

EAST LOS ANGELES RESIDENTS ASSOCIATION

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October 13, 2011

Paul Novak, Executive Officer
Local Agency Formation Commission for the County of Los Angeles
700 N. Central Ave. Suite 445
Glendale, CA 91203

Dear Mr. Novak,

We, the East Los Angeles cityhood proponents, hereby request that the State Controller's Office (SCO) review certain elements of the *Comprehensive Fiscal Analysis of the Proposed Incorporation of East Los Angeles* (CFA), which was accepted by the Commission on September 14, 2011.

This letter summarizes our concerns about the CFA, while our specific request for SCO review (attached) covers the details and specific elements of the requested review. The most significant finding in the CFA is that the County of Los Angeles will have a net savings of more than \$26 million annually if the City of East Los Angeles is formed. Despite that net savings to the County, however, the CFA also finds that the proposed new city would not be fiscally viable, as required by Government Code §56720(e), unless its voters approve a utility user tax rate increase and the Legislature restores vehicle license fee revenue allocations for new cities. We believe that conclusion is not founded on a proper review of the current fiscal situation.

Despite the clear cost savings to the County, the CFA failed to account for revenue neutrality payments to be made from the County's windfall to the proposed new city under the provisions of California Government Code §56815 et seq. The record clearly shows that County government is opposed to the incorporation of the City of East Los Angeles. The CFA made a number of assumptions that LAFCO would accommodate various County requests for terms and conditions prejudicial to the proposed city's fiscal viability; for example, the CFA honored County requests to transfer a regional park and subsidy for a regional library hub to the proposed city. In contrast, the CFA assumptions disregarded reasonable terms proposed by the proponents, such as an abbreviated transition period, dissolution of the Belvedere Garbage Disposal District, County retention of the regional park, and the County continuing to subsidize libraries in the proposed city

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as it presently does in 43 other cities. The CFA also disregarded library and regional park costs borne by comparable cities

We believe that the CFA has also overstated certain costs in part because it failed to adhere to the legal requirement that it base cost estimates on analysis of comparable cities providing similar services (Government Code §56800(a)(1)). The CFA disregarded its own analysis of "comparable cities" for purposes of identifying reasonable revenues and costs for the proposed City of East Los Angeles, because the "comparable cities" selected for the CFA (Appendix B) were mostly full-service cities and deemed by the CFA author to not be comparable to East Los Angeles. The CFA over-relied on revenue estimates for the proposed city that were supplied by the County for utility users taxes, franchise fees, and fee revenues even though those estimates were clearly understated and fail validity tests based on comparison with other cities. The CFA disregarded grants as funding sources.

Furthermore, we believe the CFA overstated contract law enforcement costs by failing to analyze an adequate number of comparable contract cities, by including the City of Compton in its small sample in spite of Compton's substantially higher crime rate, and by failing to analyze offsetting revenues that other contract cities use to finance law enforcement services. The CFA erroneously concluded that incorporation would result in reduced law enforcement service levels in East Los Angeles. The County had reported the cost of policing East Los Angeles was \$25 million in FY-05-06 (for the initial feasibility study), and reported this cost had mushroomed to \$36 million in FY 09-10 for the CFA. That amounts to a 48 percent cost increase over a four-year period. By comparison, the Sheriff's budget increased by only 15 percent over the same period. The CFA failed to identify the rapid cost inflation that the Sheriff reported while cityhood was being considered, failed to explain why contract cities pay so much less than reported County costs, and confounds reported costs with service levels. The County finances \$17 million in Sheriff costs with Proposition 172 funds, but the CFA assumes the service responsibility would transfer to the new city without the associated revenue contrary to California Government Code §56815 mandates.

With respect to financing of the State Controller review, the remainder of the fund balance from the State for purposes of East Los Angeles cityhood studies should first be applied to the required \$25,000 deposit. Based on the fund balance you had last reported was approximately \$22,000, we understand the portion due from ELARA at this time is \$3,000. Please find attached a cashier's check for that amount.


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ELARA and the proponents hereby indemnify LAFCO for any additional costs that may be incurred as a result of the State Controller review. That said, we expect the State Controller's office and LAFCO staff to directly and timely discuss with us any elements of this request that might cause significant unexpected costs or time delays and provide us the opportunity to revise this request in light of such feedback.

Benjamin Cardenas is the lead contact person authorized to discuss this request with LAFCO and/or SCO staff and he can be reached at 323.351.3514, and Gustavo Camacho is his alternate and he can be reached at 562.244.8973.

Sincerely,


Benjamin Cardenas
President


Diana Tarango
Vice President


Alberto Palacios
Parliamentarian

cc: John Chiang, State Controller
Members of the Commission