

**PROPERTY TAX REVENUE EXCHANGE AGREEMENT
BETWEEN
THE COUNTY OF SACRAMENTO AND THE CITY OF ELK GROVE,
RELATING TO THE LAGUNA WEST ANNEXATION**

This PROPERTY TAX EXCHANGE AGREEMENT (hereinafter "Agreement") is made and executed in duplicate this 29th day of July, 2003 by and between the COUNTY OF SACRAMENTO, a political subdivision of the State of California (hereinafter referred to as "COUNTY"), and the CITY OF ELK GROVE, a municipal corporation of the State of California (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 requesting its approval of the annexation of approximately 2,128 acres of real property to CITY ("the Laguna West 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. COUNTY and CITY recognize the importance of COUNTY and CITY's services and are prepared to cooperate as provided in this Agreement in an effort to address COUNTY's and CITY's fiscal considerations in providing such services, as well as their respective economic and planning needs; and
- F. Close cooperation between COUNTY and CITY is necessary to maintain and improve the quality of life throughout Sacramento County, including CITY, and deliver needed or desirable services in the most timely and cost-efficient manner to all CITY and COUNTY residents; and
- G. COUNTY recognizes the need for orderly growth within and adjacent to CITY, and for supporting appropriate annexations by CITY; and

H. CITY recognizes that development within CITY limits may also have the effect of concentrating sales and use tax revenue-generating activities within CITY rather than in unincorporated areas; and

I. The provisions of Section 99 of the California Revenue and Taxation Code authorize a city and a county to execute a property tax transfer agreement for the exchange of property tax revenues between the county and the city in connection with the annexations of property located in the unincorporated territory of the county to the incorporated territory of the city; and

J. COUNTY and CITY after negotiations have reached an understanding as to a rate of exchange of property tax revenues to be made pursuant to Section 99 of the California Revenue and Taxation Code in connection with the annexation of the Laguna West Annexation Area to CITY; and

K. COUNTY and CITY now desire to enter into a Property Tax Transfer Agreement pursuant to Section 99 of the California Revenue and Taxation Code to set forth such a rate of exchange of property tax revenues; and

L. In consideration of the exchange of property tax revenue provided for in this Agreement, COUNTY agrees not to oppose the Laguna West Annexation before the Sacramento Local Agency Formation Commission.

AGREEMENTS

COUNTY and CITY hereby agree as follows:

Section 1. Property Tax Revenue. "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 13A 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. Annexation Area. "Annexation Area" shall mean that portion of the unincorporated area of COUNTY known as the Laguna West Annexation, as delineated in Sacramento Local Agency Formation Commission application control number "05-01", 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.).

Section 3. Annexation Date. "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 Laguna West Annexation.

Section 4. General Purpose of Agreement. The general purpose of this Agreement is to devise an equitable exchange of Property Tax Revenue between CITY and COUNTY as required by Section 99.

Section 5. 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 10.74364% of the Property Tax Revenue to be allocated to its General Fund.

(b) COUNTY shall receive all of the Property Tax Revenue remaining after the allocation of the City's share as set forth in subdivision (a) of this section to be allocated to the County General Fund.

Section 6. Exchange by County Auditor. COUNTY and CITY further agree that all of the exchanges of property taxes required by this Agreement shall be made by the County Auditor.

Section 7. Mutual Defense of Agreement. If the validity of this Agreement is challenged in any legal action by a party other than COUNTY or CITY, then COUNTY and CITY agree to defend jointly against the legal challenge and to share equally any award of costs, including attorneys fees, against COUNTY, CITY, or both.

Section 8. Waiver of Retroactive Recovery. If the validity of this Agreement is challenged in any legal action brought by either CITY or any third party, CITY hereby waives any right to the retroactive recovery of any City Property Tax Revenues exchanged pursuant to this Agreement prior to the date on which such legal action is filed in a court of competent jurisdiction. The remedy available in any such legal action shall be limited to a prospective invalidation of the Agreement.

Section 9. 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 10. 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 11. Effect of Tax Exchange Agreement. This Agreement shall be applicable solely to the Laguna West 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 or enlarge any revenue sharing obligations of the City by way of incorporation on July 1, 2000.

Section 12. 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 13. 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
County Administration Bldg.
700 H Street, Room 7650
Sacramento CA, 95814

CITY
City Manager
City of Elk Grove
City Hall
8400 Laguna Palms Way
Elk Grove, CA 95758

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 14. 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 15. 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

("COUNTY")

By *Jill Collins*
Chairperson of the Board of Supervisors
of Sacramento County, California

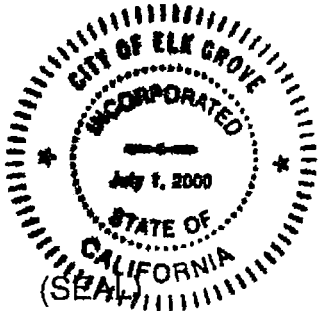


ATTEST: *Cindy H. Turner*
Clerk of the
Board of Supervisors

Approved As to Form:

County Counsel

CITY OF ELK GROVE, a municipal corporation
("CITY")



BY: *Sophia Scherman*
Mayor

ATTEST: *Peggy J. Johnson*
City Clerk

Approved As to Form:

[Signature]
City Attorney