Blue Sky
CONSULTING GROUP

MEMORANDUM

To: Commissioners, Placer County LAFCO

From: Matthew Newman

Date: June 17, 2015

Re: Analysis of the Draft CFA for Olympic Valley

This memo contains a series of comments on the draft Comprehensive Fiscal Analysis (CFA) for Olympic Valley published on May 21, 2015.

Overview and Key Issues

Incorporation of a new town in California has become nearly impossible following the requirement for "revenue neutrality" and passage of a state law in 2011 that eliminated a supplemental allocation of Vehicle License Fees for newly incorporated cities. As a result, no new city has incorporated since 2011, and cities that incorporated during the period 2004 – 2011 have struggled financially. It is therefore no surprise that the draft CFA concludes that the proposed town of Olympic Valley is not fiscally feasible. Indeed, given current fiscal constraints, it is possible that no new town in California would be feasible.

As a result of these fiscal constraints, fiscal feasibility for a new city is heavily dependent on rapid and substantial development. Other than tax increases on current residents and property owners, new development is virtually the only source of additional revenue which can be used to finance the added costs of becoming a city.

In the case of Olympic Valley, the development projections included in the CFA suggest that approximately $1.5 million annually will derive from hundreds of millions of dollars in new development by the 2019-20 fiscal year, with increasing amounts thereafter.

This added revenue is fundamental to any argument that the proposed town will be fiscally feasible. However, the pace of development could well be much slower than anticipated by the draft CFA thereby endangering the fiscal viability of the new town. Continued drought, recession, litigation, or the actions of a new town council could all act to slow, stall or stop development. Were this to occur, the fiscal implications for the town could be dire. Therefore, the revised draft of the CFA should explore the likely consequences on the town were development to be slower than anticipated. A slower pace of development is a foreseeable, even likely event, and the CFA should explore this likelihood in order to allow the LAFCO Commissioners a sufficient basis on which to make a determination of fiscal feasibility.

What the fiscal climate for new cities and the importance of a realistic development forecast make clear is that the path to incorporation and self-sufficiency for new cities is inherently risky. Without adequate reserves, new towns have few options in the face of severe fiscal challenges other than dramatic service reductions, bankruptcy or disincorporation. Therefore, careful planning, including funding an adequate reserve and hiring a finance director with the necessary skills and experience to manage under these uncertain conditions is vital to the success of any new town.

To justify the incorporation effort, Incorporate Olympic Valley (IOV) has suggested a path to cityhood that largely ignores these fiscal constraints. In its memo to the Commission (June 10, 2015), IOV lays out a path to incorporation that relies on a 60 percent reduction in the level of public safety services, a skeleton city staff that would be smaller than the City of Colfax (a town with a budget less than one-third as large as Olympic Valley would have), and reserves and contingencies for emergencies that are less than half of what the draft CFA and fiscal prudence recommend. Perhaps most importantly, in its June 10, 2015 memo IOV embraces rapid development of Olympic Valley as a tool for financing the new town, in spite of earlier statements suggesting that controlling development was a driving force behind the incorporation effort.[1] IOV asserts that its plan would work on paper, but the reality is that it fails to adequately maintain the current level of services, fails to provide for the minimum level of contingency funds recommended by the Office of Planning and Research Incorporation Guidelines, and fails to provide a level of staffing and resources adequate to the task of running a vibrant new town.

New Towns Face an Uphill Climb and Substantial Risks

The current legal and fiscal landscape in California makes incorporating a new city nearly impossible. Indeed, no new city has incorporated in California since 2011, when a state law granting additional revenues to newly incorporated cities was changed, eliminating the supplemental Vehicle License Fee (VLF) revenue that had previously been provided to ease the transition to self-sufficiency for new cities.[2] Without these additional revenues, incorporation is almost impossible as a result of a second provision in state law requiring that an incorporation be revenue neutral to the county. Revenue neutrality allows new cities to retain revenues to finance services previously financed by the county (such as law enforcement, planning or animal control) only to the extent those revenues do not exceed the cost of providing these services. However, there is essentially no sufficient mechanism within the revenue neutrality framework to pay for the additional costs inherent in an incorporation, such as the expense of

[1] See, for example, Associate Press, “Olympic Valley group pursues townhood to control growth.” January 2, 2014.
[2] These additional revenues were needed following a 2004 “swap” of VLF revenues for additional property taxes. The 2004 swap did not provide new cities with any additional property taxes to compensate for the loss of VLF, eliminating an important revenue source for these (future) cities.

establishing and maintaining a city council, paying a city manager, or funding traffic enforcement (provided by the state highway patrol to unincorporated areas, but not to cities).

Highlighting these difficulties, Stephen Harding, the city manager of Jurupa Valley wrote in 2012 that "the City of Jurupa Valley has the notoriety of being the newest incorporated municipality in the State of California, due to the volition of its citizens. It may also gain the notoriety of being the shortest-lived — and even the last — incorporated city in California's 162-year history, due to the volition of the state government."[3] Harding argues that "the state eliminated the singularly most important source of revenue to newly incorporated cities." As a result, Harding warns that "for the four newest local jurisdictions that incorporated post-2004, [this action] portends potential insolvency."

Harding's points are echoed by Michael Coleman, publisher of CaliforniaCityFinance.com and the principal fiscal policy advisor to both the California Society of Municipal Finance Officers and the League of California Cities. Coleman notes that "Virtually all annexations of urbanized areas and new city incorporations have been made financially unfeasible by the loss of huge amounts of revenues that previously would have gone to these areas."[4] Coleman further states that "The fiscal viability of new cities - the four that have incorporated since 2004 as well as any others in the future - has now been thrown into peril."

What Harding and Coleman make clear is that, under current law, there is virtually no way for a new city in California to be fiscally feasible. Yet that is the test under state law. In preparing the draft CFA for Olympic Valley, the Placer County LAFCO's independent consultant (RSG) reaches the only reasonable conclusion about the fiscal feasibility of the proposed town of Olympic Valley: the town is not feasible. Although the proposed town of Olympic Valley would have some additional strikes against it due to its very small size, and reliance on tourism which in turn depends on good weather, RSG's conclusion largely reflects the simple fact that, without supplemental revenues from the VLF or another source to ease the transition to independence, it is nearly impossible for a new town to be fiscally feasible in the current climate.

CFA Should Address Likelihood of Slower Pace of Development

The amount of development that occurs in Olympic Valley in the coming years will have a significant influence on the level of revenues collected from Transient Occupancy Tax (TOT), sales, property, and property transfer taxes. The draft CFA assumes that a substantial amount of development will occur in Olympic Valley during the next 10 years, with a large fraction of that development projected to start construction almost immediately and be completed and generating tax revenue as early as the 2018-19 fiscal year. Because of the unpredictable nature of development in a mountain resort community, there are good reasons to believe that the

[3] Harding, Stephen, "Jurupa Valley: The Last City in California?" Western City Magazine, August 2012. Available online at: http://www.westerncity.com/Western-City/August-2012/Jurupa-Valley-The-Last-City-in-California/

[4] California City Finance, "State Policy Disconnect: Fiscal Shifts Imperil New City Incorporations and Annexations of Developed Areas." Available at: http://www.californiacityfinance.com/SB89Problem140314.pdf

level and pace of development anticipated by the CFA are overly optimistic. Development could be delayed due to continued drought or other adverse weather conditions, recession, environmental lawsuits, unanticipated delays in starting construction, or actions of the new town council that would have the ability to curtail development if it chose to do so. And, because little or no construction happens during Olympic Valley's winters, construction timelines are generally longer than for other areas of the state. Therefore, to the extent that development is delayed or derailed completely, tax revenues for the new town would be correspondingly lower.

With the uncertainty of future development, the draft CFA should include a slower growth scenario that would explore the impact of a slower pace of development on the fiscal feasibility of the proposed new town. The purpose of the CFA is to aid the LAFCO commissioners in determining whether Olympic Valley will be fiscally feasible. Considering a likely, foreseeable result such as a slower pace of development is an important element of any effort to inform the LAFCO Commissioners in making their determination about fiscal feasibility.

Impact of Development Projections on Revenues

The CFA forecast assumes sales tax revenues will increase by about $100,000 in 2018-19 and by an additional $100,000 in 2019-20 (a total increase of more than $200,000 annually beginning in 2019-20). The CFA also assumes an additional 211 hotel rooms will be built and occupied by 2018-19, with an additional 31 rooms by 2019-20. As a result, TOT revenues are projected to increase by approximately $1.25 million annually by 2019-20. Property taxes are also expected to increase as a result of new development, adding approximately $160,000 per year to the town's budget by 2019-20 and property transfer taxes are anticipated to add approximately $80,000. All told, the CFA estimates that new development will add approximately $1.5 million annually to the town's budget by 2019-20.

The development projections in the draft CFA assume that 242 units of "Condo Hotel and Fractional Cabins" will be completed within 5 years and 492 units will be completed within 10 years. Other aspects of the forecast include the assumption that 43,050 square feet of retail and restaurant space and a Mountain Adventure Camp will be completed within 5 years and that the Resort at Squaw Creek will build 152 units within 5 years and 457 units within 10 years. All told, the CFA anticipates nearly $400 million in new construction activity in Olympic Valley within 5 years and more than $600 million in new construction within 10 years.

These projections notwithstanding, the actual pace of development is likely to be much slower than these projections suggest. It is virtually impossible for more than 200 new hotel rooms to be fully operational, rented and generating TOT by July of 2018. Construction of a structure like a hotel requires at least two years to complete, owing to the winter conditions in Olympic Valley. In the first year of construction, grading and site preparation are completed and foundations constructed. Then, in the second year, structures are erected and construction of interior spaces continues through the winter months. Therefore, in order for hotel rooms to be operational in 2018, construction would need to begin on schedule in the spring of 2016.

Such a start date presumes no challenges to the project's environmental impact report (EIR) or delays from planning or building officials. However, the EIR for the project has yet to be approved, and is not expected to be finalized until 2016. And, plans for individual structures have not yet been approved by Placer County. Without both of these steps, no construction can occur. Furthermore, Sierra Watch, a local environmental group, has indicated its intention to oppose the development in Olympic Valley, likely through legal action following the approval of the EIR in 2016. Such a step would further delay the start of construction.

Equally important, a 2016 start date presumes investor willingness to spend nearly $140 million on new condo/hotel rooms at a time when years of drought have damaged the local economy and dampened visitors' desire to visit the region.

Even if construction could begin in 2016 as envisioned by the draft CFA, it is unlikely that all of the new hotel rooms would be sold and occupied as soon as they were finished. In fact, the detailed annual projections included in the "Technical Memorandum" prepared by Hansford Economic Consulting (HEC) and referenced in the draft CFA include a distinction between units constructed and units sold, highlighting the likely lag between construction and ultimate occupancy.[5] In fact, the detailed schedule in the HEC memo indicates that just 83 "Condo Hotel" units re expected to be sold by 2019.

Finally, the development projections included in the draft CFA do not mirror the development timeline in the "Village at Squaw Valley Specific Plan" which anticipates development over a 25 year time horizon. The plan indicates 850 rooms will be constructed over the course of the plan, or 34 units/year. If 34 units were to begin construction in 2016 (not likely given the factors mentioned above), this suggests that a maximum of 34 units would be available for sale and occupancy in 2018, with TOT revenue beginning only following the sale and placement of the units into the rental program, a process which could take several months or longer depending on market conditions at the time.

In addition to the assumptions about development of new "Condo/Hotel" units and "Fractional Cabins", the CFA anticipates that a project known as "RSC Phase II" (for Resort at Squaw Creek) will be constructed starting in 2019. However, RSC ownership has communicated to Squaw Valley Ski Holdings management that it does not have a timetable for development of their property. Absent a specific timetable for development, the RSC Phase II units should not be included in the forecast, at least not during the initial five year period.

This same basic calculus applies to the assumptions about new retail space. The CFA projections are based on the assumption that new sales tax generating land uses will be operational and generating revenue by the 2018-19 fiscal year. Specifically, the forecast assumes that $9,877,300 in additional taxable sales (representing $98,773 in sales tax revenue) will be collected in 2017-18 and a like amount will be added in 2019-20. These projections appear to

[5] Hansford, Catherine, "Technical Memorandum"

imply that an additional 28,200 square feet of retail space will be added in each year, 2018 and 2019 (based on the stated assumption that retail space generates $350 per square foot in sales). The retail space assumptions do not appear to tie directly to the development forecast presented in Figure 4 on page 13 of the draft CFA or the assessed value growth forecast presented in Figure 8 on page 20. More importantly, these estimates reflect a rapid expansion of retail development, which may not be warranted, particularly to the extent that additional lodging development has not occurred. Finally, these estimates assume that the first stores would be fully operational in 2018 and generating sales taxes immediately, in spite of the fact that time would be required to lease the new space, and new tenants would need time to complete tenant improvements and develop a customer following.

The rapid development projections also affect the estimates for property taxes and property transfer taxes. To the extent that construction is delayed, assessed value growth and the number of property transfers will be lower than anticipated, with corresponding reductions in revenue relative to the draft CFA's projections. In addition, the assessed value growth associated with new hotel/condo units does not appear to be consistent with the development projections. Specifically, the growth forecast indicates 242 units will be developed by 2019-20, while the assessed value growth forecast implies that a larger number of units will be developed during this same time period.

<u>CFA Should Include an Assessment of Slower Growth and Development</u>

In sum, the CFA assumes a very rapid pace of new development. This new development is projected to account for approximately $1.5 million in additional revenues annually by 2019-20, with increasing amounts thereafter. If new development is slowed or stalled, these revenues will not materialize or will be delayed, leading to even larger projected deficits for the new town. Since new development is highly uncertain, relying on continued growth in the economy, an end to the drought, and cooperation from those who might oppose new development including environmentalists and the new town council, it is very likely that the projected revenues from new development will at best be delayed, and may well never materialize. Therefore, the CFA should include a scenario projecting the expected outcome if development is delayed or slower than anticipated in the current draft CFA. Since this is a likely, foreseeable outcome, the CFA should inform the LAFCO commissioners about the potential impact of slower development on the fiscal viability of the new town.

Transient Occupancy Tax Revenues Are Overstated

The CFA projections for transient occupancy revenues are overstated. The baseline projection (prior to any development) for the transition year, 2016-17, is $3.7 million. However, the average for the previous seven years for which complete data are available (fiscal years 2007-08 through 2013-14) is just $3.0 million. Even during the "good snow year" of 2010-11, total TOT revenue was just $3.1 million.

The TOT projection is based on two factors, the occupancy rate and the average daily room rate. The fact that the total revenue projection is too high suggests that one or both of these factors is overstated.

Because these same factors for occupancy and room rate are applied to new hotel rooms, the result is that the CFA's forecast for the additional revenue from new hotel rooms is also overstated.

Finally, the draft CFA appears to assume that "fractional cabins" will generate TOT. However, to the extent these units are used by their owners as anticipated rather than rented to visitors, there would be little or no TOT revenue generation.

Public Safety Costs Reflect Amount Required to Maintain Current Service Levels

Public safety costs in the CFA were estimated based on numbers provided by the Placer County Sheriff. According these data, the current costs to provide service to Olympic Valley in 2014-15 are estimated to be $1,228,730. This figure excludes any costs for traffic control, which is provided by the California Highway Patrol. The draft CFA estimates law enforcement costs for the 2017-18 fiscal year at approximately $1.5 million, an amount roughly equal to the cost of maintaining the *current level* of services, including the additional costs for traffic control currently provided by the Highway Patrol.

IOV has indicated that they believe that a lower level of public safety services, similar to the level of services in Colfax, is appropriate. (IOV indicated that Colfax currently pays $603,490 for a contract with the Placer County Sheriff, or roughly one-third of the level anticipated in the CFA). The CFA should make clear that the estimates included represents a maintenance of *current* service levels. Spending at the level in Colfax would represent a substantial reduction in the level of services currently enjoyed by the residents of Olympic Valley. Furthermore, it is unlikely that the Placer County Sheriff would be willing to provide under contract a level of public safety services far below what is currently being provided.

Reserves and Contingency in CFA are Prudent

IOV has argued that Olympic Valley need not save as much for a rainy day as the draft CFA and sound fiscal planning suggest. Specifically, in its June 10, 2015 memo to the LAFCO Commissioners, IOV argued that both the set-aside for contingencies and the amount allocated to reserves are too large. In essence, this argument suggests that, the substantial and inherent risks of incorporation notwithstanding, setting aside less, rather than more, for the new town's fiscal security is appropriate. This line of argument ignores the very real possibility that state budget changes, natural disaster, liability claims, litigation settlements, changing economic conditions, slower than anticipated development, adverse weather, changes in service contracts, needs for additional staffing, demand for capital facilities investments, or other factors will negatively affect the new town's budget. Unanticipated events are a very real possibility, which is why the OPR guidelines and prudent fiscal planning both call for substantial reserves and an annual set-aside for contingencies. The draft CFA includes a 10% annual contingency and a 30% reserve in its fiscal projections, consistent with standard practice for preparation of CFAs and prudent fiscal planning for a small, newly incorporated town.

The difficulties faced by new and small towns are not hard to identify. The state's newest city, Jurupa Valley, has faced substantial fiscal hardship since a state law enacted at the time of incorporation significantly reduced the revenue available to finance the city's operations. Locally, the City of Colfax considered disincorporation following an increase in sewer costs in 2008.[6] Other small cities across the state have faced fiscal challenges, including Isleton in Sacramento County, which might have considered disincorporation, but couldn't afford to do so.[7] The plight of these communities highlights the simple fact that a new town is on its own, without the fiscal backing of the county or the security and access to credit that larger communities enjoy. As a result, even relatively minor changes in costs or revenues can present a fiscal crisis for towns that have not adequately prepared with sufficient reserves and contingency funds.

Draft CFA's Treatment of Reserves and Contingency

During the June 10, 2015 LAFCO meeting, IOV's consultant argued that both lower reserves and a smaller contingency were appropriate, and also that contributions to the reserves and contingency should be treated separately from expenses.

Whether contributions to the reserve and earmarking of funds for a contingency are considered as expenditures or separately indicated "below the line" in a budget display is not relevant. In both cases, the contingency funds and contributions to the reserve are unavailable for another purpose. And, in fact, the OPR guidelines specifically highlight the need for a reserve to be separately identified from a cumulative funding surplus: "It is important to note that the CFA may show a cumulative funding surplus, but that funding surplus should not be directly identified as an operating reserve. A reasonable unappropriated reserve fund, in addition to a contingency fund, is necessary."[8]

IOV's argument further suggests that a maximum contribution to a contingency fund in the amount of roughly $200,000 would be adequate. However, this approach is at odds with the practice of multiple LAFCOs and CFA reports prepared throughout the state, all of which list an *annual* set aside for contingencies. For example, the CFA's for Jurupa Valley, Menifee Valley, and Eastvale all treat the contingency as an annual expense, as do many other CFAs.

[6] Durkin, Tom, "Council to consider disincorporation, termination of Sheriff's contract" Colfax Record, June 23 2008. Available online at : http://www.colfaxrecord.com/article/council-consider-disincorporation-termination-sheriff%E2%80%99s-contract

[7] Ganca, Maria, "Historic little Sacramento County town has king-size problems" Los Angeles Times, February 4, 2009. Available online at: http://articles.latimes.com/2009/feb/04/local/me-isleton4

[8] OPR Incorporation Guidelines, p. 39. Available online at: http://opr.ca.gov/docs/LAFCO_October_21_guidelines.pdf

IOV's consultant has further suggested that a reserve of 17% is adequate, based on "best practices" articulated by the Government Finance Officers Association (GFOA). However, the GFOA has stated that "a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level."[9] For a town as small and dependent on tourism, weather, and future development as Olympic Valley would be, setting aside a larger reserve amount, as many cities throughout the state do, is both prudent and necessary. Indeed, the CFA bases its recommended reserve level of 30% on survey data from more than 60 other cities across the state with reserves at approximately this level.

<u>Reserve Requirement Must Be Met Immediately Upon Incorporation</u>

The OPR guidelines further make clear that the requirement to provide for reasonable reserves is not a long term or aspirational goal, but rather one that must be met immediately. According to the guidelines: "LAFCO must *make a determination* that the proposed city is expected to receive revenues sufficient to provide public services and facilities and ensure reasonable reserves *during the three fiscal years following incorporation*" (emphasis added).[10]

Given the uncertain nature of Olympic Valley, including its reliance on tourism, favorable weather, and a city council that may or may not approve new development, a 30% reserve and 10% annual contingency are prudent.

Use of Comparable Cities Analysis is Reasonable

Using a comparable cities analysis is one method for establishing likely costs and/or revenues for a new town. However, Government Code Section 56800 (a) (1) states that the LAFCO executive officer shall estimate the costs to the new town and that "these costs shall reflect the actual or estimated costs at which the existing level of service could be contracted by the proposed city following an incorporation." Since the majority of the services to be taken over by Olympic Valley are currently provided by Placer County, an analysis of the current costs to Placer County and the likely cost for a future contract with Placer County represent the best and most reasonable means of estimating the costs for the new town. This is precisely the approach reflected in the draft CFA, and the approach taken in most CFAs.

Where a service was not anticipated to be provided via contract (e.g., hiring of a city manager, planning director, and other staff), the draft CFA estimated likely salary costs and benefit levels based on nearby cities. Basing this analysis on other nearby jurisdictions makes sense, as the labor pool for Olympic Valley would be similar in nature.

For other categories of expenditures, use of a "comparable cities" analysis can provide a basis for estimating costs. However, the choice of comparable cities is, according to the Government Code, to be based on three factors. Specifically, Government Code Section (a) (1) states that the

[9] See: http://www.gfoa.org/determining-appropriate-level-unrestricted-fund-balance-general-fund
[10] OPR Incorporation Guidelines, p. 39.

LAFCO Executive Officer is to "review how the costs of any existing services compare to the costs of services provided in cities with similar populations and similar geographic size that provide a similar level and range of services." Because of the large number of both visitors to and workers in Olympic Valley, choice of comparable cities should include cities with a similar "effective population size" that includes the impact of visitors and workers who do not live in the town. Furthermore, any analysis of towns with a "similar level and range of services" would need to examine communities with similarly sized budgets, an important measure of the "level and range of services" provided.

IOV has suggested that the towns of Loomis and Colfax are suitable comparison cities. However, both have budgets that are substantially smaller than the anticipated budget for Olympic Valley. Specifically, the CFA indicates that Olympic Valley will have general fund revenues of $5,519,793 in its first full year of operation. In contrast, Colfax has general fund revenues of just $1,378,000 for fiscal year 2014-15 while the general fund revenues in Loomis are anticipated to be $3,155,071. Furthermore, both Colfax and Loomis are much smaller in geographic size (the third comparable cities criteria) relative to Olympic Valley. Colfax is just 1.4 square miles while Loomis is 7.3 Square miles. In contrast, the proposed city limits of Olympic Valley would be approximately 14 square miles.

Selection of comparable cities must not be based on cherry picking "comparable" cities that just happen to be much smaller in terms of budget and geographic size relative to Olympic Valley. Instead, a range of cities, including cities with comparable service levels as measured by the towns' budgets and comparable visitor populations should be evaluated.

Staffing Levels Are Reasonable

IOV has indicated that the proposed staffing level for Olympic Valley – at seven full time employees – is too high. Instead, IOV suggests that just four staff – fewer than Colfax with a budget roughly one-third the size – would be adequate to manage the new town's $5.5 million budget, thousands of daily visitors, and more than $600 million in proposed development over the next decade. However, the size of the budget reflects the level of services necessary to serve visitors, employees, and residents that come to or live in the city.

A quick review of cities in California reveals that many cities with similar budgets have either a comparable or greater number employees relative to the staffing plan in the CFA. Even Loomis – which IOV has suggested as a comparable city – has 10 employees.[11] Portola Valley with a budget of $4.4 million has 13 employees (excluding three part time employees). The City of Calimesa has 10 full time equivalent employees (FTEs) with a budget of $4.5 million. Solvang, Los Altos Hills, Woodside, Laguna Woods, and Buellton all have budgets between about $4.5 million and $6.5 million and at least seven staff managing their town operations.[12]

[11] The State Controller reports that as of 2013, Loomis had 25 employees, including 2 temporary employees, 6 town council members, and 7 planning commissioners. See: http://publicpay.ca.gov/Reports/Cities/Cities.aspx
[12] All staffing and budget information from the State Controller's Office as of 2013: http://publicpay.ca.gov/Reports/Cities/Cities.aspx

Not only are the CFA staffing estimates well within the range for cities with comparable budgets, but they are well justified based on the anticipated work of the new town. For example, while IOV has suggested that a planning staff of just one full time employee would be adequate, the draft CFA anticipates more than $600 million in development during the 10 year projection period. As a result of the substantial development, additional staffing in the planning function will be needed relative to current service levels. Similarly, it is not reasonable to assume that a new town with a budget anticipated to grow to nearly $10 million over the forecast period would be able to function effectively with a part-time contract finance director. Even Loomis with a budget roughly two-thirds as large as Olympic Valley has a full- time finance director earning more than $100,000 per year as of 2013.[13]

Payroll Costs Are Understated

Although the staffing levels in the draft CFA are reasonable, the estimated salary and benefits costs are understated. The CFA uses a set of nearby cities to estimate salary costs, however, the best comparison may well be the Squaw Valley Public Service District (SVPSD), which is located in and must attract talented staff to Olympic Valley. In its memo to the LAFCO commissioners on June 10, 2015, IOV indicated that SVPSD was a suitable analog for Olympic Valley (pointing out that many SVPSD employees do not live in Olympic Valley). SVPSD's similar location and workforce mean that the salaries reported by the SVPSD are perhaps the closest approximation of the actual costs the new town would incur.

Beyond the SVPSD, estimates of compensation levels can be based on costs for other "comparable" towns. Identifying a set of precisely comparable towns, however, is no simple task. Olympic Valley is unique in that it has a very small population but a very large number of visitors. These visitors generate a significant amount of both revenue and service demands. Olympic Valley's climate is also unique, driving demand for services such as snow removal and the need to serve large numbers of visitors during peak demand periods of the year. Finally, Olympic Valley would be a contract city. Although there are numerous contract cities in California, many cities with budgets as large as Olympic Valley's provide at least some services such as police or fire directly.

As a result of these unique circumstances, there are no exact analogs for the proposed new town. Instead, an estimate of salary costs should be based on a range of similar communities. In the table below, salary information is presented for four cities plus the SVPSD. Colfax and Loomis are relatively close by, although the labor pool for these communities may not overlap with the pool from which Olympic Valley would draw. In addition, these two communities both have a much lower cost of living relative to Olympic Valley. Nevertheless, both are contract cities and have been suggested by IOV as comparable, so they are included here. In addition, information is provided for Solvang and Big Bear Lake. Both of these cities have budgets somewhat larger than Olympic Valley, but both are contract cities. Most importantly, both of

[13] State Controller's Office Government Compensation data, ibid.

these communities have economies largely based on tourism, similar to Olympic Valley. And Big Bear Lake is also mountain community.

Figure 1: Payroll Cost Comparison

	Difference from Avg.	Olympic Valley CFA	Average	Colfax	Loomis	Solvang	Big Bear Lake	SVPSD
Benefits Ratio	3%	35%	38%	32%	30%	32%	49%	37%
Position								
Town Manager	$ (42,256)	$ 186,790	$ 229,046	$ 157,744	$ 151,872	$ 226,367	$ 359,248	$ 270,740
Town Clerk	$ (45,333)	$ 71,840	$ 117,173	$ 52,413	$ 105,894	$ 147,598	$ 184,355	$ 106,807
Admin Assistant	$ (34,866)	$ 50,290	$ 85,156	N/A	$ 68,038	$ 72,571	$ 89,018	$ 118,151
Finance Director	$ (25,101)	$ 129,320	$ 154,421	N/A	$ 149,696	$ 123,549	$ 205,256	$ 152,153
Community Development Director	$ (34,776)	$ 129,320	$ 164,096	$ 124,494	N/A	$ 137,092	$ 238,426	N/A
Associate Planner	$ (16,196)	$ 86,210	$ 102,406	N/A	$ 58,590	$ 108,362	$ 146,717	N/A
Public Works Director	$ (52,270)	$ 129,320	$ 181,590	N/A	$ 164,166	$ 171,667	$ 220,378	N/A
Town Council	$ (28,166)	$ 12,500	$ 40,666	$ 15,129	$ 25,013	$ 19,560	$ 102,589	$ 40,720
Net Annual Salary Cost Difference	**$ (278,964)**							

Notes:
Salary and benefits data from State Controller's Office Government Compensation in California for 2013.
Figures adjusted to 2017 dollars using a growth rate of 2.1%
Figures for Olympic Valley and Colfax from May 21 Draft CFA for Olympic Valley
Position titles are for Olympic Valley. Closest comparable position selected for other jurisdictions.

As the information in Figure 1 demonstrates, the average compensation cost across these five jurisdictions is substantially higher than the costs reported in the draft CFA. For example, the average cost for a town manager is $229,046 annually, $42,256 higher than the CFA estimate. Similarly, the average cost for the public works director is $181,590 annually, $52,274 higher than the CFA estimate. Overall across the seven job titles and the town council stipend, the average compensation cost among the comparison jurisdictions is $278,972 higher than the CFA estimates.

Given the apparent low salary estimates for Olympic Valley and the fact that the CFA apparently did not reflect the higher cost of living in the Tahoe area which may require payment of additional compensation (as Placer County does), the revised CFA should re-examine salaries for comparable positions. This re-examination should reflect the size and complexity of the proposed town's budget and the higher cost of living in the Tahoe area.

City Attorney Costs are Reasonable

During their presentation at the June 10, 2015 LAFCO meeting, IOV's consultant indicated that a city attorney budget similar to the towns of Colfax or Loomis would be reasonable. Specifically, IOV's consultant asserted that a budget of $40,000 (the amount for Colfax) would be adequate, though less than the $60,000 amount for Loomis and well below the roughly $100,000 draft CFA estimate for Olympic Valley.

IOV's suggestion, however, ignores several important facts. First, both Colfax and Loomis are established towns, while Olympic Valley would be a brand new town. As a result, Olympic Valley would face a host of additional legal issues, including the negotiation of numerous contracts with service providers and new employees, the development and adoption of new ordinances for the town, the resolution of legal issues related to new development, and a host of other legal matters that may confront a new town.

Second, IOV's assertions with respect to the legal costs for Colfax and Loomis are highly misleading. The stated budget in Colfax for FY 2014-15 is $43,000. However, the costs for last year (FY 2013-14) are estimated at $137,100 while the actual cost for FY 2012-13 was $136,739.

The situation in Loomis is similar. The 2013-14 budget for legal costs for the administration function are in fact $60,000 as indicated by IOV, but the budget also included an additional $5,000 for legal costs for the city council function. The total budget for 2012-13 was $80,000 and the actual costs for 2011-12 were $131,424.

Not only does the IOV presentation misleadingly present just a portion of the actual legal costs for these towns, but the figures are presented in current dollars. Just inflating the accurate amount for Loomis to 2016-17 dollars would result in a legal budget of more than $69,000. And, if Olympic Valley were to experience legal costs similar to those experienced by Loomis in 2011-12 or Colfax in either 2012-13 or 2013-14, the cost adjusted for inflation would be more than $145,000, well in excess of the CFA's estimate of $104,310.

Insurance Costs in Line with Comparable Mountain Resort Towns

The Draft CFA estimates insurance costs at approximately 2.5% of the town's budget. IOV has suggested that a much lower cost would be appropriate, based on information on the insurance budgets for Loomis and Colfax. If insurance costs are based on comparable cities in terms of the size of the budget and range of services provided to visitors, however, the result is similar to or even higher than what the draft CFA reports. Looking at other mountain resort towns, Truckee, for example, spends 2.7% of its budget on insurance and Big Bear Lake spends 4.4%. While Truckee is a larger "full service" city, Big Bear Lake has a population smaller than that of Loomis (suggested as comparable by IOV) and a mountain resort economy much more similar to Olympic Valley. Big Bear Lake is a contract city, very similar to the service model envisioned for Olympic Valley.

Snow Removal Costs Appear Understated

The costs for snow removal appear understated compared to comparable towns and may reflect the actual costs for a very low snowfall year. These costs should be re-examined and a more accurate or updated number included in the CFA which reflects the costs in a more typical year.