP §§ 2016.050 et. seq., shall be applicable to the arbitration proceeding, and all redress thereunder shall be made to the Third Party Neutral who shall make all appropriate orders consistent with relevant legal precedent. The Third Party Neutral shall have no authority to add to, delete or otherwise modify the provisions of this Agreement or rule upon the underlying validity of this Agreement or any of its provisions. The Third Party Neutral shall render a decision within twenty (20) days of the expiration of that period. The Third Party Neutral's decision shall be final and controlling between the City and the County, and shall not be subject to judicial review except that judicial review shall be available to determine if the Third Party Neutral exceeded his or her authority as defined herein. The parties shall pay any monetary award and/or comply with any other order of the Third Party Neutral within sixty (60) days of his or her decision.

(4) Costs. The parties shall equally share the Third Party Neutral's fees and expenses. Each party shall bear its own costs, expenses and attorney's fees, and no party shall be awarded such costs, expenses, or attorney's fees incurred in the dispute resolution process.

D. Construction and Interpretation

It is agreed and acknowledged by the parties hereto that the provisions of this Agreement have been arrived at through negotiation, and that each of the parties has had a full and fair opportunity to revise the provisions of this Agreement and to have such provisions reviewed by legal counsel. Therefore, the normal rule of construction that any ambiguities are

to be resolved against the drafting party shall not apply in construing or interpreting this Agreement.

E. Waiver

The waiver at any time by either party of any of its rights with respect to a default or other matter arising in connection with this Agreement shall not be deemed a waiver with respect to any subsequent default or other matter.

F. Notices

Any notice, demand, request, consent, or approval that any party hereto may, or is required to, give the other shall be in writing and shall be deemed to have been received three (3) days after being deposited in the United States mail, first class postage prepaid, and addressed as follows:

TO COUNTY:	TO CITY:
County Executive	City Manager
County of Sacramento	City of Rancho Cordova
700 H Street, Room 7650	2729 Prospect Park Dr.
Sacramento, CA 95814	Rancho Cordova, CA 95670

Any party hereto shall have the right to serve any notice by personal delivery, and change the address at which it will receive such communications by giving fifteen (15) days advance notice to the other party.

G. Counterparts

This Agreement may be executed in separate counterparts.

H. Litigation Affecting The City's Ability to Collect Tax Revenues

The parties will cooperate in the defense of any action brought against the City, including the City Council and/of any City official, that challenges the City's ability to levy and/or collect the sales and use tax, transient occupancy tax and/or utility users' tax or seeks a refund of any such taxes, provided that the County is entitled to receive 75% of such tax revenues pursuant to this Agreement. If a claim is made and/or litigation is brought against the City challenging the legality of any of the taxes or claiming a refund of any such taxes, the City may place the disputed revenues that it would otherwise transmit to the County pursuant to this Agreement into an impound account until the claim and/or lawsuit is resolved.

J. Exhibits

The following exhibits are included as part of this Agreement:

- (a) Exhibit A, entitled "Fiscal Analysis";
- (b) Exhibit B, entitled "Property Tax Exchange Agreement";
- (c) Exhibit C, entitled "Annual Steps for City to Recover Costs of Services and To Share Tax Revenues with County from the sunrise-Folsom Annexation Area."

VI. AMENDMENT OF AGREEMENT

The parties agree to negotiate in good faith to amend this Agreement to address conditions imposed by LAFCO or changes in state law that substantially affect the provisions of this Agreement. The parties' negotiations shall be governed by the parties' intent as stated in Paragraph I above.

Date:

City of Rancho Cordova
Ted Gaebler, City Manager

Date:

County of Sacramento
Susan Peters, Chairperson

Date:

Sacramento County Board of Supervisors
Susan Peters, Chairperson

APPROVED AS TO FORM:

Date:

Counsel for City of Rancho Cordova

Date:

Counsel for County of Sacramento and
Sacramento County Board of Supervisors

1286407.5

Exhibit A

**COUNTY OF SACRAMENTO
& CITY OF RANCHO CORDOVA**



SUNRISE/FOLSOM ANNEXATION FISCAL ANALYSIS
Performed for the County of Sacramento & the
City of Rancho Cordova
December 23, 2008

COUNTY OF SACRAMENTO
& CITY OF RANCHO CORDOVA

SUNRISE/FOLSOM ANNEXATION FISCAL ANALYSIS

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INTRODUCTION

The County of Sacramento ("County") and the City of Rancho Cordova ("City") have commissioned this fiscal analysis of the proposed annexation of the City's Sphere of Influence ("Study Area"). The Study Area is currently located in unincorporated Sacramento County, adjacent to the City limits. If this area is annexed, the City would replace the County as the primary provider of local municipal services. This study estimates the past and projected costs and revenues for providing municipal services to the Study Area before and after annexation to the City.

PURPOSE OF THIS STUDY

This Study provides a fiscal analysis of two scenarios for service provision to the Study Area, including a five year forecast of municipal revenues and expenditures depending upon whether the area remains unincorporated or is annexed by the City. Scenario A assumes the Study Area will remain unincorporated and within the County's jurisdiction, Scenario B assumes the area is annexed and therefore the responsibility of the City. For context and perspective, a five year history of actual expenditures by the County was also included in this analysis.

The financial evaluation is comprised of an operational budget model of the General Fund and Road Fund, the two primary funds involved in providing municipal services. This Study is limited to these reoccurring operating revenues and costs and does not account for capital expenditures or other one-time events. For example, we have accounted for recurring general maintenance of roads, but not the cost for the design and installation of infrastructure improvements. We have not taken into consideration the potential of any catastrophic or otherwise unpredictable event within the Study Area which could affect projections. RSG did not conduct an in-depth analysis pertaining to infrastructure needs, nor did we take into account state or federal monies that may be available to fund such capital improvements.

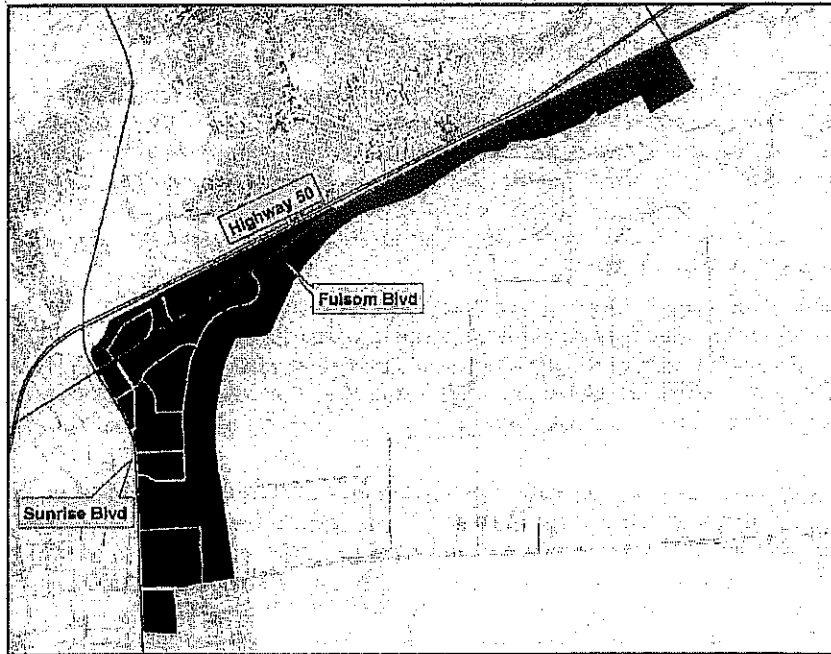
STUDY AREA DESCRIPTION

Approximately 748 acres in size, the Study Area is located immediately northeast of the City of Rancho Cordova limits and is the entirety of the City's unincorporated sphere of influence, as designated by the Sacramento County Local Agency Formation Commission ("LAFCo"). More specifically, the Study Area is located along the eastern stretch of Sunrise Boulevard, between Highway 50 and a commercial area south of White Rock Road, and along both sides of Folsom Boulevard, between Sunrise Boulevard and Nimbus Road, as shown in Exhibit 1.

The Study Area is generally developed with commercial uses, including retail, office, hotels, and industrial uses. There are few vacant parcels and no residents currently live in the Study Area. Nearby communities include Rancho Cordova, Nimbus, Fair Oaks, and Alder Creek. Mather Field lies to the south. The region directly to the southeast of Study Area is currently vacant.

STUDY AREA MAP

EXHIBIT 1



METHODOLOGY AND ASSUMPTIONS

Annexations must follow the legal requirements established by Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, California Government Code §56000, ("CKH Act"). As part of an annexation proceeding, cities and counties may negotiate a property tax exchange, which precipitated the need for this analysis.

It should be noted that the figures presented in this Study do not represent exact future sums. All projections are illustrative in nature and must be based on assumptions and methodologies which could alter forecasted amounts if changed. Many factors are outside local control, such as changes in the regional or national economy, natural disasters, or alterations in state or federal law. This Study makes every attempt, however, to ensure that all assumptions are sound and conservative.

The forecast of municipal revenues and expenditures incorporates the following assumptions:

Effective Date. The effective date of annexation is the day in which service responsibilities, revenues and costs would be transferred to the City. For illustrative purposes only, RSG has assumed the effective date of annexation would be July 1, 2009. Realistically, the effective date would be determined by more extensive CKH Act procedures but also the amount of public participation that is involved in the process. The effective date of annexation would ultimately depend on the successful processing of an annexation application, subject to a protest hearing, and a majority approval by the affected electorate if ordered by LAFCo.

Transition Period. A transition period is the time between the effective date of annexation and the time when a city must assume full service responsibility. A transition period can be anywhere from 3 to 12 months, depending on the services involved and a city's ability to implement its own services in the new area. For the purposes of this study to look at total annual costs upon full annexation, we have not taken into consideration a transition period during which time costs and services to the Study Area may be shared between the City and County.

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Public Services Plan. If the Study Area is annexed, Rancho Cordova would assume primary responsibility for the following municipal services: law enforcement, planning, building, code enforcement, public works/engineering, and animal control. Other services would remain the responsibility of the existing service providers, including fire protection, flood control, and utility service.

Growth Projections. The Study Area has seen a minimal amount of development in the last several years. Although no significant projects are currently under construction, four projects totaling 42 hotel rooms, 1,465 residential units, and 94,000 square feet of retail space have begun the permitting process with the County. The timetable for completion is not yet known, as these projects are all in early stages of entitlements and the ongoing recession and incapacity of financial markets are expected to delay many new projects throughout the region and nation. Consequently, the County, City, and RSG have agreed that no new development would take place during the five year forecast.

Revenues and Expenditures. The data employed in this Report was collected between July and November 2008. Pertinent fiscal data was derived in part from the revenues and expenditures of Fiscal Years 2003-04, 2004-05, 2005-06, 2006-07, and 2007-08 as presented by County staff and/or stated in the County's Adopted Annual Budget. When possible, audited figures were used. City staff also provided existing costs for municipal services, inventories of certain facilities, and feedback on certain impacts associated with the potential annexation.

Potential City costs were generally derived from 2007-08 and 2008-09 budgeted figures and staff estimates, though others were projected based upon current County service levels when necessary. Assistance and additional information was provided by both County and City staff when precise identification of costs and revenues was not possible due to record keeping limitations. It is RSG's experience that such data limitations are not uncommon and within normal levels for this type of analysis. In instances where precise figures were not available, RSG employed the best available methodologies to extrapolate estimates.

Cost estimates are conceptualized as three components: staffing, services, and capital outlay (or equipment). In the event of significant maintenance, such as road overlays, the cost of the maintenance was amortized over the estimated life of the item.

It is important to note that County departments typically responded with cost estimates that included overhead expenditures for administrative costs (e.g. finance, County Executive's office), while the City provided a separate analysis for these costs. It is equally important to note that annexation will only result in a shift of local municipal services from the County to the City. The County would continue to provide many regional services such as flood control, criminal justice systems, and health and human services and thus will continue to have costs associated with the Study Area.

Projected costs and revenues are based on a variety of specific assumptions based on historical trends, the inflation rate, and other factors described herein. The inflation factor for all most annual increases is 2.9 percent unless otherwise stated, which was derived from the ten year historical averaged Consumer Price Index for all urban consumers in the western region.

It should be noted that certain revenues and expenditures generally analyzed in fiscal impact studies have not been included here as there is no residential population. For example, certain revenue streams are generally calculated on a per capita basis, such as state subventions for gas tax, and thus are not calculated here.

GENERAL FUND REVENUES

The County's General Fund pays for most municipal operational services, including general government, law enforcement, animal control, public works/engineering, and community development (e.g. planning, building and safety, and code enforcement). The funding sources for these services are taxes from property, sales, in-lieu sales, and property transfers; fees for services; fines and forfeitures; franchise fees; and utility user taxes.

This analysis of General Fund revenue has been categorized by revenue source.

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PROPERTY TAXES

The County General Fund receives a portion of the ad valorem property taxes from the Study Area to pay for municipal and regional services. The County's share of the 2007-08 property taxes within the Study Area is approximately 37.7 percent of the general one percent property tax levy, according to County Auditor-Controller's office reports. However, actual revenues are significantly reduced due to contributions to the Educational Revenue Augmentation Fund ("ERAF"), resulting in an effective share of 17.9 percent according to the County Auditor's documented estimate for 2007-08.

Assuming the Study Area is not annexed, RSG has projected the County's share of the property taxes based upon a forecast of future assessed values assuming an annual 2.0 percent increase in secured assessed values. In effect, this assumes no new construction of any material nature, nor increases or decreases in assessed value due to resale activity or assessment appeals. As the area remains relatively built out, RSG does not anticipate a dramatic change in property values in the foreseeable future. Further, the projections have assumed no change in the unsecured roll due to their typically unpredictable nature and the fact they are not subject to Proposition 13.

Upon annexation, the City may receive a portion of the County's property tax share of the general (1 percent) tax levy for the annexed area, pending a negotiation of a property tax transfer between the parties pursuant to the CKH Act and the California Revenue and Taxation Code. The City and County may negotiate a split of this revenue, theoretically between 0 and 100 percent of the County's property tax share. Because this split is subject to future negotiations, RSG has not estimated the amount of any property taxes that could be collected by the City in this analysis.

Incidentally, if the City annexes the Study Area, the County Auditor-Controller's office would charge a property tax administrative fee equal to an estimated 1.2 percent of the gross property tax apportionment based on the 2007-08 rate. This fee is charged to most taxing entities, including the County itself.

PROPERTY TRANSFER TAXES

The County currently receives \$1.10 for every \$1,000 of property value transferred within the unincorporated area. If annexed, the revenue would be split equally between the County and the City, resulting in both entities collecting property transfer tax revenue of \$0.55 for every \$1,000 of property value transferred, typical of most incorporated communities.

The amount of property transfer tax received would depend upon the level of resale activity and property values. In recent years, the amount of property turnover in the Study Area has declined. In 2007-08, the aggregate volume of property turnover dropped to \$23.5 million, as compared to \$80.2 million in 2003-04. To present a conservative forecast that is sensitive to these recent trends, RSG has assumed an aggregate amount of property value turnover of \$22 million annually; this value is based upon 4.1 percent annual turnover of existing commercial and industrial properties. (Commercial and industrial properties in the City have approximately the same turnover rate based upon an historical analysis.) Value for public and exempt utility-owned land was not included in the turnover forecast.

SALES TAX AND IN-LIEU SALES TAX REVENUE (2004 TRIPLE FLIP REVENUE)

In 2007-08, the County received approximately \$6.1 million in sales tax, in-lieu sales tax revenue, and the supplemental pool allocated by the State. If annexed, the City would be eligible to receive 0.75 percent of the sales tax rate charged on taxable sales within the annexation boundaries. Taxable sales estimates were based on data received from County finance staff. Though it is expected that businesses will change during the forecast period, this Study looks to historical records for projecting into the future. For example, two large businesses have closed their operations within the last 18 months; however, a recreational vehicle ("RV")

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dealership has also opened. Thus, sales tax revenue is projected to grow at an annual inflationary factor of 0.11 percent based on the five year historic average change.

On March 2, 2004, the state electorate approved Proposition 57 which in part mandates the exchange of one-quarter (0.25 percent) of the previous 1.00 percent sales tax revenues to local municipalities for an equal amount of property tax revenues. These additional property tax revenues are referred to as "in-lieu sales taxes" or "triple flip revenue", and took effect on July 1, 2004; they continue until the state deficit bailout bonds are paid off in approximately 10 years, after which time it is presumed that in-lieu sales taxes would revert back to local municipalities as sales tax revenue.

TRANSIENT OCCUPANCY TAXES

Transient occupancy taxes ("TOT") result from a fee charged upon hotel room stays. Both the City and the County have a 12 percent TOT rate. The Study Area contains 5 hotels with a total of 777 rooms according to RSG's research. For the past five fiscal years, RSG obtained actual TOT receipts from the County Office of Budget and Debt Management.

The financial projection is based on conservative estimates of room rates and occupancy rates for the market area, and yield projected TOT revenues that are similar to the actual receipts in recent years. According to RSG's research, average daily room rates currently range from \$60 to \$250. To be conservative, RSG has estimated a weighted average daily room rate of \$106, which is comparable with regional hotel room averages. At \$106 per overnight stay, and approximately a 50 percent occupancy rate, revenues are similar to the actual revenues received. It should be noted that a 50 percent occupancy rate is lower than the average rate in the greater Sacramento metropolitan area, which usually hovers in the 68 percent range.

To be conservative, RSG has projected no growth in TOT between 2007-08 and 2008-09. In subsequent years, the averaged daily room rate is projected to increase 1.15 percent annually based on historical increases, but occupancy rates are not projected to change.

MOTOR VEHICLE LICENSE FEES AND PROPERTY TAX IN-LIEU

The Motor Vehicle License Fee ("VLF") is essentially a tax on the ownership of a vehicle, and is collected by the State annually. VLF revenue is then allocated to cities and counties based upon a statutory formula. In 2004, during the State's budget crisis, about 90 percent of a city's VLF revenue was replaced with property tax revenue. Under current law, most of the VLF revenue allocated to cities and all of the revenue allocated to counties increases based on assessed value growth instead of population growth in a jurisdiction. Revenue is distributed as property tax in-lieu of VLF.

Based on the Annual State Controller Report, for each \$1 million in assessed value, the City receives \$748 in property tax in-lieu revenue and the County receives \$1,057. This projection essentially credits the Study Area with that respective value, though other county-wide or city-wide factors play a role in determining the amount of in-lieu revenue the City receives. For example, if the Study Area is annexed, but the assessed value of the City as a whole were to decrease due to significant reassessments resulting in a net decrease of property values, the City would not see an increase in the in-lieu subvention, but would realize less of a loss than if the Study Area was not annexed. It should be noted that during the year an annexation occurs, the added value is not factored into the distribution of revenues, only increases in assessed value following annexation.

UTILITY USER'S TAX

Both the County and City levy identical utility user's taxes, since the City adopted the County's utility tax ordinance. The tax of 2.5 percent is charged on electric power, gas, land line telephone, cable, and sewer utilities within their jurisdiction. Consequently, ratepayers would see no change in the amount of utility user's



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taxes as a result of annexation, and the amount of the taxes collected would be identical between the jurisdictions.

Actual utility user's taxes were not available for the Study Area, nor by any other metric which RSG could extrapolate the taxes collected historically. Consequently, RSG estimated the County and City utility user's taxes based on estimates of commercial utility costs provided by the Institute for Real Estate Management, which publishes a survey of regional utility costs on a square foot basis annually, as well as other known expenditures as identified by tenants.

FRANCHISE FEES

The County currently receives franchise fees from electric power, gas, and water providers based on the terms and conditions of each franchise agreement. The County rate is currently 2 percent of the billed amount. Actual franchise fees were not available, and were estimated by RSG by estimating the per square foot costs of these utilities as described above, multiplied by the County's 2 percent franchise fee rate.

Both the County and City are members of the Sacramento Metropolitan Cable Television Commission, which pays franchise fees to its member jurisdictions based on population according to County Government Code Section 5.50.112. As there is no population within the Study Area, there will be no net benefit or loss to either the City or the County if the Study Area is annexed.

If annexed, the City would receive the franchise fees from water, electric power, gas (2 percent of billed amount), and solid waste haulers (8 percent of billed amount).

COMMUNITY DEVELOPMENT FEES

Community Development fees include planning and building fees for development and other permits. Presently, both the City and County charge fees for many of their planning and building inspection services. Per Assembly Bill 1600, a public agency cannot charge fees which exceed the cost of the service rendered. Specific community development fees are described below:

Planning Fees. These fees are generated through the current and advanced planning processes, which include applicant requested zoning code and general plan amendments, and other regulatory processes, such as plan check applications. The County and City charge fees based upon a set application fee per specific types of services. The City typically requires these fees up front in the form of a deposit. RSG reviewed common planning fees and found the City and County fee structures to be generally comparable, with neither being consistently more or less expensive than the other.

There are four discretionary permits currently being processed by the County including the development of two high-rise residential towers, a 12.5 acre mixed use development, a small hotel, and a use permit for office uses. Revenue received to date for these projects totals \$67,600. However, both the County and the City agree it is unlikely these projects will be developed in the forecast period given the current real estate economy and lack of available development financing sources.

Building Fees. These fees are generated through the plan check and building permit functions. As with Planning Fees, cities may not levy fees that exceed related service costs.

Engineering Fees. These fees are generated through such services as plan check, inspecting private project construction in the public rights of way, tentative map review and processing, performing grading inspections, and issuing encroachment permits.

The County's 2007-08 budget generally shows the Planning and Community Development Department to recover about 72 percent of costs for application processing and plan check, and even less for other services. Based on the County Budget, the Community Development Department as a whole receives only 5 percent of it's funding from charges for service on average. The County's Building and Safety expenditures are 100 percent cost recovered according to County staff.



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Upon annexation, the City's Community Development fees would be charged to Study Area builders and developers in the place of the County's current fee program. According to City staff, the City's current fee schedule generally produces a 95 to 100 percent cost recovery for community development services.

BUSINESS LICENSE FEES

The County and City both collect license fees from businesses within their respective jurisdiction on an annual basis. In both cases, revenue received is based on the number and type of businesses and thus may vary from year to year based on a variety of factors. Additionally, the County and City have reported that each may revise their respective licenses fee structure. Fees collected are regulatory in nature and are not based on sales or profits realized by the businesses subject to the fee. Revenues received are used to offset a portion of departmental costs. For example, of the revenues the County currently collects, approximately 58 percent is used to offset finance department costs, 41 percent to offset community development costs, and 1 percent for County Counsel.

Currently, a general business license in the County is an average of \$50 per year, while in the City it is \$45 per year. Some businesses require specialized licenses which are more expensive, however, to be conservative, RSG has projected all businesses in the Study Area are eligible for a general license. According to County staff, the Study Area currently has 517 businesses. Thus, in 2009-10, if the Study Area is not annexed the County is projected to receive \$25,850, while the City, if the Study Area is annexed, would receive \$23,265. This value was held constant throughout the projections due to the many factors that influence these revenues.

ANIMAL LICENSE FEES

The County currently provides animal care services to the Study Area. As there are not current residents, no animal license fees are generated by the Study Area.

FINES AND FORFEITURES

Revenue from fines and forfeitures are based upon data provided by the Sheriff's Department, who is responsible for local non-traffic law enforcement in the Study Area. The California Highway Patrol provides response to traffic violations in the Study Area and does not apportion these fines with the County. Historical data was available for the past three fiscal years. In the last two fiscal years, revenues were approximately the same, about \$44,000 net of fees charged by the court system. Future projections for both the City and the County are based on the 2007-08 actual revenues received. These revenues were held constant over time, as fines are not reevaluated on a regular basis.

If annexation occurs, the City is likely to see more revenues from fines as traffic tickets and other traffic fines would be collected by the City when it takes over this service from the California Highway Patrol. RSG could not get an estimate of such revenues for the Study Area; in order to present a conservative forecast, we have deliberately not speculated on the amount of such additional fines.

STORMWATER

The County's Environmental Management Department conducts countywide stormwater pollution compliance inspections to be at all retail gasoline stations, automotive body shops, automotive repair facilities, equipment rental yards, nurseries, kennels, automotive dealers, restaurants, and general industrial facilities. An annual fee is assessed for this service. Fees are based on the type of business conducted at the site and range from \$138 to \$309 per year. There is also a charge associated with any re-inspections that are necessary. The County has provided fee revenues from the Study Area, which range from the lowest level of \$214,500 in



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2004-05 to the highest level of \$277,700 in 2006-07. Future costs to the County are based upon the most recent 2007-08 revenues of \$271,600 and inflated annually by 0.8 percent, the five year historical average, though actual revenues will be based upon the number and type of businesses in the Study Area, which may change from year to year.

CSA 1 STREETLIGHTING

The Study Area has one County Service Area 1 (CSA 1), which provides funding for street lighting. The Study Area is currently within CSA 1 Zone 1 - unincorporated, but if annexed, it would become part of CSA 1 Zone 2 - Rancho Cordova. CSA 1 currently receives revenues through a parcel tax levied at the same rates as the County. The tax is levied on commercial properties based on the amount of street frontage of each parcel in the district. Though the Zone would change, the CSA would continue to operate, collecting funds for street lighting in the same manner. Operation and maintenance of the lights is performed by the County, and the County would collect the CSA 1 parcel tax for such services. In 2007-08, revenues were \$14,100. Revenues were projected to remain stable in both forecasts as the tax rate remains stable. Though the County will continue to receive these revenues to fund operations and maintenance if annexation proceeds, the revenues were still shown in the City projection to offset the costs associated with the streetlights.

GENERAL FUND EXPENDITURES

General Fund revenue is required to cover the costs of the following operational functions:

- General Government (Elected officials, administration, attorneys, and non-departmental costs)
- Community Development
- Public Works
- Law Enforcement
- Animal Care Services
- Code Compliance

The following analysis of the General Fund expenditures has been categorized by function within the framework of this organizational structure.

GENERAL GOVERNMENT

General government costs include costs associated with the legislation and administration of municipal services. The cost of these services can be provided by directly accounting for these costs, or applying a factor on direct municipal services to account for general government costs. Neither approach is more correct than another, it is a matter of understanding how the costs are provided and reported.

The County took the approach of providing for general government costs as a part of departmental costs, so no specific costs for general government were projected in our analysis. We note this is common in fiscal studies comparing the cost of services between a county and a city.

On the other hand, the City's data response typically segregated its costs for general government, so RSG projected general government department costs for the annexation scenario based on this data. In general, little impact upon general government services is anticipated as a result of annexation as most departments will be able to support the additional functions with existing staff and supplies. As detailed later in this Report, additional expenditures will be associated with the planning department, building and safety department, public works, stormwater services, and law enforcement. However, as law enforcement, public works, and planning services are contract based, no additional general government costs are expected to be incurred. In the case of building and safety and certain stormwater expenditures, an overhead rate of 1.8 percent was

charged upon all anticipated expenditures, equal to the current overhead rate attributable to administrative support and human resources in the general government category.

COMMUNITY DEVELOPMENT

Planning. The County Planning Department provided expenditure estimates based upon budget figures for the last five years, recommending that the costs for the Study Area be equal to the 1 percent share of the total geographic area of the County's unincorporated jurisdiction. Effectively, the County Planning Department suggested that applying the 1 percent factor to the entire Department's budget (which includes some planning functions clearly not within the Study Area) would yield a reasonably close estimate to the actual costs for planning services to the Study Area.

While specific cost accounting would provide the most accurate estimates for planning services, the unavailability of these figures should be dealt with a more discrete methodology for extrapolating these costs in the Study Area. Consequently, RSG refined the County Planning Department's 1 percent methodology, by removing any net costs associated with activities that targeted specific geographic areas outside of the Study Area, resulting in a slightly lower amount of planning costs for the Study Area, as it is reasonable to assume that special planning activities would result in higher planning costs in those areas only, not the entire County itself. However, costs for the General Plan and Housing Element remained in the projection, though these are typically considered one-time costs and not recurring expenditures.

Historical costs were thus based upon 1 percent of the countywide planning expenditures applicable to the Study Area, net of revenues. Future expenditures were based upon the 1 percent of the budgeted net expenditures in 2008-09 and inflated annually by 2.9 percent. In 2009-10, net costs are projected to be \$39,200.

For determining the City's cost for planning services, RSG took several factors into consideration, including the County's estimated costs of planning services in the area, the cost of cyclical long-term planning (e.g. the Housing Element and General Plan update), and economic trends that suggest that the City may see limited interest in development of the Study Area in the near future.

Just as the County's actual planning costs in the Study Area were not specifically identifiable, it is difficult to isolate what impact the City may see if the Study Area is annexed. RSG reviewed the County 2007-08 and 2008-09 budgets and isolated expenditures for the public counter, application processing, and plan check programs. One percent of these expenditures ranged from \$49,944 to \$48,758 respectively. However, discussions with the City's Planning Director indicate this value is likely to be high as no new projects are anticipated in the forecast period.

To maintain a balanced comparison with the County which preferred that cyclical planning costs be accounted for in this forecast, costs for the City's General Plan updates and Housing Element updates were also considered in the projection. RSG assumed a small amount of development activity in the Study Area, as well as some coordination efforts that may be required for the Folsom South Canal and implementation of the Folsom Boulevard Specific Plan. The estimated result was approximately \$20,000 in annual cost to the City for recurring planning expenditures plus \$75,000 annually for four years to cover the expense associated with the General Plan and Housing Element. Based on current operational standards, 95 percent of the \$20,000 annual expenditure is assumed to be recovered through fees.

Unless the Study Area experiences unexpected development activity, City Planning Department staff believes that given the current economy, even this estimate may be high. Consequently, the City cost projection models the \$20,000 expenditure based on an hourly rate of a contract Associate Planner, which equates to approximately 4 hours of additional work per week associated with the Study Area. This recurring cost was inflated annually by 2.9 percent, though actual costs would be dependent on changes in contractual rates with the subject planning consultant firm and modifications to the planning fee schedule to maintain a 95 percent cost recovery rate. The \$75,000 annual cost for the General Plan updates and Housing Element updates was not inflated, but assumed to be a flat \$300,000 for all work, spread over a four year period.

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Building and Safety. According to the Department of County Engineering, the Study Area has historically generated enough work for 1 to 2 Senior Building Inspectors, depending on the year's activities. The County provided a detailed analysis of annual permit applications and fees received from the Study Area, ranging from its highest point of \$306,085 (in fiscal year 2004-05) to the lowest point of \$111,960 (in fiscal year 2006-07) for typical building and safety work, with additional annual costs for development and surveyor review ranging from the highest level of \$22,600 (2005-06) to the lowest level of \$2,000 (2007-08). The County reports the department generally has 100 percent cost recovery, however, a five year historical analysis shows a median 98 percent cost recovery rate.

Future costs to the County are based upon the fully-loaded cost (salary and benefits) of 1.5 Senior Building Inspectors, with a 98 percent cost recovery rate. Costs are projected to increase by 2.9 percent annually.

If annexed, permit activity is projected to remain consistent with RSG's projections for the County based on the most recent 2007-08 levels; therefore City costs are projected based upon 1.5 Building Inspector II positions at a level C salary step. Costs are inflated annually by 2.9 percent, comparable with salary schedule increases. Based on information from City staff, Building and Safety expenditures are 100 percent cost recovered, thus no net departmental expenditure is expected.

CODE ENFORCEMENT

Code enforcement programs are either reactive (responding to complaints) or proactive (seeking out possible violations in the field). The County Planning and Community Development staff reports that code enforcement is roughly 98 percent reactive. According to the County annual budget, code enforcement program activities in the Study Area target vehicle abatement, volunteer coordination, and zoning code enforcement. County staff also estimates that there are about 12 citations in the Study Area per year.

Similar to planning expenditures, the County computed estimates of Study Area code enforcement expenditures based upon 1 percent of total net expenditures. However, RSG believes expenditures are less due to the limited number of citations estimated by the County. According to County Code Enforcement staff, the 13 code enforcement officers have issued 12,255 citations in 2008. Even assuming no new citations are issued in 2008, the Study Area makes up only 0.1 percent of code enforcement activities. Thus future expenditures were based upon 0.1 percent of the 2008-09 budgeted expenditures for applicable programs (zoning code enforcement, vehicle abatement, and illegal dumping) for a total cost of \$2,803. County Planning and Community Development staff estimates that between \$1,000 and \$1,500 of fees are collected annually. RSG estimated \$1,250 in fees per year. Projections were inflated by 2.8 percent annually.

As compared to the County, the City's code enforcement program is more proactive and therefore Study Area code enforcement activities could be greater than what is currently occurring. Overall, City staff estimates that they are approximately 52 percent proactive in all code enforcement activities; although most code enforcement activities occur in residential areas and not commercial areas like the Study Area. Only about 5 percent of all City code enforcement citations in 2007-08 were issued to commercial properties, equal to about 38 commercial citations in total throughout the entire City. According to the City's General Plan, there are about 2,262 acres of commercial land uses in Rancho Cordova. The Study Area, at 748 acres, is approximately one third of this amount. Thus, based on the current level of citation issued to the Study Area, the limited number of citations issued to commercial land uses in the City, and the visual assessment conducted by RSG, it is believed the Study Area will continue to warrant only a limited amount of code enforcement service.

Based on the City's 2007-08 annual budget, 5 percent of the Division's total expenditures is \$28,570, or \$752 per commercial citation. RSG estimates the City will issue approximately 1 citations in the Study Area per month. Costs are based on the 2007-08 per citation cost of \$752 and inflated by 2.9 percent annually. The City's cost recovery rate through fees collected is approximately 15.8 percent currently, though as the City has recently contracted with a firm to improve recovery rates for citation issues, this may improve in time. Cost for service by the City is higher than that of the County despite the same number of citations, as the

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department is more proactive and therefore spending more time patrolling and/or interacting with the community, providing a higher level of service.

STORMWATER

The stormwater program provides for the operations and maintenance of the storm drain system including pipes, inlets, manholes, and other drainage channels as well as for capital projects when the budget allows. The County currently provides for this service on a countywide basis, through funding provided by a fee schedule as described earlier. The County Department of Water Resources provided cost estimates for the Study Area based upon the comparative size of the area (1 percent of the total service area). Costs include administration, maintenance engineering, capital design, water quality management, and floodplain management. Ongoing forecasted costs to the County are based upon the most recent 2007-08 expenditures of \$267,400 and increased by 3.1 percent annually (the five year historical average).

When Rancho Cordova incorporated, it was agreed that the County would continue to collect the stormwater fee and provide stormwater utility services. Revenues collected by the County are held, budgeted, and expended as necessary. Funding is provided for operations, maintenance, and capital projects out of the fee revenue. However, residents in Rancho Cordova desire a higher level of service than the County provides and the City annually appropriates more money to fund additional work, particularly to clean retention/detention basins and other debris. The County agreed to budget an additional amount of funding for these additional expenditures, about \$300,000 per year. The City uses this money on additional labor and supplies costs.

The Study Area does contain drainage basins that the City would need to provide additional maintenance for in order to meet the higher standard of service required by the residents. As historical revenues from the Study Area do not consistently cover the historical estimated expenditures, this analysis assumes the additional maintenance cost must be born by the City.

Based on an inventory of pipes, inlets, and manholes, annexation would result in an increase of 8 percent in the City's total storm drain facilities. The forecast for additional maintenance expenditures is based upon 8 percent of \$300,000, or \$24,000 per year, and inflated annually by 2.9 percent. It should be noted that all other ongoing maintenance costs for the City are assumed to be a "wash" as they are a part of the countywide program, thus no other revenues or expenditures are forecast for the City.

ANIMAL CONTROL

As there are no residents in the Study Area, animal control concerns are expected to be limited to wildlife and strays, occasionally requiring animal care services. The County's Animal Care Department has responded to only 12 calls for service in the last three years, or an average of 4 calls per year. County staff reports that so few calls for service has a negligible impact upon staffing or expenditures, and thus no costs are recounted or projected for animal care.

The City provides animal services through the Neighborhood Services Department. City staff estimates that the typical animal services call requires approximately 15 to 30 minutes of staff time to respond to. Based on the current number of calls for service, annexation would result in up to 2 hours per year of staff time. Thus, annexation is not expected to have an impact on the number of calls for service, expenditures are expected to remain negligible, and therefore no costs are projected in the financial forecast for either the City or the County.

CSA 1 STREETLIGHTING

The Study Area currently has 218 street lights. Some funding for operation and maintenance of the street lights comes from CSA 1 as described previously, however, the costs exceed the revenue provided through



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the CSA so supplemental funding must be provided. The County currently spends \$115 per light in total. About \$65 per light is available through the CSA 1 funds. However, the County provides additional funding to supplement the CSA. According to the City's Public Works Department, total expenditures are likely to be equivalent to the County as they provide the service. The City does provide backfill funding to the CSA revenue for existing service. Thus, additional City expenditures are based upon projected County expenditures on a per light basis of \$50 per light. Costs are inflated annually by 2.9 percent for both the County and the City. Please note that historical street lighting costs were not provided, so current costs were assumed for all previous years.

LAW ENFORCEMENT

The County Sheriff currently provides service to the proposed Study Area, with the exception of traffic services which are performed by the California Highway Patrol. Should the Study Area be annexed, the Sheriff (under contract with the City) would provide all law enforcement services, including traffic. Generally speaking, service levels are expected to remain the same with the exception of traffic services, which are likely to increase. Low funding, passive patrolling of areas off highways, and staffing levels for the California Highway Patrol have resulted in minimal traffic enforcement in the Study Area; and these levels would be expected to increase if the annexation proceeds.

The County Sheriff provided a detailed summary of estimated expenditures in the Study Area based on calls for service. Over the last four fiscal years (2004-05 through 2007-08), calls for service have remained stable, ranging from 1,119 to 1,193 calls per year. Each year, burglary and burglary alarm calls are the predominate types of calls for service, accounting for about 60 percent of all calls.

Calls in the Study Area are currently handled by the East Division of the Sheriff's Department, which operates out of the same station house as the Rancho Cordova Police Department. Calls for service are handled by deputies assigned to patrol zone 71, most of which is located to the southwest of Rancho Cordova, often requiring deputies to drive through the city in order to reach the Study Area. In 2007-08, the average deputy in the East Division responded to 428 calls for service. In Rancho Cordova, the average response load is 456 calls per deputy. As levels of service are comparable between the two jurisdictions according to the Sheriff's Department, the difference in response loads is likely a result of the County deputies having to travel further distances to reach points of service.

At the current level of 456 calls per deputy in the city, the time equivalent of 2.5 officers would be required to maintain existing calls for service response rates. This is slightly lower than the County's current time equivalent of 2.7 officers. However, the nature of the contract between the City and the Sheriff's Department is such that the City will need to engage deputy staff on a full time basis, resulting in 3 additional deputies to maintain a similar workload average. Furthermore, the City will also need to provide traffic enforcement in the Study Area. It is unclear how much traffic enforcement will be necessary as the California Highway Patrol does not have available data for the Study Area. City law enforcement staff estimates traffic patrol could potentially require more than the time equivalent of 0.5 deputies, but it is possible that patrol zones and resources may be revised to ensure appropriate coverage.

Based on the existing contract between the City and the Sheriff, law enforcement expenditures are passed on directly to the City without surcharges or other additional costs. Thus, the cost to service the area will not change materially. Slightly higher costs are projected for the City if the Study Area is annexed are based upon the addition of a full three deputies instead of the roughly 2.7 equivalent deputies¹ that are currently required to serve the Study Area.

¹ Historically, the County equivalent deputy average is 3 from 2005-06 to 2007-08. The 2007-08 value is 2.7. A variety of factors influence work loads, including distance to point of service and the time required by each call for service. The seniority level (pay grade) of deputies currently serving the Study Area, as well as those that may be selected to serve the Study Area if annexed, will also influence service costs.

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Costs were analyzed in four separate categories: salaries and benefits, services and supplies, supplemental security services (crime scene investigation, property warehouse, communications bureau, etc.), and miscellaneous charges. Salaries and benefits have increased by 5 percent over the last two years, and are expected to continue to increase at that rate by the Sheriff's Department. The Sheriff's Department also believes supplies and services will increase at about the same rate, though historically the average rate has been lower, so this projection assumes a growth rate of 2.9 percent, the consumer price index. Supplemental security services and miscellaneous charges have remained stable, so values are held constant. County costs are projected based upon existing expenditures. With the exception of salaries and benefits, which were based on a mid-step deputy's salary and benefits package for three deputies, other potential City expenses were projected based upon expected County expenditures. In 2009-10, County costs are projected to be \$488,200, while those for the City if annexation occurs are projected at \$497,500.

Due to the developed, commercial nature of the study area and the lack of projected growth during the forecast time horizon, calls for service are expected to remain stable. Increases in cost are, however, likely to stem from increases in labor costs. Based on the current agreement for law enforcement services between the City and the Sacramento Sheriff's Department, all costs shall be directly passed on to the City, therefore increases in labor and equipment costs shall be the same for both the City and the County. According to the County Sheriff's staff, costs for both personnel and equipment are projected to increase annually by 5 percent, which is reflected in the fiscal projections for both the City and the County.

FIRE PROTECTION

Fire protection is provided through the Sacramento Metropolitan Fire District, which is funded primarily through a share of the 1 percent general property tax levy. No change in service will occur if the Study Area is annexed, therefore no costs are projected for either the County or the City.

PROJECTED IMPACT ON ROAD FUND

REVENUES

Gas tax revenues are apportioned according to the Streets and Highways Code, per section 2105, 2106, 2107, and 2107.5. Disbursement equations generally consider population, registered vehicles, and road miles to determine revenues received by the local jurisdiction. However, as no residents currently reside in the Study Area, and the number of road miles is minimal (and only considered in part by the allocation of funds through 2105), no gas tax revenues or highway user subventions are anticipated.

The County and the City also receive funding for roads through Measure A, a half-cent sales tax that is collected and allocated by the Sacramento Transportation Authority. About 62 percent of revenues are dedicated to identified capital improvement projects. Funding of this sort is provided directly to the jurisdiction in which the project is to be completed, and that jurisdiction must deliver the project. About 38 percent of revenues are allocated to the County and the cities in Sacramento County based upon their relative shares of total population and total road miles (weighted 75 percent and 25 percent respectively). RSG contacted the Sacramento Transportation Authority, and based upon the lack of population and the minimal amount of roads in the Study Area compared to the countywide amount, the allocation of Measure A funds is not expected to be material.

EXPENDITURES

Road expenditures can be funded through a jurisdiction's Road Fund according to the California Street and Highways Code Section 2101. Funds may be expended upon research, planning, construction, improvement,



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maintenance, and operation of public streets and highways. Costs considered in this Study include road maintenance, traffic signals, street lights, and street sweeping.

Road Maintenance. The Study Area contains a mix of roads that are entirely funded by the County currently, as well as others that are shared by the County and the City. In total, 8.8 miles (or 2,483,837 square feet) of road would become the responsibility of the City if the Study Area were annexed.

Road maintenance in the County is subject to severe budget constraints. Large scale maintenance such as slurry seals and overlays are cost intensive and therefore often deferred as long as possible. Typically, depending on weather conditions and amount of travel, roads require a slurry seal every 10 to 15 years and an overlay every 20 to 30 years. However, County staff reports that slurry seals are often performed every 20 to 25 years and overlays up to 40 years apart. In some cases, a slurry seal is never done and the road eventually requires an overlay in order to function.

Study Area road maintenance costs were extrapolated by the County based on the ratio of maintained road miles of the Study Area to the total Countywide. The Study Area road mileage accounts for 0.4 percent of the total road miles maintained by the County, thus costs were projected to equal 0.4 percent of all expenditures. Historic expenditures range from \$147,500 in 2003-04 to \$175,000 in 2007-08, and reflect an average annual cost increase of 4.3 percent. Future road maintenance costs were based upon 2007-08 estimated expenditures and assumed to continue to escalate by 4.3 percent annually.

The City currently provides a higher standard of service for roads, providing slurry seal every 10 years and overlay every 35 years with additional maintenance as necessary. Costs were projected using the current cost for these services according to City staff, which are \$0.45 per square foot for slurry seal and \$3.25 per square foot for overlay. The cost for these services is projected as an annualized set aside, thus spreading the cost to each year to account for the cyclical nature of the procedures and the various conditions of the roads and inflated annually by 2.9 percent.

Traffic Signals. The County currently maintains six traffic signals alone and six traffic signals that are shared with the City. If annexation proceeds, the City will be responsible for five new signals, take over full responsibility for six signals currently shared, and take over responsibility for one half of one other signal as shown in Exhibit 2 below.

Traffic Signals Intersection	Current		Post Annexation	
	County Maintained	City Maintained	County Maintained	City Maintained
Folsom Blvd & East of Sunrise Blvd /1	All	None	None	All
Folsom Blvd & Mercantile Dr	All	None	None	All
Folsom Blvd & Marketplace Dr	All	None	None	All
Folsom Blvd & Mineshaft Dr	All	None	None	All
Folsom Blvd & West of Hazel Ave /2	All	None	None	All
Sunrise Blvd & White Rock Rd	Half	Half	None	All
Sunrise Blvd & Sunrise Park Dr	Half	Half	None	All
Sunrise Blvd & Sunrise Gold Dr	Half	Half	None	All
Sunrise Blvd & Trade Center Dr	Half	Half	None	All
Sunrise Blvd & Folsom Blvd	Half	Half	None	All
Sunrise Blvd & US 50 Offramp	Half	Half	None	All
Folsom Blvd & Hazel Ave	All	None	Half	Half

1/ Pedestrian signal, not full intersection
2/ Fire station, not full intersection

County costs for traffic signals are estimated at \$8,000 per year for maintenance, electricity, and overhead costs such as planning studies and \$9,800 per year for those signals on a coordinated system (seven of those currently maintained by the County). In 2008-09, this results in \$88,900 in expenditures. This value was inflated annually by 2.9 percent for the remainder of the forecast.



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The City contracts with the County to maintain the traffic signals as well as many other public works related operations and maintenance for an annual contract of roughly \$1 million, and so identifying individual signal believes expenditures was challenging. The Public Works Department believes that operations and maintenance may be approximately \$6,500 per traffic signal, however, it is unclear if there is a discount the City is receiving for these costs, or if the County expenditures also include a variety of overhead costs. RSG is working to solve this indiscrepancy. However, for the purposes of this draft Report, the \$6,500 per full intersection traffic signal was applied. Forecasted costs for both the County and the City are based upon an annual inflationary factor of 2.9 percent.

Street Sweeping. Street sweeping costs have been loosely estimated by both the City and the County. The County estimates an average annual cost of \$55 per curb mile. Streets are swept an average of two times per year depending on the level of activity with major corridors being swept more often. The City estimates \$66 per commercial curb mile per year, with commercial streets being swept monthly. Costs are projected at an annual inflation rate of 2.9 percent.

SUMMARY

As presented in Appendix A, the financial projections illustrate that the Study Area is a significant net revenue source for the jurisdiction it is in absent of any agreements for revenue or cost sharing. If annexation does not proceed, the County can expect a cumulative net revenue of \$50.9 million in the General Fund and a net deficit of \$1.6 million in the Road Fund between 2009-10 and 2013-14. If annexation does proceed, the City could see a cumulative net revenue of \$38.5 million in the General Fund and a net deficit of \$3.3 million in the Road Fund during the same time period. Note that no property taxes were assumed for the City by this Study as the sharing factor must be negotiated by the City and County.

Net revenues are anticipated to be lower in the City if the Study Area is annexed as some revenues will be shared with the County and additionally, the Study Area will experience a higher level of service from law enforcement, code enforcement, stormwater maintenance, and road maintenance. With no regard to any potential agreements, the following are the primary differences in revenues and expenditures that may be expected.

Revenues

- **Property Tax.** Property tax is not calculated for the City, though traditionally an annexing city would expect to receive some share of the County's share of the general property tax levy.
- **Property Transfer Tax.** Though the rate of turnover is expected to be unaffected regardless of annexation, revenues from the tax will be split between the City and the County if annexation proceeds.
- **Motor Vehicle In Lieu.** The State's new accounting system for motor vehicle license fees results in a difference between County subventions and City subventions based upon each entity's baseline value when the system was put in place.
- **Franchise Fees.** The County and City levy different franchise fees on different providers, resulting in a difference in revenues.
- **Business License Fees.** Business license fees are slightly different between the two jurisdictions.

Expenditures

- **Building and Safety.** Compensation packages vary slightly between the City and the County, resulting in slightly different expenditures, though it should be noted these particular departments have very high cost recovery rates.
- **Planning.** Planning estimates for the County were estimated based upon the size of the geographic area and not direct costs. City estimates were projected based upon analysis of the County budget



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and input from City staff. In an effort to compare apples to apples, one time costs for the General Plan and Housing Element were included in the projection. Neither projection is without its flaw, but the important item to note is that the City experiences a higher cost recovery rate for typical planning services than the County does and thus in the long term should see a smaller amount of net expenditures than the County.

- **Code Compliance.** The City maintains a higher level of service and thus has higher expenditures to account for proactive staff initiatives.
- **Stormwater.** Based on the structure of the stormwater program, the County will continue to incur revenues and expenditures regardless of annexation. The City will receive no stormwater revenues and expend only the additional maintenance costs required to maintain a higher level of service.
- **Law Enforcement.** Law enforcement costs are anticipated to be slightly higher if annexation proceeds due to the need to provide traffic enforcement services.
- **General Government.** The City is projected to see a minor increase in general government costs to account for the addition of some employees.
- **Road Maintenance.** The County's financial capabilities have limited the level of service provided for road maintenance. The level of service is expected to increase significantly if annexation proceeds.

COUNTY OF SACRAMENTO
& CITY OF RANCHO CORDOVA
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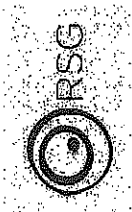
RANCHO CORDOVA RECURRING SERVICE REVENUES AND EXPENDITURES SUMMARY

EXHIBIT 2

	7/1/2003	7/1/2004	7/1/2005	7/1/2006	7/1/2007	Current 7/1/2008	Transition 7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013
Revenues by Source											
Property Taxes						12,200	12,200	12,200	12,200	12,200	12,200
Property Transfer Taxes						6,137,000	6,144,000	6,144,000	6,151,000	6,159,000	6,165,000
All Sales Taxes						1,824,500	1,845,500	1,866,700	1,888,100	1,909,900	1,909,900
Transient Occupancy Taxes							7,800	7,800	7,900	8,100	8,200
MVLF In-Let											
Utility User Fees						215,100	215,100	215,100	215,100	215,100	215,100
Franchise Fees						183,900	183,900	183,900	183,900	183,900	183,900
Com Dev, Building & Code Compliance Fees						177,100	182,300	187,500	193,000	198,500	198,500
Business License Fees						23,300	23,300	23,300	23,300	23,300	23,300
Fines and Forfeitures						44,100	44,100	44,100	44,100	44,100	44,100
Total						8,617,200	8,658,200	8,691,700	8,726,800	8,760,200	8,760,200
Expenditures by Department											
Building and Safety						156,300	156,300	160,800	165,500	170,300	170,300
Community Development						95,500	95,500	96,500	97,100	22,700	22,700
Code Compliance						9,600	9,900	10,200	10,500	10,800	10,800
Stormwater						25,400	26,100	26,900	27,700	28,500	28,500
Law Enforcement						497,500	518,600	540,800	564,000	584,400	584,400
Administrative/HR Support						500	3,300	3,400	3,500	3,600	3,600
Total						628,300	810,100	838,600	868,300	824,300	824,300
Annual Net Revenue / (Deficit)						7,988,900	7,848,100	7,853,100	7,858,500	7,935,900	7,935,900
2009-10 To 2013-14 Cumulative Balance (Deficit)						7,988,900	15,837,000	23,690,100	31,548,600	39,484,500	39,484,500

RANCHO CORDOVA ROAD FUND SUMMARY

	7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012
No Revenues					
Expenditures by Type					
Road Maintenance	362,500	373,100	383,900	395,000	406,500
Traffic Signals	58,500	60,200	61,900	63,700	65,600
Street Lights	26,500	27,300	28,100	28,900	29,800
Street Sweeping	1,100	1,200	1,200	1,200	1,300
Total	448,600	461,800	475,100	488,800	503,200
Net Revenue / (Deficit)	448,600	461,800	475,100	488,800	503,200
2009-10 To 2013-14 Cumulative Balance (Deficit)	448,600	910,400	1,385,500	1,874,300	2,377,500



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EXHIBIT 3

Item Detail and Assumptions	Annual Operating Budget Year				
	Current 7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012
City Share					
Less: County Admin. Fee					
Net Property Tax					
County Share					
Less: County Admin. Fee					
Net Property Tax					

EXHIBIT 4

Item Detail and Assumptions	Annual Operating Budget Year				
	Current 7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012
Days Per Year					
Existing Rooms					
1.2% Inflationary Increase					
Average Occupancy					
Average Room Rate					
Subtotal - Existing TOT					
Total CITY Revenue					
Total COUNTY Revenue					



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EXHIBIT 5

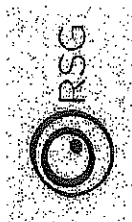
SALES TAXES

Item Detail and Assumptions	Annual Operating Budget										
	7/1/2003	7/1/2004	7/1/2005	7/1/2006	7/1/2007	Current 7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013
Prior Year Taxable Sales Plus 0.1%						613,104,000	613,778,414	614,453,571	615,129,470	615,806,112	616,483,499
New Sales Outlets No increase included						-	-	-	-	-	-
Total Taxable Sales	609,934,700	644,369,400	674,766,300	645,246,800	612,430,200	613,104,000	613,778,414	614,453,571	615,129,470	615,806,112	616,483,499
Sales Tax Revenue at 0.75%	\$ 4,567,000	\$ 4,833,000	\$ 5,061,000	\$ 4,839,000	\$ 4,593,000	\$ 4,598,000	\$ 4,603,000	\$ 4,613,000	\$ 4,619,000	\$ 4,619,000	\$ 4,624,000
In-Lieu Property Tax at 0.25%	1,522,000	1,611,000	1,687,000	1,613,000	1,531,000	1,533,000	1,534,000	1,538,000	1,540,000	1,540,000	1,541,000
Total Sales Taxes	6,089,000	6,444,000	6,748,000	6,452,000	6,124,000	6,131,000	6,137,000	6,144,000	6,159,000	6,159,000	6,165,000

EXHIBIT 6

PROPERTY TRANSFER TAXES

Item Detail and Assumptions	Annual Operating Budget										
	7/1/2003	7/1/2004	7/1/2005	7/1/2006	7/1/2007	Current 7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013
Projected Turnover											
General Commercial Resale Volume (in 000's)	58,300	56,300	24,000	41,800	25,600	24,500	24,500	24,500	24,500	24,500	24,500
Total Assessed Value General Commercial	\$ 154,156,000	\$ 154,156,000	\$ 154,156,000	\$ 154,156,000	\$ 154,156,000	\$ 154,156,000	\$ 154,156,000	\$ 154,156,000	\$ 154,156,000	\$ 154,156,000	\$ 154,156,000
Turnover Rate	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
Total Commercial Value (2008)	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000
Median Resale Price (2008)	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000
Appreciation Rate (2009)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Appreciation Rate (2010)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Appreciation Rate (Later Yrs)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Projected Turnover											
Industrial Resale Volume (in 000's)											
Total Assessed Value Industrial	\$ 15,840,470	\$ 15,840,470	\$ 15,840,470	\$ 15,840,470	\$ 15,840,470	\$ 15,840,470	\$ 15,840,470	\$ 15,840,470	\$ 15,840,470	\$ 15,840,470	\$ 15,840,470
Turnover Rate	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
Median Resale Price (2008)	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000	\$ 381,698,000
Appreciation Rate (2009)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Appreciation Rate (2010)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Appreciation Rate (Later Yrs)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Sales Volume Turnover	22,238	22,238	22,238	22,238	22,238	22,238	22,238	22,238	22,238	22,238	22,238
CITY Property Transfer Taxes (Projected)	12,200	12,200	12,200	12,200	12,200	12,200	12,200	12,200	12,200	12,200	12,200
COUNTY Property Transfer Taxes	24,500	24,500	24,500	24,500	24,500	24,500	24,500	24,500	24,500	24,500	24,500



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EXHIBIT 7

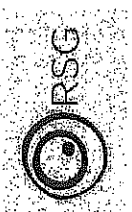
COUNTY MISCELLANEOUS REVENUES

Item Detail and Assumptions	7/1/2003	7/1/2004	7/1/2005	7/1/2006	7/1/2007	Current	7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013
						7/1/2008					
Business Licenses											
Current Fee	\$ 50					25,900	25,900	25,900	25,900	25,900	25,900
Number Businesses	517										
Growth Rate	0.0%										
CSA 1											
Base Year Revenue (07-08)	\$ 14,100				14,100	14,100	14,100	14,100	14,100	14,100	14,100
Growth Rate	0.0%										
Fines and Forfeitures											
Base Year Revenue (07-08)	\$ 73,579				44,100	44,100	44,100	44,100	44,100	44,100	44,100
% to County (Less Court Fee)	60%										
Growth Rate	0.0%										

EXHIBIT 8

CITY MISCELLANEOUS REVENUES

Item Detail and Assumptions	7/1/2003	7/1/2004	7/1/2005	7/1/2006	7/1/2007	Current	7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013
						7/1/2008					
Business Licenses											
Base Year Revenue (08-09)	\$ 45						23,300	23,300	23,300	23,300	23,300
Number of Businesses	517										
Growth Rate	0.0%										
CSA 1											
Base Year Revenue (07-08)	\$ 14,100						14,100	14,100	14,100	14,100	14,100
Growth Rate	0.0%										
Fines and Forfeitures											
Base Year Revenue (07-08)	\$ 73,579						44,100	44,100	44,100	44,100	44,100
% to City (less Court Fees)	60%										
Growth Rate	0.0%										

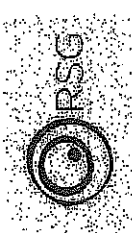


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EXHIBIT 10

COMMUNITY DEVELOPMENT & CODE COMPLIANCE

Item Detail and Assumptions	Annual Operating Budget					Current 7/1/2008
	7/1/2003	7/1/2004	7/1/2005	7/1/2006	7/1/2007	
CITY COMMUNITY DEVELOPMENT EXPENDITURES						
Planning Department Expenditures						
Salaries & Benefits						
Contract Associate Planner						
2008 Hourly Cost Associate Planner	95					
Hours Per Year	208					
Growth Rate	2.9%					
Recovered Costs	95.0%					
Unrecovered Cost	2.9%					
Special Expenditures						
Housing Element Update and Advance Planning						
Annual Cost	75,000					
Growth Rate	0.0%					
NET TOTAL Planning						
Building and Safety						
Costs						
2008 Cost	147,615					
Growth Rate	2.9%					
Cost Recovery	400.0%					
NET TOTAL BUILDING AND SAFETY						
Code Compliance						
Cost Per Commercial Call (2007-08)	\$ 752					
Estimated Citations	12					
Growth Rate	2.9%					
Revenues Collected (Recovery Rate)	15.9%					
NET CODE COMPLIANCE COSTS						
COUNTY COMMUNITY DEVELOPMENT EXPENDITURES						
Planning						
Total Net Cost	\$ 38,100	\$ 5,200	\$ 26,200	\$ 26,700	\$ 47,100	\$ 38,100
2008 Cost						
Growth Rate	2.9%					
Building and Safety						
Costs						
2008 Cost	164,568	305,300	475,800	116,900	164,800	164,600
Growth Rate	2.9%					
Revenues						
Typical Cost Recovery	98%					
LD/SIR (Dev. & Surveyor Review)	5,500	18,400	22,600	21,300	1,800	1,900
NET Building and Safety Costs	10,300	17,600	264,500	26,200	5,100	5,200
Code Compliance						
Total Net Cost	2,500	2,900	6,500	3,600	1,900	2,000
Growth Rate	2.9%					
Annual Operating Budget						
7/1/2009						
7/1/2010						
7/1/2011						
7/1/2012						
7/1/2013						
	\$ -20,300	\$ 20,900	\$ 21,500	\$ 22,100	\$ 22,700	\$ 22,700
	19,300	19,900	20,400	21,000	21,600	21,600
	600	600	600	600	600	700
	75,000	75,000	75,000	75,000	75,000	700
	75,600	75,600	75,600	75,600	75,600	
	156,300	160,800	165,500	170,300	175,200	
	156,300	160,800	165,500	170,300	175,200	
	9,600	9,960	10,200	10,500	10,800	
	1,500	1,600	1,600	1,700	1,700	
	8,100	8,300	8,600	8,800	9,100	
	39,200	40,300	41,500	42,700	43,900	
	169,400	174,300	179,400	184,600	190,000	
	166,000	170,800	175,800	180,900	186,200	
	2,000	2,100	2,200	2,300	2,400	
	5,400	5,600	5,800	6,000	6,200	
	2,100	2,200	2,300	2,400	2,500	

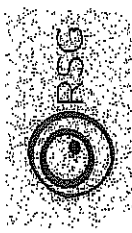


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EXHIBIT 9

STORMWATER

Item Detail and Assumptions	7/1/2003		7/1/2004		7/1/2005		7/1/2006		7/1/2007		Current		7/1/2008		7/1/2009		7/1/2010		7/1/2011		7/1/2012		7/1/2013				
CITY Department Expenditures																											
Supplies & Services																											
System Maintenance (07-08 base)																											
New Cost																											
TOTAL EXPENDITURES																											
COUNTY Department Expenditures																											
Annual Expenditures																											
All Stormwater Services																											
2008 Cost																											
Growth Rate																											
Annual Revenues																											
All Stormwater Revenues																											
2008 Revenues																											
Growth Rate																											
NET TOTAL EXPENDITURES																											



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EXHIBIT 12

Item Detail and Assumptions	Annual Operating Budget				
	7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013
CITY					
Franchise Fees					
Solid Waste (Commercial)					
Base Year Usage	12,800	12,800	12,800	12,800	12,800
Rate	8%				
Growth Rate	0.0%				
Gas					
Base Year Usage	13,900	13,900	13,900	13,900	13,900
Rate	2%				
Growth Rate	0.0%				
Energy					
Base Year Usage	149,300	149,300	149,300	149,300	149,300
Rate	2%				
Growth Rate	0.0%				
Water					
Base Year Usage	7,900	7,900	7,900	7,900	7,900
Rate	2%				
Growth Rate	0.0%				
Total Franchise Fees	183,900	183,900	183,900	183,900	183,900
Utility User Fees					
Energy					
Base Year Usage	186,700	186,700	186,700	186,700	186,700
Rate	2.50%				
Growth Rate	0.0%				
Gas					
Base Year Usage	17,300	17,300	17,300	17,300	17,300
Rate	2.50%				
Growth Rate	0.0%				
Telephone					
Base Year Usage	1,300	1,300	1,300	1,300	1,300
Rate	2.50%				
Growth Rate	0.0%				
Cable					
Base Year Usage	9,800	9,800	9,800	9,800	9,800
Rate	2.50%				
Growth Rate	0.0%				
Sewer					
Base Year Usage	215,100	215,100	215,100	215,100	215,100
Rate	2.50%				
Growth Rate	0.0%				
Total UUT	215,100	215,100	215,100	215,100	215,100

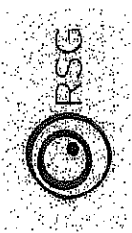


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COUNTY FRANCHISE FEES AND UTILITY USER TAXES

EXHIBIT 13

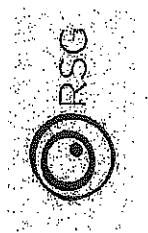
Item Detail and Assumptions	Annual Operating Budget											
	7/1/2003	7/1/2004	7/1/2005	7/1/2006	7/1/2007	Current 7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013	
COUNTY												
Franchise Fees												
Energy												
Base Year Usage	149,300	149,300	149,300	149,300	149,300	149,300	149,300	149,300	149,300	149,300	149,300	149,300
Rate	\$ 7,466,008											
Growth Rate	2%											
Gas												
Base Year Usage	13,900	13,900	13,900	13,900	13,900	13,900	13,900	13,900	13,900	13,900	13,900	13,900
Rate	\$ 693,432											
Growth Rate	2%											
Water												
Base Year Usage	7,900	7,900	7,900	7,900	7,900	7,900	7,900	7,900	7,900	7,900	7,900	7,900
Rate	\$ 392,689											
Growth Rate	2%											
Total Franchise Fees County	171,100	171,100	171,100	171,100	171,100	171,100	171,100	171,100	171,100	171,100	171,100	171,100
Utility User Fees												
Energy												
Base Year Usage	186,700	186,700	186,700	186,700	186,700	186,700	186,700	186,700	186,700	186,700	186,700	186,700
Rate	\$ 7,466,008											
Growth Rate	2.50%											
Gas												
Base Year Usage	17,300	17,300	17,300	17,300	17,300	17,300	17,300	17,300	17,300	17,300	17,300	17,300
Rate	\$ 693,432											
Growth Rate	2.50%											
Telephone												
Base Year Usage	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Rate	\$ 53,341											
Growth Rate	2.50%											
Cable												
Base Year Usage	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800
Rate	\$ 392,689											
Growth Rate	2.50%											
Total UUT COUNTY	215,100	215,100	215,100	215,100	215,100	215,100	215,100	215,100	215,100	215,100	215,100	215,100



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EXHIBIT 14

Item Detail and Assumptions	Annual Operating Budget					Current 7/1/2007	7/1/2006	7/1/2005	7/1/2004	7/1/2003
	7/1/2010	7/1/2011	7/1/2012	7/1/2013						
ROAD MAINTENANCE										
CITY Department Expenditures										
Supplies & Services										
Street Light Maintenance & Operation										
Street Lights	218	27,300	28,100	28,900	29,800					
2008 Cost	115									
Growth Rate	2.9%									
Traffic Signal Maintenance & Operation										
Total Traffic Signals (Each Side)	34	60,200	61,900	63,700	66,600					
2008 Cost per One Side of Intersector	1,625									
Growth Rate	2.9%									
Annual Road Maintenance Costs		373,100	383,900	395,000	406,500					
Maintained SF	2,483,837									
Annualized Cost/SF	\$ 0.14									
Growth Rate	2.9%									
Annual Maintenance		1,200	1,200	1,200	1,300					
Street Sweeping Times Per Year	12									
Maintained Curb Miles	16									
2008 Cost	66									
Growth Rate	2.9%									
CITY TOTAL		\$ 448,600	\$ 461,800	\$ 475,100	\$ 488,800	\$ 503,200				
COUNTY Department Expenditures										
Supplies & Services										
Street Lights										
Street Lights	218	27,300	28,100	28,900	29,800					
2008 Cost per Light	115									
Growth Rate	2.9%									
Traffic Signal Maintenance & Operation										
2008 Cost Including Shared Signals	76,600	83,400	86,700	88,300	90,900					
Growth Rate	2.9%									
Annual Road Maintenance Costs		190,300	207,000	215,900	225,200					
Road Costs (2007-08 Base)	175,008									
Growth Rate	4.3%									
Annual Maintenance		1,000	1,000	1,000	1,100					
Street Sweeping Times per Year	2									
Maintained CURB Miles	16									
2008 Cost per Curb Mile	28									
Growth Rate	2.9%									
COUNTY TOTAL		\$ 298,900	\$ 310,200	\$ 321,800	\$ 334,100	\$ 347,000				



**PROPERTY TAX EXCHANGE AGREEMENT
BETWEEN THE COUNTY OF SACRAMENTO AND THE CITY OF RANCHO CORDOVA,
RELATING TO THE RANCHO CORDOVA SPHERE OF INFLUENCE**

This PROPERTY TAX EXCHANGE AGREEMENT (hereinafter "Agreement") is made and executed in duplicate this ____ day of ____, 2009 by and between the COUNTY OF SACRAMENTO, a political subdivision of the State of California (hereinafter referred to as "COUNTY"), and the CITY OF RANCHO CORDOVA, a general law city (hereinafter referred to as "CITY").

RECITALS

A. On June 6, 1978, the voters of the State of California amended the California Constitution by adding Article XIII A thereto 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; and

B. Following such constitutional amendment, 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 which are derived from such property and available to the county and city following annexation of the property to the incorporated territory of the city; and

C. CITY has filed an application with the Sacramento Local Agency Formation Commission ("LAFCO"), entitled "City of Rancho Cordova Annexation – Annexation of the Sphere of Influence (L AFC-07-09)," requesting its approval of the annexation of approximately 748 acres of real property to CITY, consisting of all of the area within the CITY's sphere of influence, as designated by LAFCO and approved by the voters in November 2002 ("the Sunrise-Folsom Annexation"); and

D. COUNTY and CITY wish to work together to develop a fair and equitable approach to the sharing of real property ad valorem taxes imposed and collected as authorized by the Revenue and Taxation Code in order to encourage sound urban development and economic growth; and

E. The purpose of this Agreement is to serve as a Property Tax Transfer Agreement pursuant to Section 99 of the California Revenue and Taxation Code for the Sunrise-Folsom Annexation.

COUNTY and CITY hereby agree as follows:

Section 1. Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below:

(a) "Annexation Area" shall mean that portion of the unincorporated area of COUNTY designated by LAFCO as the sphere of influence of CITY known as the "Sunrise-Folsom Annexation",

(b) "Annexation Date" shall mean the date specified by the Cortese-Knox-Hertzberg Local Governmental Reorganization Act of 2000 (California Government Code § 56000 et seq.) as the effective date of the Sphere of Influence Annexation.

(c) "Sunrise-Folsom Annexation" shall mean the annexation to the CITY as delineated in Sacramento Local Agency Formation Commission Application Control Number "L AFC 07-09", the annexation of which to CITY is subsequently approved and completed by the Sacramento Local Agency Formation Commission as provided in the

EXHIBIT B

Cortese-Knox-Hertzberg Local Governmental Reorganization Act of 2000 (California Government Code § 56000 et seq.).

(d) "Property Tax Revenue" shall mean revenue from "ad valorem real property taxes on real property", as said term is used in Section 1 of Article XIII A of the California Constitution and more particularly defined in subsection (c) of Section 95 of the California Revenue and Taxation Code, that is collected from within the Annexation Area, is available for allocation to the City and the County, and is currently allocated to the County General Fund and County Road Fund.

Section 2. Purpose of Agreement. The purpose of this Agreement is to set forth the exchange of Property Tax Revenue between CITY and COUNTY as required by Section 99 of the California Revenue and Taxation.

Section 3. Exchange of Property Tax Revenues. On and after the Annexation Date, the COUNTY and CITY shall exchange Property Tax Revenue as follows:

(a) CITY shall receive none of the Property Tax Revenues from the Annexation Area when and as such revenues are apportioned to jurisdictions in the tax rate area by the County Auditor pursuant to Article 2 of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code, including Revenue and Taxation Code section 96.1.

(b) CITY shall receive none of the annual tax increment from the Annexation Area when and as such revenues are apportioned to jurisdictions in the tax rate area by the County Auditor pursuant to Article 2 of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code, including Revenue and Taxation Code section 96.5.

Section 4. Exchange by County Auditor. COUNTY and CITY agree that all of the exchanges of Property Tax Revenue required by this Agreement shall be made by the County Auditor.

Section 5. Disposition of Litigation. After CITY's City Council and COUNTY's Board of Supervisors have adopted resolutions approving this Agreement, and authorizing and directing the Mayor and Board Chairperson to sign the Agreement, and after the Mayor and Board Chairperson have signed the Agreement and the resolutions, CITY and COUNTY shall submit a joint stipulation to the Court in Sacramento Superior Court Case No. 34-2008-00002478-CU-WM-GDS initiated by CITY by its Complaint and Petition for Writ of Mandamus which names as Defendants and Respondents the County of Sacramento and the Sacramento County Board of Supervisors, and asks the Court, among other things, to issue a peremptory writ of mandamus directing the County to adopt a resolution ratifying a property tax sharing agreement for entry of judgment pursuant to the terms of this agreement. CITY and COUNTY shall each bear their own attorneys' fees in connection with the litigation of the Petition for Writ of Mandamus and Complaint for Declaratory Relief.

Section 6.

Section 6. Mutual Defense of Agreement. If the validity of this Agreement is challenged in any legal action by a party other than COUNTY or CITY, the CITY agrees that the COUNTY may defend the CITY against the legal challenge at no cost to the CITY.

Section 7. Modification. The provision of this Agreement and all of the covenants and conditions set forth herein may be modified or amended only by a writing duly authorized and executed by both the COUNTY and CITY.

Section 8. Reformation. COUNTY and CITY understand and agree that this Agreement is based upon existing law, and that such law may be substantially amended in the future. In the event of an amendment of state law which renders this Agreement invalid or inoperable or which denies any party thereto the full benefit of this Agreement as set forth

EXHIBIT B

herein, in whole or in part, then COUNTY and CITY agree to renegotiate the Agreement in good faith.

Section 9. Effect of Tax Exchange Agreement. This Agreement shall be applicable solely to the Sunrise-Folsom Annexation and does not constitute either a master tax sharing agreement or an agreement on property tax exchanges which may be required for any other annexation to the CITY, nor does it alter, enlarge or affect any revenue sharing obligations of the City by way of incorporation on July 1, 2003.

Section 10. Entire Agreement. With respect to the subject matter hereof only, this Agreement supersedes any and all previous negotiations, proposals, commitments, writings, and understandings of any nature whatsoever between COUNTY and CITY except as otherwise provided herein.

Section 11. Notices. All notices, requests, certifications or other correspondence required to be 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
County Executive
County of Sacramento
700 H Street, Room 7650
Sacramento, CA 95814

CITY
City Manager
City of Rancho Cordova
2729 Prospect Park Drive
Rancho Cordova, CA 95670

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

Section 12. Approval, Consent, and Agreement. Wherever this Agreement requires a party's approval, consent, or agreement, the party shall make its decision to give or withhold such approval, consent or agreement in good faith, and shall not withhold such approval, consent or agreement unreasonably or without good cause.

Section 13. 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.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in the county of Sacramento, State of California, on the dates set forth above.

COUNTY OF SACRAMENTO, a political
subdivision of the State of California

By _____
Chairperson of the Board of Supervisors

(SEAL)

ATTEST: _____
Clerk of the Board of Supervisors

Approved As to Form:

County Counsel

CITY OF RANCHO CORDOVA, a general law city

By: _____
City Manager

(SEAL)

ATTEST: _____
City Clerk

Approved As to Form:

City Attorney
1283024.4

**Annual Steps for City to Recover Costs of Services and To Share Remaining Revenues
with County from the Sunrise-Folsom Annexation Area**

1. **Step 1 -- City's Cost of Services.** The City's initial cost of services ("the City Cost") for the Annexation Area will be derived from the "Expenditures by Department" identified in Exhibit 2 to the RSG Sunrise/Folsom Annexation Fiscal Analysis (the "Fiscal Analysis") report dated December 23, 2008, attached hereto, for the first fiscal year (or part thereof) following the effective date of annexation. For example, if the effective date of the annexation is July 1, 2010, for the fiscal year ending June 30, 2011, the City Cost for services for the fiscal year ending June 30, 2011 will be deemed to be \$1,271,900 (from Fiscal Analysis, Exhibit 2, under the column titled "7/1/2010"). In determining the costs of services for each year thereafter, annually every September, the City will adjust the City Cost by the annual change in the San Francisco-Oakland-San Jose Consumer Price Index for All Urban Consumers (the "CPI Index") for the month of June, except the portion identified in the Fiscal Analysis as "Law Enforcement" which shall be inflated by the June CPI Index plus one (1) percentage point. The City Cost, as so adjusted each year, shall be known as the "Adjusted City Cost."

After the second year following the effective date of annexation and every five (5) years (or less frequently) thereafter, the City may retain an independent consultant to determine the City's actual costs of services for the Annexation Area including an annualized average cost of road maintenance for slurry seals and overlays as included in the Fiscal Analysis. The actual costs, as so determined, shall become the "Adjusted City Cost" for the following year and the "Adjusted City Cost" shall thereafter be adjusted as provided above until it is again revised based on an actual determination of the City's costs of services.

2. **Step 2 -- Property Tax.** The County will retain all of the property tax from the Sunrise/Folsom annexation area (the "Annexation Area") that it receives from its allocation of the 1% *ad valorem* property tax provided for in Article XIII A, section 1(a) of the California Constitution to the County General Fund and the County Road Fund. The City will receive no allocation of the 1% *ad valorem* property tax related to the County's existing tax allocation factor from the Annexation Area.
3. **Step 3 -- Revenues Other Than Sales Tax, TOT and UUT.** The City will initially determine the total of all revenues from the Annexation Area using the "Revenues by Source" identified in Exhibit 2 to the Fiscal Analysis for the first fiscal year following the effective date of annexation with the following two exceptions. First, the "Franchise Fees" identified on Exhibit 2 shall be reduced by \$149,300, which is the amount of franchise fees for "Energy" identified on Exhibit 12; for example, with such reduction, the "Franchise Fees" from Exhibit 2 would be \$34,600 for the fiscal year ending June 30, 2010. Second, the 1% *ad valorem* property tax, sales and use taxes (Bradley-Burns Uniform Sales and Use Tax), transient occupancy taxes ("TOT"), and utility users' taxes from energy and gas ("UUT") shall be excluded. The total of all revenues from the

Annexation Area, using "Revenues by Source" identified in Exhibit 2, with the reduction to "Franchise Fees" and the exclusion of the revenues from the foregoing four taxes, shall be referred to as "Other Revenues."

For example, if the effective date of the annexation is July 1, 2010, for the fiscal year ending June 30, 2011, the annual Other Revenues will be deemed to be \$315,400 (from Fiscal Analysis, Exhibit 2 and Exhibit 12 (for UUT) under the column titled "7/1/2010"). Each year thereafter, the City will adjust \$156,300 of the Other Revenues by the CPI Index, and all the remainder of the Other Revenues shall be inflated or decreased by the CPI Index less two (2) percentage points. (The \$156,300 consists of the portion of "Com Dev. Building & Code Compliance Fees" from Exhibit 2 attributable to Building and Safety revenues; such revenues are equal to \$156,300 of Building and Safety expenditures.) The Other Revenues, as so adjusted, shall be known as the "Adjusted Other Revenues."

4. **Step 4 -- Annual "Reimbursement" of City's Cost of Providing Services.** The City will take the City Cost calculated in Step 1 above or the Adjusted City Cost for years following the first year and subtract Other Revenues calculated in Step 3 above or the Adjusted Other Revenues for years following the first year. The result of this calculation equals the remaining amount of money the City will "retain" (the "Remaining Cost") as reimbursement for its cost of providing services before the County receives any of the sales and use tax, TOT and UUT revenues.

In the example introduced above, for the year July 1, 2010 through June 30, 2011, the Remaining Cost equals \$956,500 (the \$1,271,900 in Step 1 less the \$315,400 in Step 3). The City will recover the Remaining Cost from the sales and use taxes and/or the TOT from the Annexation Area.

5. **Step 5 -- Sales and Use Tax Sharing.** Upon annexation, the City will be entitled to receive from the Annexation Area Bradley-Burns Act sales and use tax revenues which are collected from Annexation Area businesses and allocated by the State Board of Equalization (the "Sales Tax") to the City pursuant to the City's sales and use tax ordinance, which presently imposes a tax of 1%, and the City's contract with the State Board of Equalization.

Presently, due to a state financing mechanism known as the "triple flip" (Revenue and Taxation Code section 97.68), the state has effectively "borrowed" a portion of cities' sales and use tax revenues and "replaced" it with revenues transferred from the Educational Revenue Augmentation Fund ("the Sales Tax In Lieu Revenues"). The triple flip will expire at some point in the future. For the purposes of this paragraph, the parties intend to share the Sales Tax In Lieu Revenues in the same manner as Sales Taxes under this paragraph.

The City shall use the Sales Tax to pay any consultant or third party costs, if any, for costs associated with providing information to the City and County on the amount of

Sales Tax, TOT, and/or UUT revenues that are generated from the Annexation Area or determining the actual cost of services for the Annexation Area. Following that payment, the City shall apply the Sales Tax to reimburse itself for the Remaining Cost until the Remaining Cost has been reduced to zero. Following the "repayment" of the Remaining Cost for the fiscal year, the City shall transmit to the County seventy-five percent (75%) of the Sales Tax received within 60 days after the end of each quarter. Sales Taxes from the Annexation Area will be calculated by a sales tax consultant retained by the City using actual sales tax receipt information as provided by the State Board of Equalization.

If the City increases the rates of its Bradley-Burns Act sales and use tax, imposes a transactions and use tax in the City, including the Annexation Area, or other tax imposed on retailers for the privilege of conducting business in the City, the tax proceeds from the new tax will not be subject to the revenue sharing provided for in this Agreement.

6. **Step 6 -- Transient Occupancy Tax Sharing.** Upon annexation, the Transient Occupancy Taxes ("TOT") from the Annexation Area will be collected by the City. The City shall transmit to the County seventy-five percent (75%) of the Annexation Area TOT collected from the previous quarter within 30 days after the quarter has ended. If by the end of the fourth quarter of the fiscal year the City has not been fully "reimbursed" the Remaining Cost from the Sales Tax for the fiscal year, the City shall be "reimbursed" the Remaining Cost from the County's seventy-five percent (75%) share of the TOT. The City will provide the County quarterly reports of all TOT revenues received from each establishment paying TOT in the Annexation Area. If the City increases the rate of the TOT in excess of the current rate of 12%, the City will retain 100% of the revenue associated with the tax increase.
7. **Step 7 -- Utility Users' Tax Sharing.** The UUT from the Annexation Area is collected by the utilities and paid by them to the City. The City shall transmit to the County seventy-five percent (75%) of the Annexation Area UUT from energy and gas within 30 days after the end of each quarter after receipt of such revenues by the City from the utilities. The City will provide the County quarterly reports of all UUT received from each entity paying UUT for energy and gas in the Annexation Area.

If the City enacts a utility users' tax measure which broadens the services subject to the tax beyond those taxed as of the effective date of the annexation and/or increases the tax rate, the City will retain 100% of the revenue attributable to the tax base expansion.
8. **Step 8 -- Securitization of Payments.** The County shall have the right to withhold the amounts set forth in Steps 5, 6 and 7 from the distribution of the City's share of the 1% property *ad valorem* tax collected from property within the City that is located outside the Annexation Area if the City fails to transmit the County's share of the TOT, Sales Tax, and/or energy and gas UUT to the County within 60 days following the end of each

EXHIBIT C

quarter. The amount(s) to be withheld shall equal an amount up to the amount of the last distribution by the City to the County of TOT, Sales Tax, or energy and gas UUT, as the case may be. The City shall be credited the amount withheld as payment of the County's share of the TOT, Sales Tax, and/or energy and gas UUT for the quarter and the amount withheld shall be adjusted by payment by the City to the County of any additional amount owed or refund by the County to the City of any amount withheld in excess of the amount owed by the City to the County, as the case may be. The County shall provide the City a report identifying the amount of property tax so withheld within fifteen (15) days of such withholding.

CITY OF RANCHO CORDOVA

NOV 06 2009

RESOLUTION NO. 110-2009

SACRAMENTO LOCAL AGENCY
FORMATION COMMISSION

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RANCHO CORDOVA
AUTHORIZING THE CITY MANAGER TO EXECUTE AN AGREEMENT BETWEEN THE CITY
OF RANCHO CORDOVA AND THE COUNTY OF SACRAMENTO REGARDING REGIONAL
HOUSING NEEDS ALLOCATION UPON ANNEXATION**

RECITALS

WHEREAS, on or about August 21, 2007 and pursuant to the Cortese-Knox-Hertzberg Act, Government Code § 56000 et seq., the City submitted to the Local Agency Formation Commission of Sacramento County ("LAFCO") an application proposing the annexation of an unincorporated territory of Sacramento County consisting of the City's sphere of influence ("Annexation Area"). LAFCO has designated the annexation application as "City of Rancho Cordova Annexation – Annexation of the Sphere of Influence (LAFCO-07-09)" ("the Annexation"). The Annexation Area is sometimes referred to as the "Sunrise-Folsom Area."

WHEREAS, lands within the Annexation Area have provided capacity for the County to accommodate future housing as described in the County's Regional Housing Needs Assessment (RHNA) allocation and as further defined within the County's adopted Housing Element; and

WHEREAS, the City and the County have met and discussed the appropriate share of the County's RHNA allocation that should be associated with the Annexation Area and would be transferred to the City upon the effective date of annexation of the Annexation Area to the City; and

WHEREAS, California Government Code Section 65584.07(d)(1) provides that a city and a county involved in land annexation may reach a mutually acceptable agreement for the transfer of a portion of the county's RHNA allocation and that such agreement shall be accepted by the council of governments that allocated the county's share; and

WHEREAS, the City and the County have reached agreement on the appropriate share of the County's RHNA allocation to be transferred from the County to the City if annexation of the Annexation Area to the City occurs and wish to memorialize such agreement pursuant to the provisions of California Government Code Section 65584.07(d).

WHEREAS, the City Manager recommends approval of the Agreement; and

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE CITY COUNCIL OF THE CITY OF RANCHO CORDOVA resolves as follows:

1. The City Council of the City of Rancho Cordova adopts this Resolution "Authorizing the City Manager to Execute an Agreement Between the City of Rancho Cordova and the County of Sacramento Regarding Regional Housing Needs Allocation Upon Annexation" and authorizes and directs the City Manager to sign it in substantially the form attached as **Exhibit A**.

2. The City Council of the City of Rancho Cordova directs the City Clerk to send a copy of this resolution and said Agreement to Sacramento Area Council of Governments (SACOG) within 90 days of the effective date of the annexation.

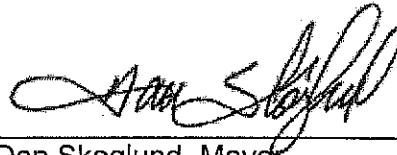
PASSED AND ADOPTED by the City Council of the City of Rancho Cordova on the 2nd day of November, 2009 by the following vote:

AYES: McGarvey, Sander, Cooley, and Mayor Skoglund

NOES: None

ABSENT: Budge

ABSTAIN: None



Dan Skoglund, Mayor

ATTEST:



Mindy Cuppy, City Clerk