

## **MEMORANDUM**

To: Paul Novak  
Executive Officer, Los Angeles LAFCO

From: Richard Berkson

Subject: East Los Angeles CFA – Feasibility Findings

Date: September 13, 2011

*The Economics of Land Use*



As you requested, I have prepared this memorandum to clarify the definition of city feasibility as it applies to the Public Hearing CFA for the Proposed Incorporation of East Los Angeles.

State law requires that LAFCO cannot approve an incorporation proposal unless the commission finds that "...the proposed city is expected to receive revenues sufficient to provide public services and facilities and a reasonable reserve during the three fiscal years following incorporation" (Government Code Sec. 56720).

As indicated by the findings in the Public Hearing CFA, the new city would not be feasible. Conclusion #1 states that "The new City of East Los Angeles does not generate sufficient revenues to cover projected operating costs unless anticipated revenues are augmented, e.g., by an increase in the existing Utility Users Tax" (CFA, pg. 4). This is further documented by **Table 1a** (CFA, pg. 9), which excludes VLF revenues (the current situation). The table shows that revenues are insufficient in all years except the first transition year.

As stated in Conclusion #5, "City reserves would be insufficient unless projected revenues are augmented" (CFA, pg. 5). **Table 1a** (CFA, pg. 9), which shows the budget forecast excluding VLF revenues (the current situation), documents the inability to provide reasonable reserves during the first three years as well as subsequent years.

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