

Summary of the North Tahoe Incorporation Initial Fiscal Feasibility Review

Background

This is a summary of the initial fiscal feasibility review of a proposed incorporation of the North Lake Tahoe area (eastern Placer County) into a local municipal government. The review was directed and funded by a citizen's group and prepared by Urban Economics under contract with Sustainable Community Advocates in September 2023.

The defined purpose of this initial fiscal review was to determine if the incorporation of North Lake Tahoe is potentially fiscally feasible. An application for incorporation would have to be submitted to and ultimately approved by the Placer County Local Agency Formation Commission (LAFCO) to move forward with the process of creating a new local government. Under the state statutes governing incorporation, LAFCO would require preparation of a Comprehensive Fiscal Analysis (CFA). This review is not a CFA. Rather, the intent of this review is to provide an initial fiscal analysis to determine if proceeding with an incorporation application is advisable.

Summary of Key Assumptions, Methodology, and Findings

Assumptions

Boundaries: The incorporation boundaries for purposes of this analysis were designed to:

- Capture substantially all existing and planned urban development within the greater North Lake Tahoe area of eastern Placer County.
- Follow the boundaries of existing special districts.
- Exclude federal forests to minimize direct wildfire protection responsibility.
- An application for incorporation could consider alternative boundaries. Reducing the area of the new town may reduce fiscal feasibility because operating revenues typically decrease more than operating costs.

Services: This analysis assumed the new Town would:

- Assume responsibility for all existing municipal services currently provided by the County.
- Contract with the County for services that the County may be able to provide more cost-effectively, at least during the early years of the Town.
- Provide services at the same level as currently provided by the County.
- Not assume responsibility for any services currently provided by existing special districts. Proposed incorporation would not include any reorganization of existing special districts.

Cost and Revenue Data: This analysis is based on actual Placer County costs and revenue for Fiscal Year 2021-22.

Methodology

- This analysis is based on extensive work with County staff to estimate the North Lake Tahoe share of county service costs and revenues generated by the area.

- The Town of Truckee budget is used to estimate general government costs (Town Council, Town Manager, Administration, etc.)
- This analysis is based solely on estimates of ongoing costs and revenues for a normal year of operation, a typical and robust measure of fiscal feasibility.
- This analysis does NOT consider:
 - Transition costs and revenues during the first year of operation
 - Fiscal impacts of any future land development
 - Town capital costs for facilities such as administration and corporation yard, except to the extent facility costs are included in the County data used to estimate annual service costs
- Revenue neutrality payments to the County. State law requires newly incorporated entities to offset negative fiscal impacts on affected jurisdictions.

These additional considerations would be addressed as part of a Comprehensive Fiscal Analysis (as required in the LAFCO process).

Findings

- The town would be a \$60 million local government entity with an estimated 140 employees across a general fund and three restricted funds.

General Fund

- Fiscal feasibility of the General Fund is the most critical demonstration of overall feasibility for the new town.
- The town would be fiscally feasible based on an estimated general fund surplus of 27%. This surplus is greater than indicated in state guidelines for an adequate general fund surplus.
- Fiscal feasibility is also positively indicated by comparing results with the nearby Town of Truckee and City of South Lake Tahoe on a per capita basis. The new town is estimated to have per capita General Fund revenues that are about 70 to 80 percent higher compared to Truckee and South Lake Tahoe. Higher revenues for North Lake Tahoe are primarily associated with higher transient occupancy tax revenue.

Restricted Funds

Road Fund

- Newly incorporated towns and cities typically assume responsibility for road maintenance.
- A shortfall in the Road Fund is a typical result of incorporation feasibility analyses. The shortfall is caused by the statutory formulas for allocating gas taxes to counties compared to towns or cities.
- Most California local governments and counties must support their road funds with General Fund contributions to maintain adequate service levels, as does Placer County. The new town could choose to do the same and appears to have the General Fund surplus to do so.

Library Fund

- Newly incorporated municipal governments often do not assume responsibility for library services, preferably to leave this service as part of an existing countywide network.
- The geographic separation between the Tahoe area and the rest of Placer County, and the potential benefits of cooperating with the adjacent Town of Truckee on library services, may indicate that the new town would be better served by managing library services.
- The Library Fund has a significant surplus caused by property tax revenue generated by the North Lake Tahoe area being greater than the library services provided to the area.
- The new town could not transfer the Library Fund surplus to other funds because library property tax is restricted to library services. The current surplus supports services throughout the library service area and does not support the County's General Fund.

Transit Fund

- Newly incorporated municipal governments often do not assume responsibility for transit services, preferring to leave this service as part of an existing countywide network.
- The geographic separation between the Tahoe area and the rest of Placer County and the potential benefits of cooperating with the adjacent Town of Truckee on transit services may indicate that the new town would be better served by managing transit services.
- The shortfall in the Transit Fund is primarily caused by the loss of \$1.5 million in Local Transit Funds (LTF) from the Placer County Transportation Planning Agency. (PCTPA) because of state apportionment formulas.
- To avoid a deficit in the Transit Fund, the proposed new town could not include transit services in its incorporation application to LAFCO. If the town does assume responsibility for transit services it may be able to identify additional funding, such as from the estimated General fund surplus.