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Economy & Efficiency Commission Presentation

Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.

PRESENTATION BY

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Executive Officer

Topic: Issues Surrounding the San Fernando Valley Secession, the San Pedro Secession, and the Hollywood Secession Movements
October 5, 2000

Chairman Philibosian introduced Mr. Larry J. Calemine. Mr. Calemine stated that he would give a brief overview of the secession movements, and then answer the Economy and Efficiency Commissioners' questions. The San Fernando Valley's secession petition has qualified for special reorganization, which proposed detachment from the City of Los Angeles and incorporation as a new city. The Harbor San Pedro area has qualified their petition and has filed their application. Hollywood has submitted their petition with LAFCO. The signatures on the petition are with the Registrar Recorder and being counted. LAFCO will not know if Hollywood has qualified until the 20th of October 2000. Hollywood's pending qualification creates a different dynamic because if they do qualify, the combined registered voters in the three areas will compose more than 50% of all the registered voters in the City of Los Angeles. If LAFCO approves those applications, a citywide vote will ensue. This requires a dual majority, 50% within the territorial boundaries as well as 50% in the City of Los Angeles.

LAFCO is determining the fiscal position of the City of Los Angeles, which currently has an operating budget of \$4.1B. It has to determine how things might be dissolved and allocated to these territories. LAFCO is using a tracking matrix of 48 pages. It has been requested that 839 specific items from the City of Los Angeles be reviewed by consultants to provide a comprehensive fiscal analysis. To date, LAFCO has received about half the data requested, and is expecting the balance of the material by mid November. The consultants will have a draft fiscal analysis by February 2001. The analysis will then be distributed to both the City of Los Angeles and to the applicants. This will provide a preliminary view of the geographic revenue collection, expenditures, assets and liabilities. The applicants will have an opportunity to review the LAFCO position and be involved in establishing the final proposal.

Mr. Calemine mentioned that all new cities are created as general law cities. Once the city council is in session, the new city can vote on becoming a charter city. AB185 was passed in the Legislature, which stipulates that, as a general law city there will be one council representative for each 100,000 residents. The San Fernando Valley would have 13/14 council people plus a mayor. Those council districts will be established by LAFCO. AB2838 was passed and signed by Governor Davis, this legislation rewrites the Cortese-Knox Bill, and will now be known as the Cortese-Knox-Hertzberg Bill (Local Government Reformation Act of 2000). It does not affect the actions of the San Fernando Valley or San Pedro Harbor,

since the effective date of AB2838 is January 1, 2001. LAFCO will complete this process under the provisions of the old legislation. LAFCO will issue the preliminary comprehensive fiscal analysis to the City of Los Angeles, the applicants and the public in the spring. LAFCO will then prepare the final comprehensive fiscal analysis under the provisions of government code. Staff is required to prepare a report and make recommendations to LAFCO, whereupon it will hold five or six public hearings. These hearings will be spread out in different locations of the city to enable easy access to the public. LAFCO will hear the comments, and ultimately make a decision. LAFCO hopes to complete this process by summer of 2002, and if approved, it will appear on the November 2002 ballot.

Commissioner Fuhrman asked how LAFCO proposes to distribute fixed assets (such as water and power, or airports) as they apply to each of the secession movements? Mr. Calemine responded that the area being detached is not entitled to any portion of either the assets or liabilities as a matter of law. The government code states that LAFCO can only approve the application if it determines that such a break-up would be revenue neutral or substantially equal. If not, the parties need to agree to tax sharing. A failure to agree during the revenue neutral negotiations would necessitate that LAFCO distribute the assets and the liabilities.

Commissioner Stoke asked if LAFCO anticipated that all three applications would proceed simultaneously. Mr. Calemine responded, yes, based upon the present stage of the data processing phase. The breakdown is not geographically complete, so if Hollywood does qualify, it will be very simple to include them.

Chairman Philibosian interjected that the Commission would be interested in knowing the composition of LAFCO. Mr. Calemine responded that there are nine regular commission members with six alternates. Two members are from the Board of Supervisors: Supervisor Yaroslavsky and Supervisor Burke, their alternate is Supervisor Knabe. The City of Los Angeles has one representative who is appointed by the President of the City Council. This is Councilman Hal Bernson, his alternative is Councilman John Ferraro.

Chairman Philibosian asked if Councilman Bernson recused himself from voting on the L.A. City breakup. Mr. Calemine responded, no, that the government code is clear that every member of LAFCO is not obligated to recuse themselves on any issue coming before LAFCO that affects their city, county, or district. The other eighty-seven cities appoint, through the city selection process, two other city representatives. These are Tom Jackson from Huntington Park the LAFCO Chairman, and Beatrice Proo, who is the Mayor of Pico Rivera. Their alternate is Christina Cruz-Madrid from Azusa. Two members represent the 94 special districts: Dr. Connelly from Little Rock in the North Valley, and Bill Wentworth, who is from the Water District. Their alternate is Gordon Knopp from Las Virgenes Water District. LAFCO has two public members. One public member is appointed by the Board of Supervisor's to represent the San Fernando Valley. The other public member is appointed by the other eight commissioners. There has been a great deal of continuity in LAFCO, many of these members have sat on that commission for about fourteen years, i.e. Henry Pellissier who is the public member at large, and his alternate is Kenneth Chappell (former Mayor of West Covina and Chairman of LAFCO eighteen years ago.) Hal Bernson has also been a member for about fourteen years. Other members who represent the Valley are Jim DiGiuseppe; his alternate is Richard Close who is the head of the San Fernando Valley Breakaway Movement. The make-up of the Commission indicates that neither the county, the cities nor the districts have complete control. Mr. Calemine stated that he has been involved with LAFCO for ten years: five years as the Executive Officer, and five years, previously, as an alternate commissioner.

Chairman Philibosian asked how Mr. Calemine's staff was organized and whether LAFCO used outside consultants. Mr. Calemine responded that he had four people including himself on staff; and in the case of the secession, yes, they were using outside consultants, which is a rarity.

Former Commissioner Kennedy remarked that the secession movement is the largest project any LAFCO in the State of California has ever embarked upon. Mr. Calemine answered that the last time something of this magnitude ever took place was before the Civil War. Former Commissioner Kennedy also queried what was the origination of the funding. Mr. Calemine stated that LAFCO convinced the State of California, the City of Los Angeles, and the County of Los Angeles that they could not expect the public to find the kind of

revenue to undertake this kind of project. We put together a budget of \$2.56M, of which the State of California has funded 80%. The City of Los Angeles has funded 10%; and the County of Los Angeles has funded 10% to be available when necessary. Mr. Calemine said he came up with this formula by convincing the State that the County of Los Angeles has already spent about \$400,000 in checking the signatures on the petition. They would be expending much more if the County Assessor had to come up with all the necessary data in the County CAO's office.

Former Commissioner Abel stated that the Speaker Hertzberg created a commission last year that focused on LAFCO issues. This commission sponsored AB2838 which the Governor recently signed; could Mr. Calemine explain the impact? Mr. Calemine responded that Bill AB2838 clarifies LAFCO's role. Governor Peter Wilson created the Commission for the Governance of the 21st Century. That Commission met for sixteen months around the State of California and was charged with rewriting the Cortese-Knox Bill and other portions of the government code dealing with the creation and modification of local government. They came up with a series of recommendations.

There are 57 LAFCO's throughout the State of California, which usually have five members, each. (L.A. County LAFCO is the exception with nine members.) Only seventeen LAFCO's are independent. The other LAFCO's have been dependent and use county staff.

As of January 2001, AB2838 created LAFCOs as independent agencies of the State of California. Counties will fund one third of LAFCO expenses; cities, one third; and special districts, one third. Los Angeles County's eighty-eight cities will collectively fund one third of that budget, in proportion to their annual operating budget. A LAFCO budget cannot be overturned once it is adopted. The budget then goes to the Auditor/Controller. If the monies are not paid to LAFCO within 60 days, then the Auditor/Controller will have to pay the funds and deduct the monies from the payee's portion of property taxes. Bill AB2838 mandates that LAFCO update all of their spheres of influence. This will necessitate the hiring of two more people. LAFCO now has to write down all of their policies for annexation, merger, consolidation, or corporation.

Commissioner Petak asked whether the net result of AB2838 would make incorporation of unincorporated areas easier or more difficult. Mr. Calemine said the only changes would be the percentage required on petitions to qualify. Also, updating the spheres of influence of every district, and going through the process of the findings requires LAFCO to look at the economy and efficiency of the services provided.

Commissioner Padilla asked what was Mr. Hertzberg's policy objective? Mr. Calemine responded that it was to simplify how LAFCO operates. All 57 LAFCO Executive Officers will be meeting in Sacramento on November 3rd to discuss many of the diverse issues.

Commissioner Sylva asked whether outstanding bonded indebtedness were included. Mr. Calemine stated that would have to be broken up proportionately because of property concerns. There should not be any greater liabilities or benefits. The investors are secured by government code.

Commissioner Fuhrman asked about the steps in determining income and outgo amounts? Mr. Calemine stated that the City was asked to give LAFCO a territorial breakdown of the \$4.1B budget. It would be extremely costly to determine what the assets of a territory are, because often they are not even known.

Commissioner Padilla asked whether each councilperson would be able to find the total of the city expenditures in their districts? Mr. Calemine said LAFCO would have the raw data, what is done with the information will be determined by the districts.

Commissioner Farrar asked if the nine members and six alternates prescribed in statute, and whether the 57 LAFCOs composition prescribed in a different way? Mr. Calemine said, yes to both questions, he continued that all 57 LAFCOs are composed in the same way with the exception of about six or seven. Commissioner Farrar asked how the 87 cities get together. Mr. Calemine said the city selection process is part of the Local League of Cities. A city selection committee makes recommendations, and appointments. Districts go through an election process by sending out ballots through the Independent Special District Association.

Commissioner Fuhrman asked how LAFCO accounted for the potential impact on independent agency bond ratings for the city in view of a potential breakup? Mr. Calamine said that if one takes the City of Los Angeles, that has a particular bond rating, and you separate it, those bondholders that exist today have the same guarantees and assurances that they had in the past. However, that doesn't take care of the future bond ratings. The concept is that once the city is reorganized there might be a higher bond rating.

Chairman Philibosian thanked Mr. Calamine for his presentation and recognized the value of this information to the Commission.

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