

**SPECIAL REORGANIZATION OF THE HARBOR AREA
EXECUTIVE OFFICER'S SUPPLEMENTAL REPORT #2**

TO THE

LOCAL AGENCY FORMATION COMMISSION
FOR LOS ANGELES COUNTY

May 24, 2002

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INTRODUCTION

The Executive Officer's Report for the Harbor Special Reorganization, issued for the May 15, 2002 Commission meeting, originally recommended that the Commission find that the proposed Harbor city would not be fiscally viable and decline to approve the proposed Harbor Special Reorganization.¹ A subsequent supplemental report issued prior to the May 15, 2002 meeting raised the prospect that the proposed new city might be fiscally viable, based upon a number of assumptions discussed below.² This Report sets forth the further recommendations of the Executive Officer with respect to the Harbor Special Reorganization proposal.

BACKGROUND

Comprehensive Fiscal Analysis

The Applicant's October 2001 proposal³ indicated that the new city would:

- 1) Contract with the County Sheriff Department for police service;
- 2) Contract with the City of Los Angeles for fire, animal services and parks and recreation;
- 3) Discontinue providing sanitation, cultural affairs, and aging-related services; and
- 4) Directly provide public works, transportation, planning, building inspection and financial services by staffing such departments at the new city.

The Harbor Area Comprehensive Fiscal Analysis (CFA) found that the proposed Harbor city would need to reduce service costs by \$47.8 million below the City of Los Angeles current costs of servicing the area.⁴ The CFA found that the Applicant's proposal had understated the costs of services to be provided by the City of Los Angeles. Further, the CFA found that the Applicant's proposal had not demonstrated how the new city could provide those services it would provide directly with less staff than currently is used by the City of Los Angeles.

The CFA supplement found that the proposed city would need to reduce costs by \$51.3 million below the City of Los Angeles current costs of servicing the Harbor area in order to achieve fiscal viability.⁵

Geographic Boundary Changes

The State Lands Commission denied approval for the Applicant to include tidelands and submerged lands in the boundaries of the proposed city on April 9, 2002. The State Lands Commission recommended that LAFCO set a logical boundary separating Port lands managed by the City of Los Angeles from the proposed Harbor Special Reorganization area.⁶ The Executive Officer subsequently prepared an analysis based upon a boundary separating Port lands from the proposed Harbor city. This boundary change had the effect of removing approximately \$36 million in

¹ Calemine, Larry J. *Special Reorganization of the Harbor Area Executive Officer's Report*, May 15, 2002.

² Calemine, Larry J. *Proposed Harbor Area Special Reorganization Executive Officer's Report Supplement on Reasonable Reserves*, May 15, 2002.

³ Harbor Study Foundation. *Special Reorganization of the Harbor Area Harbor Incorporation Analysis*, October 8, 2001.

⁴ Public Financial Management, Inc. *Harbor Proposal for Special Reorganization Comprehensive Fiscal Analysis*, January 9, 2002.

⁵ Public Financial Management, Inc. *Harbor Proposal for Special Reorganization: Supplemental Report*, February 21, 2002.

⁶ California State Lands Commission. *Consideration of a Request for Consent to Include Territory Involving Sovereign Tide and Submerged Lands in a Special Reorganization that Would Detach those Sovereign Lands from the City of Los Angeles and Incorporate them into a New Proposed City Including the Areas of San Pedro, Wilmington and Harbor City, Los Angeles County*, April 9, 2002.

revenues from the proposed city's budget, and had a net negative fiscal effect of about \$18 million on the proposed city.⁷

Both the Applicant and the City of Los Angeles have proposed that the Commission make additional changes to the boundaries of the proposed special reorganization area. The City of Los Angeles requested that three additional areas be removed from the proposed special reorganization area: Cabrillo Marina and Beach Area, Harry Bridges Boulevard Realignment Project, and the Alameda Street Port-owned tract.⁸ The Applicant proposed that the new city's boundaries be expanded to include all areas originally proposed for special reorganization that are not under the jurisdiction of the State Lands Commission at the Commission's May 15, 2002 meeting.

The Executive Officer concludes that the fiscal impact of these proposed boundary changes cannot be assessed within the time frame required for the special reorganization to be considered for placement on the November 2002 ballot.

Applicant's Revised Service Vision

The Applicant responded to the State Lands Commission decision by proposing a revised vision for the Harbor area, and proposed that the new city would:

- 1) Contract with the County Sheriff Department, Fire Department, Public Works, Library and Animal Control Department;
- 2) Privatize park maintenance and solid waste management;
- 3) Directly provide all other services at the costs of comparably sized California cities.⁹

The Executive Officer's Report preliminarily assessed this revised service vision, and concluded that the proposed city could potentially achieve significant cost savings if such a vision could be implemented. The Executive Officer also found that, even with such service assumptions, the proposed city would not be financially viable unless:

- 1) The Commission sets an effective date of January 1st and a transition period of six months;
- 2) The County Sheriff is able to provide service as of the effective date;
- 3) The County Sheriff does not require a replacement police station to be financed by the new city;
- 4) The County Fire Department is able to provide service at the end of the six-month transition period;
- 5) The new city is able to privatize residential refuse collection service at the end of the six-month transition period;
- 6) The new city imposes franchise fees on electric and water utilities and private refuse collection service providers;
- 7) The Commission relieves the new city of responsibility for making debt payments to the City of Los Angeles for outstanding Convention Center, sanitation equipment revenue, and

⁷ Calemine, Larry J. *Special Reorganization of the Harbor Area Executive Officer's Report*, May 15, 2002.

⁸ Hahn, James K. *Request to Make Adjustments in the Proposed Boundaries of the Special Reorganization Area in the Harbor Area*. Correspondence addressed to Executive Officer Larry J. Calemine, May 10, 2002.

⁹ Harbor Study Foundation, Inc., *Revised Municipal Budget for the new Harbor Area City*, correspondence from Harbor Study Foundation Executive Director Andrew M. Mardesich to LAFCO Executive Officer Larry J. Calemine, April 26, 2002.

judgment obligation bonded indebtedness as well as non-debt liabilities for workers' compensation and tort liability; and

- 8) The Commission provides that the City of Los Angeles would be repaid for \$7.5 million of transition period services over a five-year term, instead of at the time transition period services are rendered.¹⁰

RECOMMENDATION

As indicated above, the Applicant's most recent vision for the provision of services by a new Harbor city includes several proposals which have yet to be analyzed and which cannot be adequately analyzed in time for your Commission to take an action which could result in this matter being placed on the November 2002 ballot; in particular:

- 1) The Executive Officer does not have adequate time to assess the fiscal impacts of boundary proposals made by the Applicant on May 15, 2002 and by the City of Los Angeles on May 10, 2002, that relate to the State Lands Commission decision;
- 2) The Executive Officer, County Sheriff and County Chief Administrative Office do not have adequate time to assess the validity of the Sheriff's service cost estimates;
- 3) The CFA, State Controller's Review of the CFA, and the draft Environmental Impact Report analyze the special reorganization of territory substantially different from the territory currently being considered for special reorganization; and
- 4) The CFA, State Controller's Review of the CFA, and the draft Environmental Impact Report analyze a service proposal that is substantially different from the service proposal made by the Applicant on April 26, 2002.

Executive Officer's Recommendation

The Executive Officer recommends that the Commission postpone consideration of a resolution making determinations for the Harbor Special Reorganization and direct the Executive Officer to initiate an analysis for Harbor Special Reorganization, including preparation of a new comprehensive fiscal analysis, based on fiscal year 2001-02 financial data, and appropriate environmental documentation, which takes into consideration the Applicant's April 26, 2002 proposal, the State Lands Commission decision, and all subsequent boundary proposals submitted by the Applicant and the City of Los Angeles.

¹⁰ Calemine, Larry J. *Proposed Harbor Area Special Reorganization Executive Officer's Report Supplement on Reasonable Reserves*, May 15, 2002.