

Final



Kris Berry, Executive Officer
Placer LAFCO
110 Maple Street
Auburn, CA 95603

*Incorporate OV Foundation
P.O. Box 2628
Olympic Valley, CA 96146*

November 3, 2015

Dear Ms. Berry:

Incorporate Olympic Valley (IOV) respectfully submits this analysis of the State Controller’s Office (SCO) Review Report and findings regarding the Draft Comprehensive Fiscal Analysis (Draft CFA) of the Proposed Incorporation of the Town of Olympic Valley. The SCO report is dated October 28, 2015.

IOV submitted thirty one Issues to the SCO for review. The SCO found that eighteen Issues in the Draft CFA are inconsistent with Government Code section 56800 et seq. and/or the Guide to the LAFCO Process for Incorporations published by the Governor’s Office of Planning and Research.

Government Code section 56801(c) states, in part “The executive officer shall include the results of the Controller’s report into his or her own report and recommendation...”

This letter focuses on the impact of these eighteen Issues on the Draft CFA revenues, expenditures and reserves, to assist the executive officer in including the results of the SCO report in the Draft CFA and the report and recommendations to the LAFCO Commission.

ISSUE 1:

The Draft CFA should include indirect costs in the calculation of total net cost transferred from the County to the Town.

SCO Analysis and Response to Issue 1:

“The SCO concludes that the Draft CFA should include indirect costs in the calculation of the total net costs transferred from the county to the town. However, the Draft CFA included indirect costs for some departments and excluded costs for other departments.” (SCO Review Report, page 8)

IOV:

The SCO found that the Draft CFA included indirect costs for the Community Development Resource Agency and the Sheriff’s Office, but not the Public Works Department, Facilities – Parks Department, or the HHS – Animal Services Department (Draft CFA, page 21). Including indirect costs for these departments will increase the town’s property tax percentage and property tax revenue. IOV does not have access to the County’s indirect cost percentages for these departments; the County will need to identify the indirect cost percentages and LAFCO will need to include these costs in the revised Draft CFA.

CFA Impact: Revenue increase - to be determined

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Including indirect costs for these departments will also impact the CFA calculation of the Transition Year Loan with the net result being a higher Transition Year Loan (increase in property tax revenue received but a greater increase in costs incurred). Again, IOV does not have access to County’s indirect cost percentages for these departments; the County will need to identify the indirect cost percentages and LAFCO will need to include these costs in the revised CFA.

CFA Impact: Expenditure increase - to be determined

Including these additional indirect costs in the cost of County services will also impact the calculation of the what the Draft CFA calls “Revenue Neutrality Payments” (more accurately called the difference between County Revenue Transferred and County Expenses Transferred, since Revenue Neutrality Payments have not yet been negotiated), with the net result being a lower potential Revenue Neutrality Payment (increase in property tax revenue transferred but a greater increase in indirect costs transferred).

CFA Impact: Revenue neutrality amount decrease - to be determined

ISSUE 2:

The Draft CFA should include Olympic Valley’s proportionate share of the cost of North Lake Tahoe regional marketing, transportation and infrastructure improvement services in the calculation of property tax revenue to be transferred to the Town.

SCO Analysis and Response to Issue 2:

“The SCO concludes that the Draft CFA should include the proportionate share of the NLRTA contract cost in the calculation of total net costs funded by general purpose revenue.” (SCO Review Report, page 8)

IOV:

Fiscal year 2013/14 transient occupancy tax revenues are \$3,210,466 (Draft CFA, page 48). 50% of the total transient occupancy tax revenue supports NLRTA services (Draft CFA, page 31). \$1,605,233 of Olympic Valley transient occupancy tax is used by the County to support NLRTA services (\$3,210,466 x 50% = \$1,605,233).

The SCO concluded that this proportionate share of the NLRTA contract cost should be included in the net costs funded by general purpose revenue, and therefore in the calculation of the property tax percentage and property tax revenue transferred to the town. Table 1 below provides the analysis of the impact of the SCO conclusion on the property tax percentage and property tax amount transferred to the town.

Table 1: Recalculation of Property Tax Transfer Share

Property Tax Transfer Share	Draft CFA	SCO Review
Net Cost of Services Transferred to Town	\$1,439,385	\$1,439,385(1)
Add: NLRTA Service Cost Transferred to Town	\$ -	\$1,605,233
Total Net Cost of Services Transferred to Town	\$1,439,385	\$3,044,618
Auditor’s Ratio	51.21%	51.21%
Base Year Property Tax Transfer to Town (2013-14)	\$737,053	\$1,559,148
Assessed Value 2013-14	\$1,140,780,468	\$1,140,780,468
Assessed Value 2017-18	\$1,343,371,200	\$1,343,371,200 (2)
Change in AV from 2013-14 to 2017-18	17.76%	17.76%
Property Tax Revenue Adjusted for AV Growth	\$867,945	\$1,836,037
Property Tax Share Computation:		
Projected Assessed Value (2017-18)	\$1,343,371,200	\$1,343,371,200
A. General Tax Levy (1% of Assessed Value)	\$13,433,712	\$13,433,712
B. Property Tax Revenue Adjusted for AV Growth	\$867,945	\$1,836,054
Property Tax Share to Town (B divided by A)	6.46%	13.67% (1)(2)

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Notes to Table 1:

(1) To be adjusted by indirect costs per Issue 1.

(2) To be adjusted by Proposition 8 recapture in assessed value per Issue 8.

The revised 13.67% property tax percentage applied to all assessed values in the Draft CFA will increase the property tax revenue received by the town.

CFA Impact: Revenue increase - \$12,326,774

Including NLRTA contract costs in this calculation will also impact the CFA calculation of the Revenue Transferred and Expenses Transferred (Draft CFA, page 48), with the result being a higher potential revenue neutrality amount.

CFA Impact: Revenue neutrality amount increase - \$7,398,358

Including NLRTA contract costs in this calculation will also impact the CFA calculation of the Transition Year Loan (expenditures and property tax revenue), with the result being a higher Transition Year Loan and loan repayment.

CFA Impact: Expenditure increase - to be determined

ISSUE 3:

In addition, IOV requests that the SCO inform LAFCO that transient occupancy tax revenue should not be subtracted from the cost of these services to arrive at total net cost of services, as transient occupancy tax revenues do not fall within section 56810(c)(2) exclusions.

SCO Analysis and Response to Issue 3:

“Due to OPR Guidelines and Government Code section 56810 (a - c) exclusions, the SCO concludes that the TOT revenue should not be subtracted from the NLRTA cost of services transferred to the town, to arrive at the total net cost of services transferred to the town.” (SCO Review Report, page 8)

IOV:

Agree.

CFA Impact: None

ISSUE 6:

The Draft CFA should use future residential development sales values and resulting assessed values as reported by the Village at Squaw Valley developer.

SCO Analysis and Response to Issue 6:

“The SCO concludes that the Draft CFA should use future residential development sales values and resulting assessed values as reported by Squaw Valley Real Estate (SVRE). However, SVRE did not provide pricing models for future sales; therefore the Draft CFA used the only data available which was historical values.” (SCO Review Report, page 10)

IOV:

The SCO requested the data from Squaw Valley Public Service District (SVPSD) on October 6, 2015. SVPSD responded on October 28, 2015, the day the Review Report was released by the SCO. The response from

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SVPSD provided the data submitted by SVRE, as reported in the following email exchange between SVPSD General Manager Mike Geary and the SCO representative, John Mellas (underlining added):

From: Mike Geary
Sent: Wednesday, October 28, 2015 5:15 PM
To: JMellas@sco.ca.gov
Subject: RE: Olympic Valley

John,
Please find below the responses received from our consultant, Hansford Economic Consulting (HEC):

This email provides responses to the State Controller's Questions on the property tax revenue projections I performed for Squaw Valley PSD in 2014.

Table A-7 pricing --- the condo hotel, fractional cabin and timeshare pricing was provided by SVRE to HEC June 4 2014. SVRE gave HEC the following: Condo hotel units \$950 psf, fractional cabins 7 shares per cabin at \$450K per share, and timeshares 49 weeks per unit at \$36,000 per week. (Note: 49 weeks and \$36,000/week are correct; Table A-7 has these numbers incorrectly transposed). This information is reflected in Table A-7 with the exception that HEC assumed the condo hotel units to be 1,000 square feet each which is different from the weighted average of the units by area noted in footnote [1]. Using a weighted average the per unit value for a condo hotel using SVRE's data would be \$1,208,000 rather than \$950,000. Using the source data (see attached), the median of all the units listed in Squaw and Northstar results in 967 sq. ft. per unit, and the average is 1,042 per unit so we assumed 1,000 square foot per unit. This difference does not affect the property tax projection from condo hotel units for the PSD analysis because HEC used the market data of \$604 per square foot in the study (Table A-8).

"Areas" – these are the development areas listed in the land use table also provided by SVRE, dated July 16, 2014.

All the assumptions (area, number of units, units square feet, price and so forth) are for planning purposes. As noted in HEC's study, assumptions do change and planning documents should be updated accordingly.

I hope this helps.
Mike

Mike Geary, PE
General Manager
Squaw Valley Public Service District
(530) 583-4692
www.svpsd.org

From: JMellas@sco.ca.gov [<mailto:JMellas@sco.ca.gov>]
Sent: Thursday, October 08, 2015 2:39 PM
To: Mike Geary
Subject: RE: Olympic Valley

Mike,
Again, thanks. In reading the documents, Tables A-7 and 8 present the information of most use. I have a couple of quick questions on Table A-7:

- I'm curious about the pricing model in the SVRE category. This is footnote referenced as June 2014 data. If I may ask, what is this data and could it be made available, if requested?
- Also, are you able to tell me about the Condo/Hotel unit listing shown under "Area," please? For example:
 - how might we assess the completeness in the population of units listed – were these all units on the market at a point in time?
 - do the areas represent district subdivisions or something else?
 - how was this list determined?

We sure appreciate your assistance. The information will be very helpful. Thank you, Mike.

John

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The SCO conclusion was clear - “the Draft CFA should use future residential development sales values and resulting assessed values as reported by Squaw Valley Real Estate (SVRE)”. The SCO response requires LAFCO to use the future residential development sales values and resulting assessed values as reported by Squaw Valley Real Estate. This information is now available.

The Draft CFA assumed \$490,000 sales value for new Village at Squaw Valley condos and \$1,050,000 for new fractional units (Draft CFA page 24). Hansford Economic Consulting has now confirmed that the sales values provided by SVRE are \$1,208,000 for condo hotel units and \$3,150,000 for fractional units (7 shares per cabin at \$450K per share).

These sales values should be used to calculate the assessed value in Figure 11 – Assessed Value Forecast” (Draft CFA page 24) and the initial and resale values (as further adjusted by appreciation rates) in Figure 14 – Property Transfer Taxes (Draft CFA page 30).

CFA Impact: Revenue increase - \$2,676,435

ISSUE 8:

The Draft CFA should include the recapture of all of the Proposition 8 reassessment values.

SCO Analysis and Response to Issue 8:

“Our review of this issue and interviews with Placer County Assessor’s Office found that approximately \$182,000,000 in Proposition 8 reassessments were left to be recaptured as of the FY 2015-16 Assessment Roll.”

“The SCO concludes that the Draft CFA should include additional Proposition 8 reassessments that could be recaptured in future years.” (SCO Review Report, page 11)

IOV:

The SCO found even greater amounts of Proposition 8 reassessments to be recaptured than the IOV research found.

The SCO conclusion requires the Draft CFA to include the recapture of \$182,000,000 Proposition 8 reassessments in Figure 11 (Draft CFA page 24). The Draft CFA should specifically identify in Figure 11 the amount of the Proposition 8 reassessment values included in each fiscal year, beginning in FY 2015-16 and continuing until the entire \$182,000,000 has been fully recaptured.

CFA Impact: Revenue increase - to be determined

ISSUE 9:

The Draft CFA should include four quarters of sales tax revenue in the Transition Year.

SCO Analysis and Response to Issue 9:

“From our discussions with BOE (California State Board of Equalization) and the review procedures performed, we determined that the Draft CFA base year revenue calculation is incorrect and understates the town’s projected sales tax revenue.”

“The SCO concludes that the Draft CFA should include three, not four, quarters of sales tax revenue earned in the transition year, as the town will not be eligible to collect four quarters. The Draft CFA omitted one quarter’s advance of estimated sales tax revenue.” (SCO Review Report, page 12)

IOV:

The Draft CFA included only two quarters (six months) sales tax revenue to the town, and one-quarter to the County. IOV did not contend that all four quarters should be received by the town – rather, it contended that three quarters should be received by the town in the Transition Year. The SCO agrees, and one additional quarter of sales tax revenue must be added to town revenues in the Transition Year. Moreover, the Draft CFA should be revised to address the removal of the \$9,430 partial year revenue, as indicated by the BOE and SCO.

CFA Impact: Revenue increase - \$117,800

ISSUE 10:

The Draft CFA should include the property transfer tax revenue from 376 new residential units omitted from the analysis; use sales values of new residential units as reported by the developer of the Village at Squaw Valley; and use current values for the resale of existing residential units.

SCO Analysis and Response to Issue 10:

“The 376 units are comprised of 250 hotel rooms (not to be sold), 31 fractional units (will be sold) and 95 existing housing stock (will be sold in subsequent years). Of the 376 units, only the 31 fractional units should be included in the Draft CFA.

The source data used to compile property values reflect actual historical sales and current assessed values. The data was obtained from independent third parties. The Draft CFA notes that representatives from SVRE did not provide pricing information.

Results of the analyses used for the Draft CFA could be higher than future sales values. However, SVRE did not provide information that might have collaborated the higher values.

The SCO concludes that 345 units were properly excluded in the Draft CFA. The Draft CFA used the only data available, which was historical values.” (SCO Review Report, page 13)

IOV:

The SCO conclusion is that the 31 fractional units should be included in Draft CFA Figure 14 projected turnovers and the property transfer tax revenue resulting from the resale of these omitted units.

CFA Impact: Revenue increase - to be determined

As discussed in Issue 6 above, SVRE data has now been provided that confirms the higher condo hotel unit and fractional unit sales values. The Draft CFA assumed \$490,000 sales value, adjusted by appreciation rates for the resale of all Village at Squaw Valley residential units (Draft CFA page 30). Hansford Economic Consulting has confirmed that the sales values provided by SVRE are \$1,208,000 for condo hotel units and \$3,150,000 for the fractional units.

These sales values should be used to calculate the initial and resale values (as further adjusted by appreciation rates) in Figure 14 – Property Transfer Taxes (Draft CFA page 30).

CFA Impact: Revenue increase - to be determined

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ISSUE 11:

The Draft CFA should include franchise fee revenue from new development and a CPI factor.

SCO Analysis and Response to Issue 10:

“Future franchise fee revenues are hard to predict. Franchise fees are dependent on future development, and on the terms of future franchise agreements, both of which are unknown at this time. Therefore, the SCO concludes that the Draft CFA’s methodology of excluding franchise fee revenue growth projections is reasonable. However, the SCO determined that the 2.1% Consumer Price Index (CPI) factor used in other revenue projections should be included in the analysis in order to provide consistency throughout the Draft CFA.” (SCO Review Report, page 13)

IOV:

The Draft CFA should include the 2.1% annual CPI factor.

CFA Impact: Revenue increase - \$20,598

ISSUE 12:

The Draft CFA should include recovery of a portion of the cost of preparing the General Plan and Zoning Ordinance through a General Plan fee.

SCO Analysis and Response to Issue 12:

“The SCO concludes that the Draft CFA should include recovery of a portion of the general plan fee. However, the cost recovery process is unpredictable; therefore, the exclusion of the general plan fee is reasonable.” (SCO Review Report, page 14)

IOV:

The Draft CFA makes assumptions about the pace of development and the general plan fee recovery can be reasonably estimated by LAFCO using the same assumptions. The Draft CFA should include a reasonable estimate of cost recovery.

CFA Impact: Revenue increase - to be determined

ISSUE 15:

The Draft CFA should use existing law enforcement levels of service, adjusted by an annual CPI factor as the basis for Town law enforcement costs.

SCO Analysis and Response to Issue 15:

“IOV is correct in stating that the Draft CFA used law enforcement service levels that were considerably greater than what was actually provided in the base year for the town.” (SCO Review Report, page 16)

“The SCO concludes that the Draft CFA should use existing law enforcement levels of service, adjusted by an annual CPI factor, as the basis for town law enforcement costs.” (SCO Review Report, page 17)

IOV:

The SCO found that the Sheriff’s Office “spent more than \$1.2 million in the base year to provide law enforcement services in the proposed city. This amount does not include CHP costs for traffic enforcement. In addition, base-year law enforcement service levels were considerably less than the law enforcement service levels that were used in the Draft CFA...”

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Based on the SCO conclusions, law enforcement service costs should be estimated using the base year cost of approximately \$1.2 million, adjusted only by the Draft CFA's CPI factor of 2.1% in subsequent years (and not by the "per capita adjustment").

CFA Impact: Expenditure decrease - \$2,768,844

The SCO also found that "whether the town dedicates traffic enforcement officers, or provides traffic enforcement classes for deputies assigned to the town, would have to be negotiated between the town council and the Sheriff's Office."

Because the SCO assumed the town would negotiate traffic enforcement services with the Sheriff's Office, the Draft CFA should assume traffic enforcement to be at the current level of service, which can be determined by LAFCO contacting the California Highway Patrol to confirm the number of annual hours a CHP officer is present in what would become the town incorporation limits, which then can be translated into equivalent number of hours to be provided by the Sheriff's Office.

CFA Impact: Expenditure decrease – to be determined

ISSUE 16:

The Draft CFA should match future (personnel) service levels with existing service levels. The "cost allocation for O/H and Admin" factor should be deleted from the Community Development Department expenditures.

SCO Analysis and Response to Issue 16:

"Government Code section 56800 states, 'costs shall reflect the actual or estimated costs at which the existing level of service could be contracted by the proposed city...' As the calculated contract costs already reflect the existing service levels, the addition of salary and benefit costs inflates projected costs and service efforts beyond the existing levels, as prescribed in Government Code section 56800. Either the actual costs of service or estimated contract costs based on the existing level of service should be used in the Draft CFA, but not both.

The SCO concludes that the Draft CFA should not delete the "cost allocation for O/H and Admin" factor and should match future service levels with existing service levels for the Community Development Department. Furthermore, Community Development Department costs are higher because service levels are inflated by having both staff costs and contract costs combined in the Community Development Department expenditure schedule." (SCO Review Report, page 18)

IOV:

The County Community Development and Resource Agency Department provided documentation confirming that existing levels of service include 1.212 fulltime equivalent employees. Salary and benefits were estimated at \$140,049; supplies and services at \$5,775 and indirect/overhead costs at \$100,037, for a total annual cost of \$245,861 at the existing level of service. The SCO found that this existing level of service, adjusted by an annual CPI, should be used in the Draft CFA for all Community Development costs.

The SCO also found that "the addition of salary and benefit costs inflates projected costs and service efforts beyond the existing levels"; they must be deleted.

The Community Development Director and Associate Planner, along with any other contract costs exceeding 1.212 fulltime equivalent positions must be deleted from the Draft CFA.

CFA Impact: Expenditure decrease - \$1,667,244

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ISSUE 17:

The Draft CFA should use the existing acreage for Cal Fire services, as reported by the Squaw Valley Fire Chief.

SCO Analysis and Response to Issue 17:

“The SCO concludes that the Draft CFA should use the correct acreage for Cal Fire services as reported by the Squaw Valley Fire Chief.” (SCO Review Report, page 19)

IOV:

The Draft CFA used 5,662 acres; the correct acreage is 4,578 acres.

CFA Impact: Expenditure decrease - \$320,931

ISSUE 18:

The Draft CFA should use existing Animal Control service levels and costs as reported by Placer County.

SCO Analysis and Response to Issue 18:

“The Draft CFA should have used the FY 2013-14 base-year service level and costs to project future animal control expenditures.

The SCO concludes that the Draft CFA should use existing animal control service levels and costs as reported by Placer County.” (SCO Review Report, page 20)

IOV:

The Draft CFA used \$14,424 as the annual existing level and cost of services. It should use \$7,295.

CFA Impact: Expenditure decrease - \$96,158

ISSUE 20:

The Draft CFA should use comparable, limited service contract cities as the basis for City Attorney expenditures

SCO Analysis and Response to Issue 20:

“The City of Auburn attorney office suggested that, based on a contract city model without the above services (bargaining units, police department, fire department or utility departments), an estimate of \$70,000 a year is reasonable for town attorney costs. The Town of Truckee attorney believed that \$60,000 in the transition year and \$50,000 for ongoing town services are reasonable attorney costs.

The SCO concludes that the Draft CFA should use comparable limited service contract cities as the basis for city attorney expenditures. Based on the City of Auburn, the Town of Truckee, and the IOV attorney who provides legal services to many jurisdictions in California, the Draft CFA inflated the legal costs for the proposed town.” (SCO Review Report, page 21)

IOV:

The average annual city attorney cost referenced by the SCO is \$60,000. The transition year cost referenced by the SCO is also \$60,000. The Draft CFA town attorney costs must be revised to \$60,000 annually adjusted only by the 2.1% CPI, to reflect the SCO analysis and response.

CFA Impact: Expenditure decrease - \$501,145

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ISSUE 23:

The Draft CFA should include fines and forfeitures revenue in the Transition Year.

SCO Analysis and Response to Issue 23:

“The SCO concludes that the Draft CFA should include fines and forfeitures revenue in the transition year.”
(SCO Review Report, page 23)

IOV:

The Draft CFA estimated fines and forfeitures in the amount of \$34,800 in FY 2016/17. Adjusting for the CPI factor, the County will receive approximately \$34,000 in fines and forfeitures in the Transition Year. This will reduce the transition year loan by a like amount.

CFA Impact: Expenditure decrease - \$34,000

ISSUE 26:

The Draft CFA should calculate a reasonable General Fund reserve of 17% of operating expense.

SCO Analysis and Response to Issue 26:

“The SCO concludes that the Draft CFA should apply OPR guidelines for a reserve fund of 10% to 20% of general fund expenditures and a separate reserve fund set minimally at 10% of general fund revenue.”
(SCO Review Report, page 25)

IOV:

The Draft CFA assumption of a general fund reserve of 30% of total revenues was not found to be reasonable by the SCO.

The SCO separately found that an annual contingency expense of 10% is reasonable. Since this 10% annual contingency expense will be included in the expenditures, the general fund reserve should be based on 10% of operating expenditures (and not 20%).

In addition, the general fund reserve should be based on 10% of general fund revenue, based on the SCO response.

CFA Impact: Reduce reserve requirement

We also request that the CFA reserves be presented, by year, in accordance with Government Accounting and Standards Board (GASB 54), as follows:

- Unassigned Fund Balance:
 - 10% Operating Expense Reserve
 - 10% Revenue Reserve
 - Unreserved Fund Balance
- Total General Fund Balance (total of above)

ISSUE 28:

The Draft CFA should calculate the cost of County services transferred and the revenues transferred, but should not speculate on the amounts of revenue neutrality payments.

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SCO Analysis and Response to Issue 28:

“The SCO expresses no opinion on revenue neutrality; however, the SCO concludes that the Draft CFA must address revenue neutrality and identify any impacts. Revenue neutrality payments should not be presented until negotiations have taken place after completion of the Draft CFA.” (SCO Review Report, page 26)

IOV:

The SCO concurred that the Draft CFA should estimate the amount of County’s revenues transferred and the cost of County services transferred to the town upon incorporation, but that it should not speculate on revenue neutrality payments.

The Revenue Neutrality text in the Draft CFA should be revised to be an estimate the County’s revenues transferred and the cost of County services transferred to the Town only, and its impacts. References to “Potential Revenue Neutrality Payments” must be deleted from the Draft CFA Appendices.

ISSUE 29:

The cost of County services transferred should include indirect costs.

SCO Analysis and Response to Issue 29:

“We did not find any indication that the county-wide indirect costs were included in either HHS (animal services) or the Public Works Department.”

“The SCO concludes that the cost of county services transferred should include indirect costs.” (SCO Review Report, page 27)

IOV:

The SCO found that the Draft CFA included indirect costs for the Community Development Resource Agency and the Sheriff’s Office, but not the Public Works Department, Facilities – Parks Department, or the HHS – Animal Services Department in the Revenue Neutrality analysis (Draft CFA, page 48). Including these additional indirect costs in the cost of County services will impact the calculation of the what the Draft CFA calls “Revenue Neutrality Payments” (more accurately called the difference between the calculated County Revenue Transferred and County Expenses Transferred, since Revenue Neutrality Payments have not yet been negotiated) with the net result being a lower amount (increase in property tax revenue transferred but a greater increase in indirect costs transferred).

As discussed in our comments on Issue 1, IOV does not have access to the County’s indirect cost percentages for these departments; the County will need to identify the indirect cost percentages and LAFCO will need to include these costs in the revised Draft CFA.

CFA Impact: Revenue neutrality amount increase - to be determined

SUMMARY

Incorporate Olympic Valley appreciates the opportunity to submit this analysis of the State Controller’s Office Review Report regarding the Draft Comprehensive Fiscal Analysis (Draft CFA) of the Proposed Incorporation of the Town of Olympic Valley.

As we have always stated, our goal is to have a fair and accurate Comprehensive Fiscal Analysis so that the residents of Olympic Valley may make informed decisions regarding the proposed incorporation of Olympic Valley. The State Controller’s Office Review has provided clear responses to eighteen Issues in the Draft CFA that will be need to be revised. By revising the Draft CFA, LAFCO can comply with the Government Code

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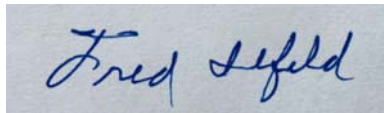
requiring that the executive officer include the results of the Controller's Report into the executive officer's report and recommendation to LAFCO.

The SCO found eighteen of the thirty-one issues of the draft CFA submitted for review to be inconsistent with Government Code section 56800 and/or the Governor's OPR Guide to the LAFCO Process for Incorporations. With the information available we have calculated most, though not all, of the altered revenues, expenditures, and reserves that flow from the conclusions of the Controller's Report. As we have indicated above, the County, RSG, and LAFCO need to calculate the remainder of these figures to be included in a revision of the draft CFA.

To have a snapshot overview of the fiscal health of the Town, we analyzed the General Fund Equity in Scenario 1 after transfer to the road fund to cover its annual shortfall. While we continue to maintain that the Draft CFA cannot speculate on the revenue neutrality payment, and SCO agrees, we have also analyzed the impact the Draft CFA's "potential" revenue neutrality amount (with changes as discussed in this letter). This is shown in the attachment labeled "Revised Appendix 2- Scenario 1- Fund Summary". With the SCO recommendations we have quantified in this letter, the Town's General Fund Equity is positive throughout the ten-year period and totals \$15,041,179 at the end of ten years. The average annual net revenue surplus for the ten years is \$1,504,118. And we note that there are several issues in this letter that require additional County data to quantify, all of which will add to this positive fiscal condition. Our comprehensive assessment as detailed in this letter and with all information currently available to us is provided in the attachments labeled "Revised Appendix 2- Scenario 1- Fund Summary" and "Revised Appendix 3- Scenario 2- Fund Summary". These data demonstrate unequivocally the proposed Town to be financially viable.

Using the SCO's recommendations verbatim, we have carefully quantified the numerical changes that need to be made to the draft CFA. If you and/or your financial consultant interpret any of the SCO recommendations differently, we respectfully request that you tell us precisely how you interpret it/them, and also share the specific rationale as to why you view it/them differently. Please also explain your analysis and conclusions regarding any issue that we were not able to quantify because of data not available to IOV.

Yours truly,

A rectangular box containing a handwritten signature in blue ink that reads "Fred Ilfeld".

Fred Ilfeld *Board Chair, Incorporate OV Foundation*

SCO Issue	General Fund	Transition 7/1/2016	7/1/2017	7/1/2018	7/1/2019	7/1/2020	7/1/2021	7/1/2022	7/1/2023	7/1/2024	7/1/2025	Total All Years
Revenue by Source												
	Property Taxes	-	909,700	979,700	1,097,200	1,196,400	1,263,500	1,333,300	1,385,500	1,424,500	1,463,400	11,053,200
	Include indirect costs in property tax calculation	-	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	-
1	Increase Town's % of property tax for NLRTA costs	-	1,014,518	1,092,583	1,223,622	1,334,252	1,409,083	1,486,926	1,545,140	1,588,634	1,632,016	12,326,774
6	Revise new condo values, AV, property tax per HEC/SVRE	-	-	118,334	244,421	249,309	254,296	259,382	264,569	269,861	275,258	1,935,429
6	Revise new fractional unit values, AV, property tax per HEC/SVRE	-	-	-	52,789	109,100	111,282	113,508	115,778	118,094	120,455	741,006
8	Recapture Proposition 8 reassessments in AV and property tax	-	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	-
	Sales Taxes	235,600	478,800	566,300	683,200	724,100	770,600	797,400	847,200	876,200	894,900	6,874,300
9	Include 3rd quarter sales tax revenue in transition year	117,800	-	-	-	-	-	-	-	-	-	117,800
	Property Transfer Taxes	34,900	40,900	77,800	112,300	100,300	83,000	87,500	72,300	57,900	59,400	726,300
10	Increase property transfer tax for resale of 31 VSVSP fractional units	-	-	-	-	tbd	tbd	tbd	tbd	tbd	tbd	-
10	Increase property transfer tax for higher VSVSP resale values	-	-	-	tbd	tbd	tbd	tbd	tbd	tbd	tbd	-
	Transient Occupancy Taxes	3,480,700	3,554,900	4,258,500	4,657,300	4,788,600	4,890,600	4,994,900	5,101,300	6,054,300	6,470,800	48,251,900
	Off Highway License Subvention	80	80	80	80	80	90	90	90	90	90	850
	Park User Fees	-	15,700	16,100	17,000	17,900	18,900	19,800	20,300	20,900	21,400	168,000
	Animal Control Licenses	-	290	290	310	330	340	360	370	380	390	3,060
	Fines & Forfeitures	-	34,800	42,500	45,100	46,300	47,500	48,700	49,800	60,100	61,500	436,300
	Franchise Fees	-	20,600	20,600	20,600	20,600	20,600	20,600	20,600	20,600	20,600	185,400
11	Add CPI to Franchise Fees	-	433	874	1,325	1,786	2,256	2,736	3,226	3,726	4,237	20,598
	Community Development Fees	-	324,000	330,800	337,800	344,900	352,100	359,600	367,200	375,000	382,900	3,174,300
12	Add General Plan Fees	-	-	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	-
	Interest Earnings	35,600	10,300	-	-	-	-	-	-	6,600	25,200	77,700
n/a	Reduce interest due to Potential Revenue Neutrality Agreement	-	(57,684)	(57,684)	(57,684)	(57,684)	(57,684)	(57,684)	(57,684)	(57,684)	(57,684)	(519,157)
n/a	Revise interest per new fund balances	-	30,007	76,275	128,486	199,564	280,045	365,177	457,775	548,467	642,929	2,728,725
	Total General Fund Revenue	3,904,680	6,377,343	7,523,052	8,563,848	9,075,837	9,446,508	9,832,294	10,193,464	11,367,667	12,017,792	88,302,485
Expenditure by Department												
	Town Council	23,420	23,630	23,840	24,050	24,260	24,470	24,680	24,890	25,200	25,510	243,950
	Management	263,500	354,700	361,500	369,800	376,900	392,600	392,800	401,900	409,400	418,600	3,741,700
	City Attorney	152,100	104,300	106,500	108,800	111,100	113,500	115,900	118,400	120,900	123,500	1,175,000
20	Reduce City Attorney expenditure	(90,840)	(41,754)	(42,640)	(43,599)	(44,530)	(45,532)	(46,504)	(47,547)	(48,559)	(49,640)	(501,145)
	Finance	150,100	165,600	169,100	172,700	176,300	182,300	183,800	187,700	191,700	195,700	1,775,000
	Community Development	38,000	682,610	691,750	551,130	460,560	477,230	480,240	490,390	500,780	511,310	4,884,000
16	Reduce Community Development costs to existing level of service	(38,000)	(165,437)	(168,966)	(172,618)	(176,199)	(186,898)	(183,811)	(187,736)	(191,770)	(195,811)	(1,667,244)
	Public Works - Other	15,310	147,310	150,410	153,630	156,850	164,860	163,580	166,980	170,490	173,990	1,463,410
	Animal Control	-	16,200	16,600	17,600	18,500	19,500	20,500	21,100	21,600	22,200	173,800
18	Reduce Animal Control costs to existing level of service	-	(8,273)	(8,506)	(9,336)	(10,063)	(10,885)	(11,705)	(12,120)	(12,431)	(12,839)	(96,158)
	Law Enforcement Patrol + Support	46,500	1,286,000	1,569,800	1,666,100	1,709,400	1,752,900	1,798,100	1,837,800	2,219,500	2,267,800	16,153,900
15	Reduce Law Enforcement costs to existing level of service	(46,500)	80,626	(174,475)	(241,473)	(254,856)	(267,811)	(281,824)	(289,682)	(638,871)	(653,978)	(2,768,844)
	Law Enforcement Traffic	95,100	97,300	118,800	126,100	129,400	132,700	136,100	139,100	168,000	171,700	1,314,300
15	Determine CHP level of service and reduce traffic enforcement cost	-	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	-
	Parks & Recreation	-	31,400	32,070	32,750	33,450	34,160	34,890	35,630	36,390	37,170	307,910
	Cal Fire	152,200	155,400	158,700	162,100	165,600	169,100	172,700	176,400	180,100	184,000	1,676,300
17	Reduce Cal Fire acreage and cost	(29,139)	(29,752)	(30,383)	(31,034)	(31,704)	(32,374)	(33,064)	(33,772)	(34,480)	(35,227)	(320,931)
	Non-Departmental	149,380	142,790	146,300	149,910	153,620	157,430	161,440	165,450	169,560	173,870	1,569,750
	2% Infrastructure Projects	696,140	710,980	851,700	931,460	957,720	978,120	998,980	1,020,260	1,210,860	1,284,160	9,650,380
	Contingency Expense	109,000	321,000	355,000	353,000	352,000	362,000	368,000	377,000	421,000	431,000	3,449,000
n/a	Revise Contingency Expense to 10% of revised operating costs	(20,887)	(16,735)	(42,960)	(49,339)	(52,141)	(54,275)	(55,218)	(57,512)	(92,249)	(95,214)	(536,530)
	Transition Year Loan Payment	-	117,634	117,634	117,634	117,634	117,634	-	-	-	-	588,170
1	Increase loan payment - property tax revenue and indirect costs	-	tbd	tbd	tbd	tbd	tbd	-	-	-	-	-
23	Reduce loan payment - County receives fines and forfeiture revenue	-	(6,800)	(6,800)	(6,800)	(6,800)	(6,800)	-	-	-	-	(34,000)
n/a	Total Expenditures	1,665,384	4,168,730	4,394,973	4,382,564	4,367,001	4,473,929	4,439,585	4,534,632	4,827,119	4,987,801	42,241,718

SCO Issue	General Fund	Transition 7/1/2016	7/1/2017	7/1/2018	7/1/2019	7/1/2020	7/1/2021	7/1/2022	7/1/2023	7/1/2024	7/1/2025	Total All Years
n/a	Net General Fund Revenue	2,239,296	2,208,613	3,128,079	4,181,284	4,708,836	4,972,579	5,392,709	5,658,832	6,540,548	7,029,991	
n/a	Less: Transfer to Road Fund	-	210,422	227,465	232,515	237,640	243,030	248,390	253,720	259,295	265,055	
n/a	Net Revenue After Transfer to Road Fund	2,239,296	1,998,191	2,900,614	3,948,769	4,471,196	4,729,549	5,144,319	5,405,112	6,281,253	6,764,936	
n/a	Year End Fund Equity Before Revenue Neutrality Agreement											
26	General Fund Reserve - 10% of Operating Expenditures	88,113	304,265	312,040	303,661	299,859	307,725	312,782	319,488	328,751	335,786	
26, 27	General Fund Reserve - 10% of Total Revenue	390,468	637,734	752,305	856,385	907,584	944,651	983,229	1,019,346	1,136,767	1,201,779	
27	Unreserved Fund Balance	1,760,715	3,295,488	6,073,756	9,926,824	14,350,623	19,035,239	24,135,922	29,498,211	35,652,781	42,345,670	
27, 28	Total Year End Fund Equity Before Revenue Neutrality Agreement	2,239,296	4,237,487	7,138,101	11,086,870	15,558,066	20,287,615	25,431,933	30,837,046	37,118,299	43,883,235	
	Potential Revenue Neutrality Payments		2,382,633	2,382,633	2,382,633	2,382,633	2,382,633	2,382,633	2,382,633	2,382,633	2,382,633	21,443,697
1, 29	Decrease due to net of property tax and indirect costs transferred		tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd
2	Increase due to County's loss of property tax for NLRTA costs		822,040	822,040	822,040	822,040	822,040	822,040	822,040	822,040	822,040	7,398,358
n/a	Total Potential Revenue Neutrality Payments		3,204,673	3,204,673	3,204,673	3,204,673	3,204,673	3,204,673	3,204,673	3,204,673	3,204,673	28,842,055
	Year End Fund Equity After Potential Revenue Neutrality Payments											
	General Fund Reserve - 10% of Operating Expenditures	88,113	304,265	312,040	303,661	299,859	307,725	312,782	319,488	328,751	335,786	
	General Fund Reserve - 10% of Total Revenue	390,468	637,734	752,305	856,385	907,584	944,651	983,229	1,019,346	1,136,767	1,201,779	
	Unreserved Fund Balance	1,760,715	90,815	(335,590)	312,806	1,531,932	3,011,875	4,907,885	7,065,501	10,015,399	13,503,615	
	Total Year End Fund Equity After Potential Revenue Neutrality Payments	2,239,296	1,032,814	728,755	1,472,852	2,739,375	4,264,251	6,203,896	8,404,336	11,480,916	15,041,179	

Note: "tbd" means "to be determined", based on data not currently available to IOV.

SCO Issue	General Fund	Transition 7/1/2016	7/1/2017	7/1/2018	7/1/2019	7/1/2020	7/1/2021	7/1/2022	7/1/2023	7/1/2024	7/1/2025	Total All Years
Revenue by Source												
	Property Taxes	-	909,700	979,700	1,097,200	1,196,400	1,263,500	1,333,300	1,385,500	1,424,500	1,463,400	11,053,200
	Include indirect costs in property tax calculation	-	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	-
1	Increase Town's % of property tax for NLRTA costs	-	1,014,518	1,092,583	1,223,622	1,334,252	1,409,083	1,486,926	1,545,140	1,588,634	1,632,016	12,326,774
6	Revise new condo values, AV, property tax per HEC/SVRE	-	-	118,334	244,421	249,309	254,296	259,382	264,569	269,861	275,258	1,935,429
6	Revise new fractional unit values, AV, property tax per HEC/SVRE	-	-	-	52,789	109,100	111,282	113,508	115,778	118,094	120,455	741,006
8	Recapture Proposition 8 reassessments in AV and property tax	-	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	-
	Sales Taxes	235,600	478,800	566,300	683,200	724,100	770,600	797,400	847,200	876,200	894,900	6,874,300
9	Include 3rd quarter sales tax revenue in transition year	117,800	-	-	-	-	-	-	-	-	-	117,800
	Property Transfer Taxes	34,900	40,900	77,800	112,300	100,300	83,000	87,500	72,300	57,900	59,400	726,300
10	Increase property transfer tax for resale of 31 VSVSP fractional units	-	-	-	-	tbd	tbd	tbd	tbd	tbd	tbd	-
10	Increase property transfer tax for higher VSVSP resale values	-	-	-	tbd	tbd	tbd	tbd	tbd	tbd	tbd	-
	Transient Occupancy Taxes	3,480,700	3,554,900	4,258,500	4,657,300	4,788,600	4,890,600	4,994,900	5,101,300	6,054,300	6,470,800	48,251,900
	Off Highway License Subvention	80	80	80	80	80	90	90	90	90	90	850
	Park User Fees	-	15,700	16,100	17,000	17,900	18,900	19,800	20,300	20,900	21,400	168,000
	Animal Control Licenses	-	290	290	310	330	340	360	370	380	390	3,060
	Fines & Forfeitures	-	34,800	42,500	45,100	46,300	47,500	48,700	49,800	60,100	61,500	436,300
	Franchise Fees	-	20,600	20,600	20,600	20,600	20,600	20,600	20,600	20,600	20,600	185,400
11	Add CPI to Franchise Fees	-	433	874	1,325	1,786	2,256	2,736	3,226	3,726	4,237	20,598
	Community Development Fees	-	324,000	330,800	337,800	344,900	352,100	359,600	367,200	375,000	382,900	3,174,300
12	Add General Plan Fees	-	-	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	-
	Interest Earnings	8,800	-	-	-	-	-	-	-	-	-	8,800
n/a	Reduce interest due to Revenue Neutrality Payments	-	(34,569)	(34,569)	(34,569)	(34,569)	(34,569)	(34,569)	(34,569)	(34,569)	(34,569)	(311,119)
n/a	Revise interest per new fund balances	-	14,764	25,092	46,137	82,616	126,931	174,510	228,129	284,974	350,000	1,333,153
	Total General Fund Revenue	3,877,880	6,374,915	7,494,985	8,504,615	8,982,004	9,316,509	9,664,742	9,986,933	11,120,689	11,722,777	87,046,051
Expenditure by Department												
	Town Council	23,420	23,630	23,840	24,050	24,260	24,470	24,680	24,890	25,200	25,510	243,950
	Management	263,500	354,700	361,500	369,800	376,900	392,600	392,800	401,900	409,400	418,600	3,741,700
	City Attorney	152,100	104,300	106,500	108,800	111,100	113,500	115,900	118,400	120,900	123,500	1,175,000
20	Reduce City Attorney expenditure	(90,840)	(41,754)	(42,640)	(43,599)	(44,530)	(45,532)	(46,504)	(47,547)	(48,559)	(49,640)	(501,145)
	Finance	150,100	165,600	169,100	172,700	176,300	182,300	183,800	187,700	191,700	195,700	1,775,000
	Community Development	38,000	682,610	691,750	551,130	460,560	477,230	480,240	490,390	500,780	511,310	4,884,000
16	Reduce Community Development costs to existing level of service	(38,000)	(165,437)	(168,966)	(172,618)	(176,199)	(186,898)	(183,811)	(187,736)	(191,770)	(195,811)	(1,667,244)
	Public Works - Other	15,310	147,310	150,410	153,630	156,850	164,860	163,580	166,980	170,490	173,990	1,463,410
	Animal Control	-	16,200	16,600	17,600	18,500	19,500	20,500	21,100	21,600	22,200	173,800
18	Reduce Animal Control costs to existing level of service	-	(8,273)	(8,506)	(9,336)	(10,063)	(10,885)	(11,705)	(12,120)	(12,431)	(12,839)	(96,158)
	Law Enforcement Patrol + Support	46,500	1,286,000	1,569,800	1,666,100	1,709,400	1,752,900	1,798,100	1,837,800	2,219,500	2,267,800	16,153,900
15	Reduce Law Enforcement costs to existing level of service	(46,500)	80,626	(174,475)	(241,473)	(254,856)	(267,811)	(281,824)	(289,682)	(638,871)	(653,978)	(2,768,844)
	Law Enforcement Traffic	95,100	97,300	118,800	126,100	129,400	132,700	136,100	139,100	168,000	171,700	1,314,300
15	Determine CHP level of service and reduce traffic enforcement cost	-	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	-
	Parks & Recreation	-	31,400	32,070	32,750	33,450	34,160	34,890	35,630	36,390	37,170	307,910
	Cal Fire	152,200	155,400	158,700	162,100	165,600	169,100	172,700	176,400	180,100	184,000	1,676,300
17	Reduce Cal Fire acreage and cost	(29,139)	(29,752)	(30,383)	(31,034)	(31,704)	(32,374)	(33,064)	(33,772)	(34,480)	(35,227)	(320,931)
	Non-Departmental	149,380	142,790	146,300	149,910	153,620	157,430	161,440	165,450	169,560	173,870	1,569,750
	2% Infrastructure Projects	2,088,420	2,132,940	2,555,100	2,794,380	2,873,160	2,934,360	2,996,940	3,060,780	3,632,580	3,882,480	28,951,140
	Contingency Expense	109,000	321,000	355,000	353,000	352,000	362,000	368,000	377,000	421,000	431,000	3,449,000
n/a	Revise Contingency Expense to 10% of revised operating costs	(20,887)	(16,735)	(42,960)	(49,339)	(52,141)	(54,275)	(55,218)	(57,512)	(92,249)	(95,214)	(536,530)
	Transition Year Loan	-	117,634	117,634	117,634	117,634	117,634	-	-	-	-	588,170
1	Increase loan payment - property tax revenue and indirect costs	-	tbd	tbd	tbd	tbd	tbd	-	-	-	-	-
23	Reduce loan payment - County receives fines and forfeiture revenue	-	(6,800)	(6,800)	(6,800)	(6,800)	(6,800)	-	-	-	-	(34,000)
n/a	Total Expenditures	3,057,664	5,590,690	6,098,373	6,245,484	6,282,441	6,430,169	6,437,545	6,575,152	7,248,839	7,576,121	61,542,478

SCO Issue	General Fund	Transition 7/1/2016	7/1/2017	7/1/2018	7/1/2019	7/1/2020	7/1/2021	7/1/2022	7/1/2023	7/1/2024	7/1/2025	Total All Years
n/a	Net General Fund Revenue	820,216	784,225	1,396,612	2,259,131	2,699,564	2,886,340	3,227,197	3,411,782	3,871,851	4,146,657	
n/a	Less: Transfer to Road Fund	-	210,422	227,465	232,515	237,640	243,030	248,390	253,720	259,295	265,055	
n/a	Net Revenue After Transfer to Road Fund	820,216	573,803	1,169,147	2,026,616	2,461,924	2,643,310	2,978,807	3,158,062	3,612,556	3,881,602	
n/a	Year End Fund Equity Before Revenue Neutrality Agreement											
26	General Fund Reserve - 10% of Operating Expenditures	88,113	304,265	312,040	303,661	299,859	307,725	312,782	319,488	328,751	335,786	
26, 27	General Fund Reserve - 10% of Total Revenue	387,788	637,492	749,498	850,461	898,200	931,651	966,474	998,693	1,112,069	1,172,278	
27	Unreserved Fund Balance	344,315	452,262	1,501,627	3,435,659	5,853,646	8,455,639	11,394,565	14,513,702	18,003,619	21,817,978	
27, 28	Total Year End Fund Equity Before Revenue Neutrality Agreement	820,216	1,394,019	2,563,166	4,589,781	7,051,705	9,695,015	12,673,822	15,831,883	19,444,439	23,326,041	
	Potential Revenue Neutrality Payments		1,098,447	1,098,447	1,098,447	1,098,447	1,098,447	1,098,447	1,098,447	1,098,447	1,098,447	9,886,023
1, 29	Decrease due to net of property tax and indirect costs transferred		tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd	tbd
2	Increase due to County's loss of property tax for NLRTA costs		822,040	822,040	822,040	822,040	822,040	822,040	822,040	822,040	822,040	7,398,358
n/a	Total Potential Revenue Neutrality Payments		1,920,487	1,920,487	1,920,487	1,920,487	1,920,487	1,920,487	1,920,487	1,920,487	1,920,487	17,284,381

Note: "tbd" means "to be determined", based on data not currently available to IOV.