

April 24, 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 San
Fernando Valley**

Dear Commissioners:

I am very pleased to present for your review and consideration the Executive Officer's Report for the Special Reorganization of the San Fernando Valley 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 San Fernando Valley is unprecedented in its scope. Special reorganizations are rare—only two have occurred in the State's history, the last over 80 years ago—and the subject matter of this special reorganization is the second largest city in the Nation. If approved, the San Fernando Valley Special Reorganization would create the Nation's third and sixth largest cities. No local agency formation commission in the State of California has ever considered a proposal of this magnitude.

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, as well as proposed terms and conditions setting forth how the cities would function during the transition period and afterward, including the allocation of revenues and service responsibilities, and transfer of assets and liabilities.

In general, the Executive Officer's Report recommends that the Commission find that the proposed San Fernando Valley Special Reorganization would not be revenue neutral, that there would be a negative fiscal effect on the City of Los Angeles that should be mitigated, and that the proposed new city would be fiscally viable. It recommends terms and conditions that set an effective date of July 1, 2003 and a one-year transition period, provide for the retention of a fiscal agent to handle revenue allocation between the cities, an annual mitigation payment to the City of Los Angeles for a period of 20 years, the transfer of locally-serving assets to the new city, the allocation of outstanding debt and

Local Agency Formation Commission contingent liabilities, and the City's retention of its public utilities with utility rate protections for customers in the proposed new city.

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. Further analyses were contributed by Beverly Burr of Burr Consulting with input from County Counsel and the recommendations of the Subcommittee. 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. As you will see in this Report, that evolutionary process continues, and we will continue to update even this Report, as additional information becomes available that may be useful to the Commission in making its determinations.

In large part, this Report is also based upon the considerable efforts of the Applicant, the Valley Study Foundation, Inc., and the City of Los Angeles. Both parties have provided data and information, critical fiscal and legal analysis, and proposed terms and conditions, and have met on numerous occasions for long hours to discuss and negotiate on the complicated issues presented by the proposal for San Fernando Valley Special Reorganization.

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: San Fernando Valley SRO Applicants
Mayor Hahn, City of Los Angeles
County Counsel