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DRAFT COMPREHENSIVE FISCAL ANALYSIS
INCORPORATION OF THE TOWN OF OLYMPIC VALLEY

Dear Ms. Berry:

On June 10, 2015, Rosenow-Spevacek Group, Inc. (RSG) provided the Placer County Local Agency Formation Commission (LAFCO) with an updated draft of the Preliminary Draft Comprehensive Fiscal Analysis report (CFA). In addition, on June 10, 2015, RSG took part in a public workshop held in Tahoe City. Since that time, numerous stakeholders provided feedback to RSG and LAFCO regarding the Preliminary Draft CFA. This letter summarizes the issues raised and the adjustments made to an accompanying update to the Preliminary Draft CFA.

As part of the work since the June 10 meeting, RSG incorporated changes into the accompanying revised Draft CFA dated July 24, 2015 after careful review of all feedback, additional research and analysis, and discussions with LAFCO staff. RSG considered all input and performed due diligence as needed, but did not necessarily make the changes as suggested. Our role in this process is to provide LAFCO with a neutral, reasonable and defensible financial forecast for the proposed Town of Olympic Valley. However, RSG felt it was important to address all stakeholder concerns and provide additional explanation to LAFCO about the edits to the Draft CFA.

As mentioned, the feedback received came from a variety of stakeholders, but a number of comments addressed similar topics. RSG has grouped the feedback into categories and responded below. As much as possible, RSG also tried to reference the person, group, or organization that raised the concern. We hope this letter provides clarity for LAFCO and the stakeholders as they review the revised Draft CFA.

Contingency

RSG clarified in the Draft CFA that the 10% contingency is not a fund, but rather an expense line-item in the annual General Fund budget representing unforeseen costs and discretionary spending. The OPR Guidelines state, “A contingency fund based on a percentage of estimated expenditures should be reflected in the CFA projections to cover unforeseeable expenses…OPR recommends that a contingency fund in the range of 10-20% of estimated expenditures be included in the CFA.”

RSG is confident that our approach is not only prudent but defensible from all key measures of an incorporation analysis. Our approach of using a 10% contingency expense line-item is not only consistent with OPR Guidelines for incorporation analyses, but also common practice in most of the recent analyses performed for successful incorporation in recent years. Moreover, 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.

Reserve Fund

The reserve fund, on the other hand, is a fund for cash flow, economic downturns, litigation, and similar significant cash emergencies; ultimately set by at a level of the Town Council's choosing. We realize that by showing deposits to the reserve fund in specific years under expenditures this could be confusing to LAFCO and the public, so we altered how this was presented in the current Draft CFA. However, RSG still believes that the amount of the reserve fund is appropriate (ranging from $1.6 million to $2.8 million at the end of 10 years) and prudent. It is extraordinarily rare to find any city of any age or size in California to have a reserve of less than $1.6 million; given the relatively highly concentrated and transient nature of the Olympic Valley economy, we firmly believe that it would not be reasonable to have an unusually low amount of a reserve fund.

RSG concurs that the OPR Guidelines do in fact recommend <u>a minimum</u> of a 10% reserve. However, one can understand that as the size of the general fund fluctuates, the percentage of the reserve will vary above and below this percentage; in fact this was acknowledged by the Commission at the June 10 workshop. So context of the reserve is essential when looking at this as a percentage of any general fund, and it stands to reason that a smaller general fund would naturally have a higher percentage of a reserve given the cash needs and liabilities are not entirely scalable for smaller cities.

More importantly, the October 2003 OPR Guidelines also describe now obsolete funding sources that are now no longer available to new cities. Prior to the 2004-05 State Budget agreement, new cities received from the State Motor Vehicle License In-Lieu Fees, based on an often inflated population estimate of three times the number of registered voters. This method to estimate population often resulted in inflated VLF apportionments to new cities that were critical to the early years when they lacked a sizable reserve. After 2004-05, not only this "bump" but virtually all VLF apportionments to new cities were eliminated; legislative efforts to restore these revenues have not been successful and no legislation has been introduced to reinstate this revenue for cities that have not yet incorporated, like Olympic Valley.

As a result of the elimination of the registered-voter based VLF bump and loss of VLF entirely, comparing the percentage of the amount of a reserve needed today to what was needed when these revenues existed in improper, in our opinion, and understates the necessary reserves needed today. Bankruptcies, local fiscal challenges, unfavorable state budget practices, and the lingering effects of Proposition 13 all have contributed to cities across the state <u>increasing</u> reserves well above what the OPR Guidelines recommended in 2003.

For all these reasons, RSG recommends Olympic Valley maintain a 30% reserve after surveying 61 cities throughout California. As a dollar figure, a 30% reserve is about $1.6 million in the first year of full operation. If fully funded, this fund would grow to over $2.8 million in 2025-26, when the total General Fund revenues would be over $9.3 million. Like other cities practice today, should you wish to alter the reserve in the CFA, we suggest LAFCO consider the reserve based on the <u>amount</u> and not what <u>percentage</u> it is of the general fund, which is often skewed and misleading, especially for smaller or larger cities.

Finally, we heard some questions at the workshop as to whether the reserve should be expressed as a percentage of revenue or expenses. Most cities have balanced budgets, so the comparison is often a moot point. However, three surveys of cities do in fact reflect the reserve as a percentage of revenue, not expenses. So, our approach was consistent with this practice. In Olympic Valley, we do not predict that the City would have a balanced budget as revenues are less than expenditures in most years. In order to reflect the percentage of the reserve relative to both revenues and expenses, RSG has added a row beneath the reserve amount.

Revenue Neutrality Payments

RSG maintains that potential revenue neutrality payments must be factored into the Draft CFA, along with clear language that these are subject to negotiation and change (which is included in the Draft CFA on pages 47-48). It is possible negotiations will yield a different payment amount than RSG's estimates, and RSG is willing to adjust the report based on that. However, excluding potentially substantial payments would be negligent and misleading, as incorporations that are not revenue neutral frequently have sizable revenue neutrality payments, and never has a county waived all revenue neutrality, so eliminating it from the forecast would imply that it is in fact realistic that a county could waive it. In our experience, while the amounts vary, revenue neutrality tends to be closer to the total impact on the county than zero. We also note that when included in their respective fiscal analyses, several new cities were successful in negotiating an agreement and incorporating successfully.

RSG adjusted the calculations to account for incidental changes made in our analysis, but the payment was not removed altogether.

Comparable Cities Analysis

Pursuant to Government Code Section 56800(a)(1), RSG added in the latest draft CFA a comparison of the proposed costs for services to the costs to provide the same services in cities with similar populations, geographies, and a level and range of services. This is somewhat difficult given Olympic Valley's unique population, tourism industry, location, size, and proposed level of services. Even if a city has a similar geographic size or similar permanent population to Olympic Valley, it does not mean they are truly comparable. For example, Incorporation Olympic Valley ("IOV") suggested using the City of Industry as a comparable city because of its small population and low staffing levels. However, an industrial town in a densely suburban part of Southern California with an annual budget over $100 million is not similar or comparable to Olympic Valley even if its population of 500 residents is similar. Using State Controller Annual Reports, DOF population estimates and other third party data, RSG conducted an analysis of the 33 smallest cities in California, ranging in populations of 2,500 and less, and found time-after-time, critical exceptions to how "comparable" a city can be at this size.

Nevertheless, in an effort to satisfy this legal requirement, RSG revised the Draft CFA to include a comparable cities analysis looking at the overall expenditures in Olympic Valley versus six other cities throughout the State. The results of this additional research concluded that the projected expenditures for the proposed Town are within the wide range of expenditures experienced by other cities that have some shared characteristics with Olympic Valley.

We acknowledge that we did look at local cities for purposes of estimating payroll costs to capture the local compensation levels in our thinking for estimating potential salary and benefit costs. We apologize that this analysis may have been mistakenly viewed as the “comparable cities” analysis described above, which it was certainly not, but we still feel that there is merit to considering the local labor market when estimating payroll costs. As such, the payroll costs analysis was not revised, and is discussed in more detail below.

Salaries and Benefits
In addition to considering the size of the municipal organization and nature of the jobs, RSG analyzed the payroll costs of other relatively small cities located near Olympic Valley. These cities make up Olympic Valley’s regional employment market from which it will compete to attract employees. To remain competitive, RSG feels Olympic Valley’s proposed payroll costs must be reasonably in line with neighboring jurisdictions to attract capable employees, and not necessarily the lowest simply because it has a small permanent population.

Blue Sky Consulting Group suggested RSG look at the Squaw Valley Public Service District’s (“SVPSD”) salaries for the payroll cost comparison, as they occupy the same labor pool that Olympic Valley would draw from. RSG acknowledges that they would compete for employees from the same labor pool, but did not include them in the payroll cost comparison because municipalities are, by nature, different from service districts, which can maintain 100 percent cost recovery ratios through user fees. RSG determined, therefore, that a service district is too different from a city to be used as a comparison for payroll costs.

RSG proposed a 35% benefits ratio to keep Olympic Valley competitive with neighboring cities in the regional job market, and to account for the relatively high cost of living in Olympic Valley. The County provides a stipend equivalent to $9,300 annually to employees that work in the Tahoe Basin to account for the higher cost of living, or higher cost of commuting to a remote location. IOV suggests RSG’s proposed benefits ratio should be more in line with Colfax and Auburn, but Colfax and Auburn are not in the Tahoe Basin and can offer lower salaries and benefits. IOV also suggests RSG’s benefits ratio should be more in line with newly incorporated cities without large labor unions and financial responsibilities. However, even without those obligations, cities can and do elect to offer competitive benefits packages to attract and retain employees. RSG maintains that given the regional employment market, remote location of Olympic Valley, and need to attract capable employees to manage Olympic Valley’s unique challenges, a 35% benefits ratio is reasonable.

Regardless how one views the components of compensation, RSG believes that LAFCO can best view compensation based on the total, or “fully-loaded” compensation, rather than deliberating on the amounts and potential strategies of the salary or benefits components. As such, RSG added a new Figure to the CFA that compares the fully-loaded personnel costs among the neighboring jurisdictions to help clarify that the proposed compensation is similar, and in most cases, on the lower end of the range.

Transient Occupancy Tax

IOV contends that the North Lake Tahoe Resort Association (NLTRA) is not receiving 60% of the TOT revenue generated in Olympic Valley as stated in the report. RSG sought clarity from the County to better understand the allocation of TOT funds in the North Lake Tahoe Basin. IOV is correct that the NLTRA is not receiving 60% of the TOT generated in the region. The County apportions a share of the 60%, to the NLTRA but also utilizes some funds itself to provide visitor-attracting services and functions in the North Lake Tahoe Basin. Still, about 60% of the TOT generated in the area has been used to fund Tahoe Basin services either through the County or the NLTRA. We corrected this section of the CFA to clarify the current agreement.

Squaw Valley Ski Holdings, LLC suggested that the TOT revenue generated by condo/hotels should be lowered to allow for time when owners themselves occupy the units, which are therefore not generating TOT at those times. The Draft CFA has accounted for this by leaving condo/hotels at the same vacancy rates as traditional hotels, which implies there will time throughout the year (approximately 48% of the time) when these units are vacant, leaving almost half the year as time when owners could occupy it. RSG feels this is a reasonable number.

Blue Sky Consulting Group felt that TOT would not be collected from the 31 fractional cabins. RSG decided to show TOT as being collected on these units based on interviews of County Auditor-Controller and Revenue Collections officials familiar with the collection of these revenues on the County's behalf. The fact is, offering fractional cabins for transient accommodations would require owners to self-report, collect and remit TOT revenues, so there is clearly some potential for under-collection, which is not unusual for properties of this sort. In any case, this represents a very small amount of revenue in the overall scope of the Town's budget, and would not affect feasibility.

Blue Sky Consulting Group argued that either the occupancy rate or average daily room rate in the TOT analysis was too high. RSG reviewed historical TOT data from the area and adjusted the 6-month "high" season occupancy rate from 85% to 79%, based upon past TOT collections in the area.

Tourist Population

For the Preliminary Draft CFA, RSG utilized LAFCO's 20,000-25,000 annual estimate of the Olympic Valley tourist population. RSG has since been able to refine that estimate to around 9,000 using the Draft EIR for the proposed Village at Squaw Valley, which is now publicly available, and included that change in the Draft CFA. This alteration did not result in any material change to our analysis.

Growth Projections

Squaw Valley Ski Holdings, LLC and Blue Sky Consulting Group felt that future development of the Town would happen at a slower pace than was projected in the Preliminary Draft CFA. RSG acknowledged at the workshop that in fact this could occur, given the fact that the current economic recovery has lasted well-beyond the typical 7 year duration and it is conceivable that over the next 10 years some economic downturn may occur, even if unpredictable at this time. At your direction, RSG included a more conservative forecast of revenues and growth, based on historic growth rates in property tax, sales tax and other major revenue sources over the past 6 to 10 years.

Blue Sky Consulting Group expressed concern that the Preliminary Draft CFA's development schedule did not mirror the development timeline in the "Village at Squaw Valley Specific Plan" because the Specific Plan indicated that 850 rooms will be constructed over 25 years, or 34 units per year. RSG feels that reducing development to a simple rate of rooms per year is oversimplifying the nature of development, which is unlikely to happen at a perfectly consistent rate due to a number of factors, including weather conditions, entitlements, permits, construction costs, and other unknown determinants. Instead, the Draft CFA presents a forecast based on multiple data sources, including the Specific Plan, the County, and the Hansford Economic Consulting ("HEC") "Technical Memorandum" and reconciles the differences between them on the most reasonable timeline possible.

Blue Sky Consulting Group commented that the RSC Phase II project should not be included in the Draft CFA's development forecast, as the ownership behind the development communicated to Squaw Valley Ski Holdings that they do not have a timeline for development yet. RSG included this project based on data from County Planning that indicates that RSC Phase II is one of only two projects already approved. Certain assumptions needed to be made to compile the Draft CFA's development forecast, and given that Squaw Valley Ski Holdings declined to provide data regarding future development, RSG assumed that projects that were already approved would be completed within the Draft CFA's timeframe.

Blue Sky Consulting Group communicated that they believe the Preliminary Draft CFA's growth forecast indicates that 242 units will be developed by 2019-20, but the assessed value forecast implies that a larger number of units will be implied by then. The growth forecast indicates that there will be 242 units built within the first five years within the Specific Plan area, but also indicates that more units will be constructed outside of the Specific Plan area. The assessed value forecast accounts for those units as well.

Blue Sky Consulting Group indicated that they feel the taxable sales projections in the sales tax analysis do not tie directly to the retail assumptions in the development forecast or assessed value forecast. This is because the taxable sales projections are tied to the development forecast for retail as well as restaurant, general commercial, and neighborhood market uses (although no square footage is projected for neighborhood market within the Draft CFA's timeframe).

IOV questioned why RSG performed its analysis on a 5 and 10-year basis. In fact, RSG prepared the forecast on an annual basis, but summarized our forecast in the 5- and 10-year increments used by the County and HEC to show how our forecast of units and square footage match these two forecasts. (While an annual forecast comparison would be ideal, the County and HEC did not perform an annual forecast for which we could provide such a comparison.)

IOV questioned why RSG did not show any development occurring between now and fiscal year 2016-17. RSG did not make assumptions about when development will *occur*, but rather when it will be completed, assessable, and revenue generating. It is highly unlikely any development will be completed by 2016-17, as it would need to be under construction now and be completed for this to occur. This assumption is supported by the County, the lead planning agency in the area.

IOV expressed concern about why RSG didn't include the Plumpjack Hotel, Plumpjack Condo, Plumpjack Commercial, "New Hotel (outside Specific Plan Area)", and Single Family residential in the 10-year analysis. RSG did not include the Plumpjack Hotel and Condos in its development forecast in part because we understand that both are redevelopment projects and will not result in net new units. In addition, the County anticipates completion of the project to occur in the next 25 years – not the next 10 years. Similarly, the County anticipates completion of the other three projects to occur in the next 25 years, as opposed to the next 10 years. Thus, if we were to include additional units of one particular project sooner, it would overstate the projected number of units in the forecast as compared to the County, and we did not see reason to do this based on the information from the County and HEC.

Property Tax Share Calculation

IOV expressed concern that RSG's analysis had excluded indirect costs. RSG included all direct and indirect costs provided to RSG by County. It seems the reason IOV's figures do not match RSG's figures used in the analysis is because IOV is using the County's Fiscal Year 2014-15 expenditure and revenue data. Fiscal year 2014-15 data was provided to RSG to help estimate future contract costs; however, the base year for the report is FY 2013-14. As such, RSG used FY 2013-14 data in the property tax share transfer calculation. RSG verified our figures and analysis of County 2013-14 base year costs include both direct and indirect costs.

As a result of our verification process, RSG made an adjustment to the "Public Works – Road Maintenance and Snow Removal" line item resulting in a higher net cost of services. When trying to determine the net costs of services provided by the County, services funded by special revenues should be excluded. After reviewing the County's Public Works expenditures and revenues, RSG felt it was excluding a General Fund expense that should be included.

The report incorrectly stated the assessed value growth factor from 2013-14 to 2017-18 at 12.5%. This was an error in the text of the report, but the correct figures were used in the model. This narrative was corrected in the Draft CFA.

Assessed Value Analysis

IOV feels that RSG understated the estimated assessed value of new condo hotel and fractional cabin units that may be developed within Olympic Valley. IOV feels RSG's estimates should line up with the values utilized by HEC in the Revenue Impact of the Village Development of the Squaw Valley PSD. While RSG has made every attempt to utilize the HEC analysis, RSG continues to respectfully disagree with HEC's estimated assessed values for new development units.

RSG calculated its estimated actual sales data from actual transactions within Olympic Valley, based on credible third-party databases. HEC's estimates appear to be based on the assessed values associated with a new resort construction in Northstar. Without confirmation from Squaw Valley Ski Holdings that the Northstar resort can be considered comparable to the yet-unknown and unspecified condominium development by Squaw Valley Ski Holdings, RSG must rely on historical data specific to the Olympic Valley area to compute the estimated assessed values for future development.

IOV suggested RSG use 5.95% instead of 2% for assessed value growth in addition to growth from new development. RSG was not able to reconcile IOV's analysis to arrive at an annual assessed value growth of 5.95%. It seems IOV looked at the last 15 years while RSG only looked at the last 10, which may account for the variation. However, the variation is still rather large. RSG adjusted the growth rate to account for the real estate anomalies in the last 10 years, but according to RSG's data, a 5.95% growth rate, in addition to new development, is unsupportable. An historical assessed value table is already included in the report for reference.

Proposition 8
IOV requested that RSG look into Proposition 8 reassessments within Olympic Valley. While highly unusual to speculate how much of the market-based assessor reductions may be recovered in Olympic Valley, RSG conducted its own analysis to determine how much, if any, assessed value would be recaptured through Proposition 8 value restorations.

According to the County Assessor, while Countywide the percentage of Proposition 8 (also known as Decline-in-Value) assessment reductions was reported as7.4% of the total assessment roll, the Tahoe Basin was a lesser portion (4.6%) of Proposition 8 assessment reductions, meaning that the rest of the County has relatively more assessed value to gain from restoration of these assessed values as market values improve. Based on this data, RSG estimated the potential amount of assessed value that eventually could be restored in Olympic Valley. However, the Assessor noted that almost 50% of the total reductions were recaptured in the fiscal year 2015-16. They also expect the rest of the value to be recaptured in the next few years, provided market conditions continue to be favorable. As such, RSG applied all the future assessed value growth due to Proposition 8 recaptures to the first two fiscal years of the analysis, as well applying all of the reported value recaptured in 2015-16.

Property Values and Sales
IOV commented that the Draft CFA should use the values for condominiums and single-family residences estimated by HEC in their Technical Memorandum. We note that Squaw Valley Ski Holdings has not provided any information regarding potential pricing strategies for these proposed units. The values used in the Draft CFA are based upon review of sales transaction data from the actual third-party listings in the North Lake Tahoe area, the County Assessor's Roll and CoreLogic's MetroScan database, which RSG feels are reliable sources. Furthermore, the value of fractional cabins identified by HEC ($2,550,000) cannot be used to estimate single-family residential values.

IOV felt that the CFA should use current market values for properties, which they identified as $912,600 in 2014 and $739,100 in 2013. RSG elected to use the median pricing data from the CoreLogic's MetroScan database, which did not indicate the values IOV identified.

IOV communicated that the turnover for non-residential properties should be included. The Draft CFA does not include them because the bulk of them are owned by one entity (Squaw Valley Ski Holdings) and RSG does not anticipate they will be sold within the projected timeframe. This is a conservative estimate to avoid overstating revenues.

IOV questioned RSG's estimated housing unit turnover rate of 5.96%, which was calculated from 2010 to 2014, and argued that a seven or ten year historical rate would be more representative of the housing market in Olympic Valley. This is a valid concern. However, doing so actually produces a turnover rate slightly lower than the 5.96% rate previously identified, since more transactions have been conducted in recent years. Given that fact, the Draft CFA uses the 2010 to 2014 rate, which RSG found to be reasonable.

Property Transfer Taxes

IOV commented that the Property Transfer Tax table contained an incorrect number that resulted in overstating the potential revenue neutrality payment. RSG addressed this issue in detail in the July 9, 2015 status update letter to LAFCO. The Draft CFA has been revised accordingly.

Sales Taxes

IOV feels RSG should adjust their sales tax revenue figures up to include one additional quarter in the first year of incorporation. After review, RSG continues to support their assumption that Olympic Valley will only collect two quarters of sales tax in the transition year, because the CFA is prepared on a cash basis. In other words, RSG's analysis applies sales tax revenue to the fiscal year in which is will be received by the Town, not the year in which it will be taxed. Revenue from the last quarter of taxable sales of the year is not lost, just applied to the following fiscal year.

The new Town will not be able to collect sales taxes until it passes an ordinance to do so. This makes it impossible for Olympic Valley to collect first quarter sales taxes during FY 2016-17.

Miscellaneous Revenues

IOV commented that RSG should identify any per capita VLF amounts that the Town would receive, aside from Property Tax In-Lieu of VLF. SB 89 eliminated VLF allocations for new cities in California.

IOV asked if the Town would receive Proposition 172 sales tax revenues. Proposition 172 was a half-cent sales tax increase that could only be spent on public safety. However, cities that did not exist in or before 1980 are not eligible to receive these revenues. Therefore, Olympic Valley would not receive these revenues.

IOV asked if the Town would receive POST training revenues. Peace Officer's Standard and Training is a training course for law enforcement. The State of California set up a fund that does allow reimbursements "for the training of regularly employed and paid local public safety dispatchers". However, since Olympic Valley would be contracting for law enforcement, they would not be eligible to receive these reimbursements.

IOV asked if the Town would receive SB 90 revenues. SB 90 requires the State to reimburse a local agency for the costs incurred when the State mandates an increased level of service. Yes, the Town would be eligible for such cost recovery, should the State mandate an increased level of service after incorporation. Because RSG has not made any assumptions on increased services due to the potential imposition of future State mandates, we did not assume any additional revenues associated with such future mandates.

Franchise Fees
IOV suggested that RSG apply a CPI inflation rate to the franchise fees. Franchise fees are ultimately associated with the use of a particular service or utility such as electricity or gas. They were kept constant and not inflated by CPI because franchise fees don't always increase over time, in fact, they can even decrease over time. As technology improves, services often become less expensive. As a conservative estimate, RSG chose to keep the franchise fees constant throughout the 10-year projections.

Community Development Fee
IOV questions whether Community Development Fees can be collected to account for the cost of preparing the General Plan and Zoning code. There are cities throughout the State that impose "General Plan Fees" pursuant to Government Code Section 66014(b), however, these operate like development impact fees where developers and other private entities assist public agencies in adopting or updating plans and policies. At this stage, we can only presume that the new Town would adopt the County fees, which do not include any such funding. The Town could increase or decrease fees. The new Town Council can impose such a fee in Olympic Valley, but the CFA cannot assume the new Town Council will do so, and does not include any new fees or taxes as revenue sources.

Transition Year Payments
RSG made several changes to this analysis to account for changes made throughout the report.

Department Costs
RSG estimates Olympic Valley will need to employ seven full-time staff members to effectively run the City, manage the contracted staff, and accommodate the large influx of new development over the next ten years. RSG did reduce the staffing levels by one employee (the associate planner) in the historic growth scenario now included in the Draft CFA to account for the lower level of development. RSG also looked at 33 small cities throughout the state, and all but one had a greater number of full-time employees. In fact, Olympic Valley would be one of the smallest sized cities in the state, based on the number of positions. RSG continues to feel that seven employees is a reasonable staff given Olympic Valley's unique challenges.

City Clerk
There are some smaller cities in California that have the City Manager serve as the City Clerk, as suggested by IOV. RSG does not feel this arrangement would result in a material change in costs for several reasons however. The Town Manager will have a great deal of responsibility working with the new Town Council. With controversial issues to tackle such as development and future growth, serving as the Town Council liaison will take a significant amount of time, not to mention the time spent overseeing all City departments and contracts. Additionally, the responsibilities of the Town Clerk should not be minimized. The Clerk will not only be responsible for preparing Council agendas and minutes, but also recording documents with the County, overseeing all record keeping within the Town, and handling all public records requests. In virtually all cases where the city manager and city clerk duties are combined, cities add a

deputy city clerk position to handle some of the perfunctory duties for the city manager. Therefore, merely combining these two jobs into one is not feasible in Olympic Valley.

Administrative Assistant
The need for an Administrative Assistant/Secretary has also been called into question. This individual will provide administrative support to all Town departments, not just the Management department. With a relatively small staff, someone to handle day-to-day business operations will be critical and allow other staff members to perform effectively and efficiently.

Interim Town Manager
IOV asserted that paying an interim Town Manager $20,000 per month was excessive. As they have found at least one potential candidate who they claim would do the job for $14,000 per month, RSG has adjusted the compensation to $14,000 per month. The savings garnered here have little effect on overall feasibility.

Management Travel and Memberships
IOV questioned the, “Town Manager budget of over $20,000 per year for Travel and Memberships.” The $20,000 budget for travel and memberships shown in the Management Department is not specific to the Town Manager, but travel and memberships for the entire Town with the Town Manager serving as the lead representative. The $20,000 estimate is comprised of $9,000 for membership in the League of California Cities organization and travel to their annual conference, $8,000 for membership in SACOG, $1,000 for membership in the City Clerk Association, and $2,000 for the Town Manager, City Clerk, and Administrative Assistant to participate in various conferences or events. These staff development and legislative support costs are reasonable and customary unless a city is facing a fiscal crisis.

Attorney
IOV questioned RSG’s estimated City Attorney costs of around $100,000 per year. IOV suggested that without its own Police and Fire departments or established unions, Olympic Valley would have lesser need for attorney services. However, City Attorneys have a lot of responsibilities besides labor negotiations and lawsuits. In fact, many City Attorneys do not litigate on behalf of their clients. City Attorneys have to attend all City Council meetings, draft resolutions and ordinances, and weigh in on day-to-day legal issues which are likely to be substantial in the early years of a city. A contract for $100,000 is reasonable given the required workload.

IOV also pointed out that Loomis and Colfax budgeted less than $100,000 for attorney costs in their most recent budgets. However, the actual attorney costs paid by Loomis and Colfax were historically often higher than the budgeted amount, putting them much closer to $100,000. In addition, Colfax and Loomis are far more accessible cities than Olympic Valley would be. Attorneys usually charge by the hour for their time, including travel time. It is reasonable that Olympic Valley will spend more than Loomis or Colfax on a City Attorney.

Finance Staff
IOV suggested that Olympic Valley could contract with the Squaw Valley PSD for a Finance Director. RSG maintains its position that a full-time Finance Director is necessary for effective financial management of the Town. The Finance Director is the only full-time employee in the

Finance Department – all other services are contracted out. The Finance Director will be responsible for managing the contract employees and services as well as overseeing the financial situation of the Town and managing public tax dollars. With revenues projected to exceed $9 million by 2026, it seems prudent to employ a full-time financial manager who has the Town's best interest in mind.

Non-Departmental

After additional research and conversations with LAFCO staff, RSG chose to reduce the overall insurance costs and use a flat rate rather than take a percentage of the revenues. This edit had little effect on overall feasibility.

Community Development

IOV questioned the need for the Associate Planner position in Olympic Valley. RSG included this position after considering the immense amount of development expected to occur in Olympic Valley in the next 25 years. This level of growth far exceeds growth and development in the past 10 years and will require additional resources within the Town Government to manage it. The Associate Planner's role would be mainly to process building permit applications, interact with developers, and handle the technical day-to-day planning and building work. The County's contract staff would continue to provide much of the same specialized services they are providing now like engineering, surveying, GIS, and code enforcement. The County Contract Planning staff would assist the Associate Planner with their day-to-day work and the start-up projects such as preparing the General Plan and Zoning Code. And the Community Development Director will oversee all of this and manage the contracts and department. RSG believes the Community Development Department would be the busiest department at in the Town, and that he staffing levels are appropriate.

However, in the historic revenue growth scenario that lacks the potential new development, RSG determined that the associate planner would not be necessary, due to the decreased level of growth. The position was subsequently eliminated from that scenario.

RSG included a line item called "Cost Allocation for O/H and Admin", which was a cost factored into the County's contract service cost based on their countywide Overhead Cost Allocation factor of 71.43% of salaries and benefits. It is not atypical for contract services to include overhead cost factors. The Town Council could potentially negotiate this cost with the County.

Public Works

Blue Sky Consulting felt that the Preliminary Draft CFA's snow removal costs were understated. Snow removal costs were based on an estimate from the County for the cost of a contract. It is possible that this estimate reflects recent costs, which were likely lower due to historically low snowfalls. However, given the uncertainty of snowfall totals going forward, RSG feels that the County's estimate was fair. It is possible that these contract costs would be raised if a very high snowfall year were to occur. This just emphasizes the need for the contingency factor, which would help the Town absorb any costs that are higher than projected, especially ones like this that are difficult to predict.

Animal Control
IOV questioned why the base year animal control costs were so much lower than the estimated contract costs. RSG sought clarification on this point but was unable to obtain a definitive answer. RSG concedes that these numbers appear to be outliers, but did not find reason to alter the figures from what was provided. In addition, the difference of about $7,000 is immaterial to the overall financial viability of Olympic Valley.

Fire Protection
IOV and RSG both sought advice from the Squaw Valley Fire Department regarding how many acres would be subject to a wildfire protection contract with CalFire. After numerous discussions and data analyses, RSG was told 5,662 acres was a good estimate. IOV claims the estimate should be 4,578 acres, but RSG can find no additional evidence to support this figure. If additional data can be provided to support the lower acreage estimate, RSG is willing to change the projections. Barring that, RSG must utilize the figure provided directly to them by the Squaw Valley Fire Department. We estimate that such a change could have a 20% reduction in annual fire protection costs to the Town, but not have a significant effect on the overall conclusions in our CFA.

Law Enforcement
The estimated contract costs with the County Sheriff's Department have been the topic of much debate. It is important to reiterate that the new Town Council will have the ability, as it does with any contracts discussed, to negotiate with the Sheriff regarding contract costs. For the purpose of this report, RSG had to rely on the Sheriff's expertise and best estimate based on an adequate service model to serve the area.

On the aggregate, the Sheriff estimates that actual costs for law enforcement services in 2014-15 in Olympic Valley were $1.15 million, as compared to a potential contract budget that is augmented with traffic services performed by the Highway Patrol currently of $1.62 million. At face value, we believe these costs to be relatively comparable and validate the estimated cost for future law enforcement services at the existing level of services.

IOV references the Placer County Sheriff's contracts with other cities in the County. The Sheriff's Department warned RSG against making general comparisons like that because each City is different, and that contract costs do not always coincide with the actual costs to provide services to the area but are rather a product of negotiations and a City's financial position.

TCPUD
The Tahoe City Public Utility District ("TCPUD") requested that RSG include a reference to the services it provides within the proposed city boundary. RSG acknowledges that TCPUD provides services with Olympic Valley and included them in the discussion of existing service providers. TCPUD was not mentioned in the Preliminary Draft CFA because the District will remain unaffected by incorporation.

Affordable Housing Element
A member of the public questioned whether the CFA should include costs for preparation of the Affordable Housing Element. The Housing Element is part of the General Plan, which is addressed in the Draft CFA.

Should you have any questions, please do not hesitate to contact us.

Sincerely,
ROSENOW SPEVACEK GROUP, INC.

Jim Simon
Principal

Jane Carlson
Associate