

May15, 2002

Local Agency Formation Commission
for Los Angeles County
700 North Central Avenue, Suite 350
Glendale, California 91203

Re: Executive Officer's Report for the Special Reorganization of the Harbor Area

Dear Commissioners:

I am very pleased to present for your review and consideration the Executive Officer's Report for the Special Reorganization of the Harbor area of the City of Los Angeles. This Report is the culmination of many months of hard work by the Subcommittee on Findings, Terms and Conditions (the "Subcommittee"), Commission staff, its consultants and legal counsel.

The proposal for special reorganization of the Harbor area, along with two (2) other special reorganization areas, is unprecedented in its scope. Special reorganizations are rare, only two have occurred in the State's history the last over 80 years ago.

The objective of the Executive Officer's Report is to provide you with recommendations regarding the findings the Commission must consider to determine whether or not to approve the proposal.

The Report takes into consideration the analysis contained in the Comprehensive Fiscal Analysis ("CFA") prepared by Public Financial Management, Inc., as well as their supplemental report and the State Controller's review of the CFA. Both the CFA and State Controller concluded that a Harbor city would not be financially viable if it were to contract for services with the City of Los Angeles. Although the CFA pointed out that other cities like Pomona and Garden Grove manage to make ends meet with fewer resources than a Harbor city would have, the CFA supplement indicated that the proposed Harbor city would have to achieve a daunting \$51 million in budget cuts in order to achieve fiscal viability. The Applicant continued to assert that as "Small Town USA", the Harbor could in fact achieve those cost savings.

On April 9, 2002, the State Lands Commission denied the Applicant's request for the tidelands trust to be included within the proposed Harbor city's boundaries. That

decision removed a net \$18 million in revenue from the proposed city's budget and, in so doing, imposed additional financial hurdles for the viability of the proposed city. The Applicant responded to the decision of the State Lands Commission by proposing only two weeks ago a new vision for the proposed city.

In addition to the analysis set forth in the CFA, Team LAFCO has examined the expenditure levels of cities smaller than the City of Los Angeles, and of the County of Los Angeles' Contract Cities Program. Indeed, Team LAFCO found that a new Harbor city could reasonably be expected to cut \$21 million from its budget by becoming a "Small Town U.S.A". With the budget gap narrowed to \$6 million, Team LAFCO looked hard at the Harbor's options.

Your Executive Officer cannot find a realistic basis for cutting the proposed city's budget any further. Under the rosier of possible scenarios, your Executive Officer found that the new city might have an operating surplus of a meager \$157,000. Under no scenario did the Executive Officer find that the proposed city could generate reasonable reserves during its first three years.

Thus, the Executive Officer's Report recommends that the Commission find that the proposed Harbor Area Special Reorganization would not be financially viable without increasing taxes or decreasing levels of service, and that the commission disapprove the proposed Harbor Area Special Reorganization.

As the proposal has evolved since this process began, the Commission staff and its consultants have attempted to keep pace with an ever-changing landscape. I would like to extend my gratitude for the considerable efforts of Team LAFCO—my staff, Burr Consulting, County Counsel and Public Financial Management. In large part, this Report is also based upon the considerable efforts of the Harbor Study Foundation, Inc., and its consultants, as well as the City of Los Angeles. All parties have provided data and information, critical fiscal and legal analysis, all of which has been utilized as the basis for this report.

I believe that this Report provides the required information and recommendations necessary for you to properly consider the proposal. If you have any questions regarding the material presented in this Report, please do not hesitate to call.

Larry J. Calemine
Executive Officer

Cc: Harbor SRO Applicants
Mayor Hahn, City of Los Angeles

County Counsel