Blue Sky CONSULTING GROUP

Revised Draft Comprehensive Fiscal Analysis for Olympic Valley:
Proposed Town is still not fiscally feasible under any scenario evaluated

On July 24, 2015, the Placer County LAFCO released a revised draft comprehensive fiscal analysis (CFA) for the proposed incorporation of Olympic Valley. The revised draft CFA concludes (as the previous versions have) that the proposed town is not fiscally feasible. The revised draft incorporates a number of important changes, including the addition of two "slow growth" scenarios which show the impact on the proposed town if the planned development in Olympic Valley does not proceed. Not surprisingly, the CFA indicates that slower growth would lead to less revenue and larger deficits relative to the more rapid growth scenarios included in the report.

Beyond the addition of the two slow growth scenarios, the revised draft CFA also incorporates a number of other less significant changes, including revised estimates of hotel tax (also known as TOT) and property tax revenues, a reduction in the estimated insurance costs, an increase in the public works costs, and a more rapid rate of projected growth in costs for public safety services. The report also addresses two spreadsheet errors from an earlier version of the report and makes a number of other minor adjustments.

Perhaps more important than the changes which were included in the report are the changes which the LAFCO's independent consultant, RSG, decided not to make. The most substantive of these relate to issues brought up by the incorporation proponents (Incorporate Olympic Valley or IOV). Specifically, RSG rejected IOV claims with respect to the required levels of contingency and reserve funds, staffing levels, and law enforcement costs.

In sum, the July 24 revised draft CFA represents a reaffirmation of the initial conclusions with respect to the fiscal feasibility of the proposed town of Olympic Valley and a repudiation of the most important claims made by IOV in their criticism of the earlier draft CFA. In addition, the revised CFA provides a more sound basis on which to make a determination with respect to fiscal feasibility by virtue of the inclusion of scenarios which present a more realistic portrait of the likely extent of future development were incorporation to succeed.

Revised Report Includes Slow Growth Scenarios

The revised draft CFA includes two additional scenarios (Scenarios 3 and 4) reflecting the likely fiscal condition of the proposed town in the event that growth and development occur at the historical pace of the past several years rather than the more rapid growth currently planned for the area. This addition provides the LAFCO commissioners and the public with a sounder basis on which to assess the fiscal feasibility of the proposed town.

The two additional slow growth scenarios show, not surprisingly, a reduction in the level of revenues available to the new town, and correspondingly larger annual operating deficits (ranging from $1.3 million to $1.9 million) and accumulated negative fund balances (ranging from $13 million to more than $16 million). These scenarios convincingly demonstrate that, if growth and development are slowed, the result would be a significant worsening of the fiscal condition of the proposed town.

Most Changes Requested by IOV Were Rejected

In response to the draft CFA dated May 12, 2015, IOV and its consultant suggested a large number of changes to the report. In the revised July 24, 2015 draft of the CFA, RSG elected not to make most of these changes. A cover letter distributed with the report indicates that each issue was carefully considered, however, other than corrections to a handful of spreadsheet errors or other relatively minor technical changes, RSG rejected the substantial majority of IOV's criticisms of the report, including the following:

1. ***Changes to the reserve fund:*** IOV suggested that the CFA reflect a lower reserve amount for the new town (17% rather than 30%). RSG rejected this suggestion and provided a further defense of the 30% recommended reserve amount included in the previous draft of the report. RSG did change the way payments into the reserve fund are presented in the report; these contributions are no longer treated as expenditures, but rather are handled separately "below the line" after the operating surplus or deficit has been calculated. The result from a practical standpoint, however, is the same. Recommended payments to the reserve fund are presented for each year of the forecast, and these payments contribute to annual deficits for the town and add to an accumulated negative fund balance, presented in a separate line entitled, "Financial Position with a Funded Reserve."
2. ***Changes to annual contingency funds:*** IOV suggested that the treatment of the annual contingency funds be changed such that a much smaller amount of resources would need to be devoted to this purpose. RSG rejected this suggestion and continues to present the contingency payments as an annual expenditure equal to 10% of departmental expenditures. Furthermore, RSG noted in its cover letter accompanying the report that, "in its review of the City of Wildomar incorporation, the State Controller was specifically asked to review that consultant's use of a 10% annual contingency expense line-item and the Controller did not alter the contingency recommended."
3. ***Changes to staffing levels:*** IOV has indicated that the staffing projections developed by RSG were too high, and that four rather than seven full time staff would be adequate for the new town. RSG rejected this suggestion and continues to present seven staff in its projections. The one exception to this change is that RSG did eliminate one planning position in the slow growth scenarios, since slower growth would require less in the way of planning department staff.
4. ***Changes to salaries and benefits:*** IOV had argued that RSG's projected salary and benefits costs were too high. RSG rejected these suggestions and retained the estimated salary costs and 35% benefits ratio from the earlier draft report.

5. ***Reduction in public safety costs:*** IOV asserted that the anticipated amount of public safety costs was too high, and that a much lower level (similar to the level in Colfax) was appropriate. RSG rejected this claim, and in fact provided a further defense of their approach in the report, noting that projected public safety costs are similar to the cost for the level of services currently provided by the County Sheriff.[1]

In addition to these more substantive issues, RSG addressed a number of other issues in the revised report:

1. ***Reduction in TOT revenue projection*:** The TOT revenue estimates in the earlier version of the report were overstated. The revised version presents a new (lower) forecast for TOT revenue.
2. ***Increased property tax projection:*** RSG made a small upward adjustment to the property tax calculations included in the report, slightly increasing the annual property tax amounts included in the forecast. This increase was due to the pending upward reassessment of many properties in Olympic Valley which had previously received downward reassessments under the terms of Proposition 8. Note, however, that some of the increase in property tax revenues is offset by higher annual revenue neutrality payments to the County.
3. ***Comparable cities analysis:*** IOV claimed that the previous version of the report was flawed because the "comparable cities" included in the report were not in fact comparable. In the revised draft of the report, RSG includes a new section on comparable cities which concludes that "Olympic Valley's proposed budget is neither the highest nor the lowest of these cities."[2] The analysis of the six neighboring cities included in the previous version of the report – used to establish likely salary and benefits costs for the new town—has been retained and remains largely unchanged.
4. ***Change to population forecast, and resulting increase in law enforcement costs:*** RSG adjusted the population forecast to reflect the increased number of visitors and employees which growth and development would bring. As a result of this increased "effective population" size, the estimates for law enforcement costs have been increased during the forecast period as the population size increases.
5. ***Reduction in estimated insurance costs:*** IOV had suggested that the insurance costs in the May 21 Draft CFA were too high. RSG lowered the insurance cost estimate (to $67,800, not the $32,000 suggested by IOV).
6. ***Increase in "Public Works – Road Maintenance and Snow Removal" costs:*** RSG reviewed its calculations and concluded that the costs for this line item were understated in the previous draft.

[1] Note that RSG did make an adjustment to the amount of "direct and indirect support" required for the law enforcement function, which resulted in a reduction in the overall budget of approximately $150,000. This reduction was offset by larger annual increases during the forecast period due to an updated population forecast included in the revised report.

[2] July 24, 2015 draft CFA for Olympic Valley, p. 11.

Conclusion

The revised draft CFA released on July 24, 2015 reaffirms the conclusion of the previous version of the report: the proposed town of Olympic Valley is not fiscally feasible under any of the scenarios evaluated.

The new draft analyzes the likely fiscal condition of the town in the event that development is slowed, thereby providing a sounder basis for the LAFCO commissioners and the public to make a determination about the viability of the proposed new town. Furthermore, the revised report includes a number of technical changes and corrections, and offers additional support for the methodology and assumptions used in several important components of the analysis, including reserve and contingency amounts, staffing levels, and law enforcement costs.

About the Author

This analysis was prepared by Matthew Newman. Mr. Newman is a joint founder of the Blue Sky Consulting Group, a public policy analysis consulting firm specializing in helping public and private sector clients with economic, fiscal and policy analysis issues. The firm has worked for public agencies large and small, including the California State Treasurer's Office, the California State Controller's Office, the City of Los Angeles, the City of San Francisco, Sonoma County, and Tuolumne County, among many others. Mr. Newman has more than two decades of experience examining local government budgets and conducting policy analysis.