

Eric and I briefly read the peer review memos and have a few comments:

1. The peer review identifies many of the same concerns that we identified and noted in the report, the most significant of which is that Seal Beach may or may not choose to provide contract services to the new city. Our analysis assumed the lowest cost provider for selected services, provided the agency was a legitimate service provider. Many times this agency was Seal Beach.
2. We still maintain that all scenarios are feasible. As noted in our report, we did not model transition year costs and revenues and left that exercise to the CFA. In our experience, transition year cost and revenue structures for an incorporation *increases the feasibility of the new city in the transition year*. An excerpt from our study:

"It is important to note that while the initial years of the analysis for Scenarios 1 and 2 show negative net revenue and negative fund balances, the incorporation is still deemed feasible. In actual practice the new city would not assume responsibility for providing all services during the transition year (the period of time between the effective date of incorporation and July 1 following the effective date).

During the transition period, the County is obligated to provide certain services to the new city, while the new city establishes itself and accrues the necessary revenues to fund its services. The County continues to receive certain revenues, including property tax, and half of sales tax revenues among others, during the transition year. The new city, as result, has ample revenues and significant reduced first year costs.

This document does not examine transition period cash flow, rather, it seeks to determine overall fiscal viability through the ten-year timeframe. Should the Community ultimately decide to seek cityhood, the Comprehensive Fiscal Analysis (CFA) required will examine transition period issues in greater depth."

3. Again, we do not agree with the peer review that the staff needed to run the city (or related costs) are understated. The staffing plan was informed by professionals who routinely staff small contract cities in engineering, city manager, building safety, and planning positions.

Additionally, we relied on information from Villa Park, the smallest city in the County at approximately 6,300 residents. Villa park has five total employees... a full time City Manager, part time clerk, part time finance manager, and two maintenance workers. That city has almost five times the amount of residents and functions of a staff of four FTEs. We feel that staffing plan we proposed is adequate to provide a functional level of service (the same that is currently provided by the County) to the new city.

4. We requested assistance from the Auditor-Controller's office in calculating the auditors ratio. That office provided some guidance, but an actual figure was not provided. It also appears that Joyce had this figure in January from the Auditor Controller during the early stages of our work. Without the information, we used budget data available to us, which in the CFA would be provided by the Auditor-Controller without question.
5. The peer review incorrectly states that we did not include Measure M revenues. Measure M revenues are included in Table 5.11.

Lyman, these are a summary of our initial thoughts and we hope Joyce allows a full vetting of these issues in a CFA which formalizes the input from the County, including LAFCO.

-Carlos and Eric

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