

**Proposed Incorporation
City of Rossmoor**

**Response to Comments
Public Review Draft
Comprehensive Fiscal Analysis**

May 9 2008

Submitted to:

**Orange County Local Agency Formation Commission
12 Civic Center Plaza, Room 235
Santa Ana, CA 92701**

Prepared by:

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This Response to Comments document is hereby provided for the Rossmoor Public Review Draft Comprehensive Fiscal Analysis (CFA). Responses are provided for all comments as submitted by LAFCO for response. Responses to comments are provided for areas of technical relevance to CFA only, and no response is provided to opinions expressed by the commenter regarding findings contained within the analysis. All correspondence is attached with the responses alpha numerically cross referenced to each comment contained in the correspondence.

Orange County LAFCO Public Workshop- March 12, 2008

The following are responses to comments/questions related to the CFA raised during the public workshop.

Comment A-1: Start up costs include interim city staffing in the transition period and some capital costs such as furniture/computers, etc. These costs are discussed in the CFA and depicted in the Table 2-B in the CFA Appendix.

Comment A-2: For FY 06/07, the net savings calculated under the "Revenue Neutrality" provision of Government Code Section 56815 is \$235,816 for the General Fund and \$356,889 for the Road Fund. Calculations are provided in Exhibit 3 in the CFA Appendix.

Comment A-3: The FY 06/07 difference is \$113,351 in total Utility Tax revenue. Figures 1 & 4 in the CFA depict the projection of Utility Tax in future years. The difference ranges from \$120,000 to \$145,000 per year over the 10 years.

Comment A-4: The retail shopping center on the corner of Los Alamitos Blvd and Katella Ave is the primary sales tax base for Rossmoor. Total sales tax from the center generated approximately \$317,500 in FY 06/07.

Comment A-5: Capital road maintenance consists of periodic slurry sealing which is generally accomplished every 7 to 10 years, major storm drain repairs, and asphalt overlays which may not occur but every 15 to 25 years depending on road conditions. Anticipated costs can vary depending on road conditions. The CFA discusses in several areas these types of capital costs, and discusses the recent maintenance performed by the county over the last two years and those costs. These types of capital costs are generally funded from local, state and federal transportation grant funds and accumulated excess reserves.

Comment A-6: The cities selected, and the criteria for comparison are discussed in detail in the CFA.

Comment A-7: In consultation with the applicant, legal counsel and LAFCO staff, the proposed utility tax was applied to electricity, natural gas and water utilities. These utilities were selected because they are standard utilities which are used by almost every household in Rossmoor. Additionally, each of these utilities is provided by a single service provider throughout the community. Telecommunication and broadband services and providers can change over time based on market conditions, consumer preferences and changing technologies. Applying a utility tax to telecommunication utilities was determined to be too unpredictable due the changing nature of the industry.

Comment A-8: Property Taxes do not decline. All Property Taxes are based on applying the Tax Allocation Factor computed under Government Code 56810 to the annual property

Assessed Valuation. The speaker may have been referring to the Motor Vehicle License Fee subventions that are allocated on an increased population basis starting at 150% and declining to 100% in the 5th year. This is established under state law as "start up" subvention revenue to assist the new city in accruing reserves.

Comment A-9: The General Fund is based on the County reported costs of "existing services" to the community with staffing based on a "contract city". These costs are thoroughly discussed in detail in the CFA. The CFA demonstrates that on an "existing service" basis, the General Fund budget is sufficient. It should be noted that the two comparable cities, Villa Park and Canyon Lake, operate on General Fund budgets 40-60% less than Rossmoor's projections. Additionally, "contract cities" inherently operate on budgets considerably less than "full service" cities such as Los Alamitos due to: (1) the inherent economies of scale achieved in contracting services on an as needed basis, and (2) cost sharing of overhead and specialized services such as law enforcement which are prorated to several cities and the County.

Comment A-10: See Response to Comment A-9.

Comment A-11: The CFA assumes that all city staffing will occupy the existing RCSD facilities within Rossmoor since that organization will be dissolved if the incorporation is approved by LAFCO and Rossmoor voters. A discussion of costs associated with these facilities is included in the CFA and Tables 2- A and 2-B in the CFA Appendix.

Comment A-12: These General Government costs are higher primarily due to the level of anticipated city staff. Villa Park has no parks, and Canyon Lake's parks are privately maintained. Additional staffing for Rossmoor above the staffing levels for the other two cities is included in the CFA to support the transfer of the parks and recreation services function from the RCSD. Additionally, the anticipated staffing and other General Government costs reflected in the CFA are commensurate with the level of expenditures that will be required for the Rossmoor community as a city.

Comment A-13: Law Enforcement increases are projected by applying an annual 4% inflation rate to the FY 06/07 contract cost as reported by the County, and as discussed in the CFA. This is considered to be a reasonable assumption to maintain the initial level of law enforcement services. Property Assessed Valuation increases are based on a 5% annual increase from the actual Assessed Valuation as reported by the County for FY 07/08. This rate is less than 50% of the last 5 year annual average increase.

Comment A-14: Risk management and legal costs are covered under General Government in Tables 2-A & 2-B in the CFA Appendix, under City Attorney service costs.

Comment A-15: All road, curb, gutter and drainage maintenance costs are included as part of the Road Maintenance line item cost in Table 2-A in the CFA Appendix. All costs are based on the FY 06/07 costs for these services as reported by the county and as referenced in the CFA.

Rossmoor Planning Committee letter dtd March 24, 2008

Comment B-1: Comment noted.

Comment B-2: Comment noted. The calculations for the average residential costs were derived from the reported sales and connection data provided by the three utilities. This information and calculations are shown in Table 2-D in the CFA Appendix.

Comment B-3: Comment noted.

Comment B-4: The CFA conclusion is accurate based on the fiscal model projections. The comments in the CFA concerning the enhanced level of various functions such as general government, planning, building, etc., reflect the inherent nature of an intangible enhancement for the public for a service that is provided locally, versus at the county. As such, in order to maintain the actual "existing level of service", the conclusion stands, based on the limited revenue growth potential of the proposed city.

Comment B-5: Time Warner Cable is the primary franchise provider in the community. The CFA does address the recent new requirements for all jurisdictions to allow any cable service provider holding a state franchise agreement to provide service in the jurisdiction. Verizon has been noted in the Public Hearing Draft CFA as an additional service provider.

Comment B-6: The CFA fiscal model is designed to project a conservative level of revenue growth. Given the recent downturn in the housing resale market, and recent projections for Orange County of a slower than anticipated housing market recovery, the CFA assumption of an annual 5% growth rate is considered reasonable for purposes of projection.

Comment B-7: Measure M revenues were included in Tables 1-B and 2-A of the CFA Appendix.

Comment B-8: See Response to Comment A-6.

Comment B-9: Comment noted.

Comment B-10: The RCSD provides limited functions with respect to the requirements of a city. However, clarification has been added to the Public Hearing Draft CFA noting the RCSD's historical record of service provision.

Mr. Erwin Anisman letter dtd March 24, 2008

Comment C-1: Comment noted.

Comment C-2: See Response to Comment A-12.

Mr. Bernard Beskin letter dtd March 24, 2008

Comment D-1: see Response to Comment A-1. Mandated program costs are included in the appropriate department line item where applicable. Storm water run off costs are included in the NPDES discussion and in the Road Maintenance discussion in the CFA. The CFA assumes that the city will contract law enforcement services with the county, and join the Orange County Fire Authority for fire and emergency services. As such, the city will fall under the provisions of each agencies emergency plan applicable to the area.

Comment D-2: The road maintenance costs are based on the actual costs as reported by the county for FY 06/07 for the proposed incorporation boundary.

Mr. Phillip J. Wyels letter dtd March 24, 2008

Comment E-1: As stated in the CFA, and Tables, the utility revenue information for the Rossmoor community was provided directly by the three utilities. The cost of utilities is not completely regulated. Certain aspects of utility costs are allowed to rise with inflation without approval of the Public Utilities Commission. A 2% inflation factor is utilized to account for this eventuality, however it is set less than the area inflation rate due to the regulatory nature of a portion of the utility costs.

Comment E-2: The reserve funding for the Rossmoor Wall is not identified in the RCSD reserve transfer, however, will transfer to the city. The tables do not contain the property tax administrative fee, as this fee is attached to the debt service fund of the individual debt obligations.

Comment E-3: As stated in the CFA, the 5 year average increase in assessed valuation has been over 10% annually. This average was reduced by 50% to account for the recent market downturn. The 10% annual increase is due to factors such as property turnover, and remodels, renovations, and upgrades, all of which contribute to the significant annual increases over the 2% allowed by state law.

Comment E-4: As stated in the CFA, the annual population growth was calculated based on a 10 year historical projection from the 1990 and 2000 census, and 2007 population projections provided by the County of Orange.

Comment E-5: As stated in the CFA, the Animal Control Fee revenue estimate was provided by the County of Orange based on their adopted revenue and cost allocation methodology for servicing contract cities.

Comment E-6: Comment noted. The assumptions within the CFA are considered within reason for projecting the start up and initial 10 years of a new city.

Comment E-7: See Response to Comment E-1 concerning regulation of utility rates.

Comment E-8: Insurance needs were based on anticipated staffing levels for worker's compensation requirements, property insurance, and general liability requirements for a city. Insurance rates are anticipated to increase on an annual basis for purposes of projection in the CFA.

Comment E-9: See Response to Comment A-5.

Comment E-10: As stated in the CFA, interest rates fluctuate over time. Historical average over the long term is approximately 4.5%. The CFA is consistent with projecting that historical average.

Comment E-11: Exhibit 5 has been corrected in the Public Hearing Draft CFA.

Email from R. Ginther dtd March 31, 2008

Comment F-1: As referenced in the CFA, the base Sales Tax amounts were provided by the State Board of Equalization.

Email from Mr. John Hunt dtd March 31, 2008

Comment G-1: See Response to Comment A-5. The new city will not be responsible for any maintenance costs on Los Alamitos Blvd.

Comment G-2: See Response to Comment D-2.

Comment G-3: The Utility Tax is identified as a "General Purpose" Tax which means it can be used for any purpose. This is consistent with the Application for Incorporation filed by the RCSD. The CFA does not make any reference to the Utility Tax as specific for law enforcement.

Comment G-4: The CFA makes no assumptions with respect to feasibility of annexation to any city.

Email from Mr. Kenneth Brown dtd April 9, 2008

Comment H-1: See Response to Comment A-12.

Email from Mr. Joel Rattner dtd April 11, 2008

Comment I-1: See Response to Comment B-10.

Comment I-2: Comment noted.

Comment I-3: See Response to Comment B-10. Staffing costs for anticipated city staffing are commensurate with similar city staff functions in Orange County for cities providing the full scope of municipal services. Also note that non-departmental covers costs associated with items other than staffing.

Comment I-4: Comment noted.

Comment I-5: The CFA includes non-recoverable costs associated with some administrative support, General Plan, Zoning Code and Housing Element development requirements, and Code Enforcement. The difference between revenues and costs increase in the early years due to the General Plan, Zoning Code and Housing Element requirements, and then decrease in the later years. Although Code Enforcement is normally considered a partial cost recovery, no cost recovery revenue was reported by the county.

Comment I-6: Comment noted. The conclusions drawn for the 7% Utility Tax are borne out by the sensitivity analysis for a 6% Utility Tax that indicates annual deficit spending and eventual depletion of reserves.

Email from Mr. Eric Jones dtd April 8, 2008

Comment J-1: See Response to Comment A-5. The county costs for FY 06/07 for slurry seal and other major maintenance are discussed in the CFA.

Rossmoor Incorporation Workshop- March 12, 2008

- A-1** | What specific start-up costs are there for a new city?
- A-2** | How much is the net savings to the County of Orange if Rossmoor incorporates?
- A-3** | What is the difference between a 6% and 7% utility tax?
- A-4** | What is the sales base of the City of Los Alamitos?
- A-5** | What would capital road maintenance consist of and what costs could be expected?
- A-6** | Compare the proposed City of Rossmoor with the City of Los Alamitos.
- A-7** | Why was the utility tax on electricity, gas and water proposed instead of cable and phone?
- A-8** | Why does the CFA indicate that Property Tax will decline from 150% to 100% in the first five years of cityhood?
- A-9** | The General Fund estimates appear to be understated. Why?
- A-10** | How can a city provide an adequate level of service for \$5 million?
- A-11** | Where are facility costs included in the CFA, and where are offices for employees?
- A-12** | Why are General Government costs twice as high as the Cities of Villa Park and Canyon Lake?
- A-13** | The CFA indicates that Property Tax increases by 50% over 10 years, but Law Enforcement only increases by 40%. Isn't this unrealistic?
- A-14** | Have funds to address issues related to risk management and other legal issues for the proposed city been accounted for in the CFA?
- A-15** | Verify the costs associated with road maintenance. Have maintenance of roads, curbs, gutters and drainage been accounted for in the CFA?

MAR 24 2008

Rossmoor Planning Committee
c/o Eric Christensen
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Rossmoor, CA 90720
562.598.0908
EricLChris@aol.com

March 24, 2008

Orange County Local Agency Formation Commission
12 Civic Center Plaza, Room 235
Santa Ana, CA 92701

Re: Response to Public Review Draft of the Comprehensive Fiscal Review for the Proposed Incorporation of Rossmoor dated February 25, 2008 ("CFA")

Dear Commissioners

We want to thank you for your cooperation in expediting the incorporation process and producing and disseminating the CFA on schedule. We sincerely appreciate your holding the Public Rossmoor Incorporation Workshop in Rossmoor on March 12th and believe that the meeting was very helpful for our community.

We want to commend GST Consulting on the excellent job in completing the CFA and in general support its findings. Our specific comments follow.

B-1

First, we believe that the reserves reported are fiscally conservative and more than adequate to meet the new city's needs. Rossmoor is not like the typical new incorporation. Rossmoor has had its own local government, the Rossmoor Community Services District ("RCSD") for 21 years and has in place all of the facilities it will initially require to function as a city. The RCSD has had a record during that time of fiscal restraint and has maintained a reserve during both good and bad economic times. This fiscal conservative approach mirrors the community's fiscal conservatism, and there is no reason to believe that would change in any way after incorporation. Moreover, the new city will assume the ample RCSD reserve of \$1,347,841 on day one. It is important to note that Rossmoor as a partially walled city, with no major arterials and no stoplights has less liability risks than typical small cities. In fact, to our knowledge, in the past 21 years, the RCSD has only been involved in two small lawsuits. And, as the CFA adequately observes, Rossmoor is fully built out and, since there are no significant development opportunities in the future, there is little or no unknown changes or developments that will generate new liabilities. Therefore, the reserve levels forecasted in the CFA are more than adequate to protect the new city against any foreseeable risks and we strongly believe that there are no additional revenue requirements other than those listed in the CFA.

B-2

Second, we believe that the Utility Tax as proposed against water, electric and gas only and at 7% is fully adequate and there is no need, in the short term or the long term, to increase the proposed Utility Tax rate. However, we have some question as to the average cost of this Utility Tax, estimated by the consultant at \$16 per month. We plan to study this and determine what the actual costs are for specific demographic classes. We will of course report our findings to you.

B-3

Third, we believe that the expense estimates contained in the report are aggressive. This is not inappropriate for an analysis such as this. However, if one compares the CFA's projected administrative expenses against Rossmoor's actual experience as an RCSD (or even against the most comparable Orange County city, Villa Park), the CFA projected expenses appear higher than we expect to actually incur.

Fourth, we are pleased that there is no need for Revenue Neutrality negotiations and that Orange County will save a projected \$592,705 annually in their General Fund and Road Fund. This is a substantial savings for Orange County and clearly a strong reason why Orange County would like to cease continuing to provide municipal services to Rossmoor.

B-4

Fifth, on page 5, in Conclusion to the Executive Summary, the consultant notes that there is little room for service enhancements above the existing level of service (other than law enforcement). Actually, this is slightly misleading and conflicts with the CFA's own summary of Transfer of Service Responsibility on page 7 where General Government, Land Use Planning, Building and Safety and Code Enforcement are also shown as enhanced.

B-5

Sixth, on page 27, the CFA addresses Time Warner Cable. Should Verizon Cable services also be discussed?

B-6

Seventh, on page 30, the consultant notes that for the CFA forecast, a 5% annual increase (instead of the 10.75% increase for the past 5 years) in Assessed Valuation is appropriate to "account for the recent market turndown." We believe that even given the current market turndown, such a reduction is not appropriate. Rossmoor has seen no reduction in the teardown/remodeling boom in our community. And given the current market where sales are less certain, we believe even more residents will consider remodeling. Second, due to the long term ownership of the vast majority of Rossmoor homes and the effects of Proposition 13, when one does sell, the Assessed Valuation often is increased by as much as a factor of ten. So even a 10% reduction in home prices does not affect the significant increase over its frozen assessed value when sold. Third, real estate cycles have occurred on a regular basis in the past and downturns in housing prices are a temporary phenomenon. There is no reason to believe that the current real estate downturn will be any different from those in the past. Historical records from the last twenty years with both up and down market cycles support this conclusion and show an average 8%+ annual assessed value increase.

B-7 Eighth, on page 37, we would note that the new city will be eligible to receive additional funds for roads not included in the CFA from Measure M of approximately \$98,931.

B-8 Ninth, we do not understand why the consultant chose Seal Beach as a comparable city for the CFA. Seal Beach has 2 and ½ times the population, has beach unique costs and has a large self-sustaining retirement community. If the consultant wanted a comparable city in the general geographic area, we do not understand why Los Alamitos was not selected.

B-9 Tenth, we fully endorse the consultant's observation on page 48 "Of particular note is that the per capita revenues for Rossmoor for individual revenue streams overall show relatively reasonable diversification." Frankly, we were somewhat surprised by the findings but clearly pleased. It was instructive to learn that Rossmoor has higher per capita annual sales tax revenue than Villa Park for instance.

B-10 Eleventh, on page 51, in discussing the reserve requirement, we take issue with some of the statements. For instance, the consultant states that "A new city has no historical track record on the cost or level of services required to meet the expectations of a newly incorporated community." In general, such a statement is absolutely accurate. However, in Rossmoor's case, we have 21 years of real experience of the RCSD to give us a much better idea than the typical newly incorporated city. We also believe the second bullet addressing "unanticipated expenditures could occur due to major disasters, emergencies, liability claims and litigation settlements" may be true generically but has little to no application to Rossmoor. As discussed above, our historic experience has been excellent with literally no lawsuits or unforeseen liability. And with municipal pool insurance that risk becomes nearly irrelevant. With respect to major disasters, insurance and federal and state relief programs address those concerns.

In summary, we believe that the CFA is well researched and written and wish to thank both GST Consulting and Orange County LAFCO for the report.

We request that this correspondence be made part of the official record.

Sincerely,



Eric L. Christensen
Co-Chairman
Rossmoor Planning Committee

March 24, 2008

Orange County Local Agency Formation Commission
12 Civic Center Plaza, Room 235
Santa Ana, CA 92701

Re: Comments to the Comprehensive Fiscal Analysis (CFA) Review for the
Proposed Incorporation of Rossmoor dated February 25, 2008

Dear LAFCO Staff and Commissioners:

I believe the CFA understates the increase in level of services (LOS) gained by Rossmoor incorporating. These include:

- 1) An increase in the LOS for law enforcement that will include a dedicated patrol car in the community 24 hours per day, 7 days per week (24/7); improved traffic enforcement by the sheriff instead of the Highway Patrol which was done sporadically; ability to customize law enforcement to meet the needs of the community.
- 2) Having municipal services provided locally instead of remotely in Santa Ana will result in saving time and travel for the people of Rossmoor and obtaining those services more responsively. For example we have to wait up till 6 months to get a dying tree removed. Pot holes, curb, gutter and sidewalks repairs don't get done.
- 3) Our tax money would remain here for our municipal services rather than go to the county and hope that they will provide the services.
- 4) We would obtain significant VLF funds to use for local services that we would not otherwise obtain.
- 5) We would have "a seat at the table" of cities which gives us a say in regional issues such as transportation, etc.

C-1 Considering the Sensitivity Analysis on page 54, the 40% reduction in annual growth of property tax and sales tax represents a situation wherein revenue growth is reduced while expenditure growth continues. In reality, a responsible city council would not allow deficits to accumulate to deplete its reserves. As noted in the CFA (p.51) "costs can be controlled for the most part rather easily as compared to revenues". It is instructive to compare Rossmoor with the other cities studied in the CFA as to the dependence of these tax revenues to the total revenue. This is shown below:

Property Plus Sales Tax
As a percent of Total Revenues
(Derived from Table 4-A of the CFA)

Villa Park	60%
Laguna Woods	52
Rossmoor	38
La Palma	37
Seal Beach	36
Canyon Lake	13

This table shows the dependence of Rossmoor on property and sales tax revenues to be significantly less than Villa Park and Laguna Woods and about the same as La Palma and Seal Beach. This underscores a good balance in Rossmoor's revenue stream.

The issue of sufficiency of reserves is discussed in the CFA. Comparing Rossmoor's general fund reserves as a percentage of its general fund expenditures with the other cities produces this result:

	Reserves	Expenditures	Reserves/Expenditures
La Palma	10.59M	9.12M	116%
Villa Park	0.69	2.73	25
Seal Beach	11.21	25.8	43
Canyon Lake	4.82	2.67	180
Laguna Woods	8.50	6.00	142
Rossmoor	1.86	4.59	41
La Habra Heights	0.77	2.65	28
Los Alamitos	4.78	10.03	48

This shows there is a wide range of reserves carried by these cities with Rossmoor having a larger percentage than Villa Park and La Habra Heights and about the same as Seal Beach.

Another important point that wasn't adequately addressed in the report is the uniqueness of Rossmoor to become a city. We have had a history of successful local governance through the RCSD for over 20 years. So it isn't as if we would be starting from scratch, we have this history and a culture of fiscal responsibility that will serve us well. In addition we have had a large participation of volunteers through the Rossmoor Homeowners Association that contribute significantly to the community as for example with landscaping projects. This relationship would no doubt continue with Rossmoor incorporation. In addition, Rossmoor has unique qualities that greatly mitigate risks that other cities may have in incorporating. It has no major arterial streets, no traffic signals and it is built out so there are no development issues. The RCSD buildings that will be transferred to the city will adequately provide the needed office space for the staff so there will be relatively little start up costs needed.

C-2

One last point. I believe the projected expenditure costs are over stated. Many examples could be given of this such as the cost for city manager, attorney and finance. The combined cost for these departments for Rossmoor is given as \$651,000 compared to \$269,000 for Villa Park. This is a significant difference that drives the need for a 7% UUT.

I believe these points should be included in the conclusion and the executive summary of the CFA.

Thank you for the opportunity to respond to the CFA

Very truly yours,

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March 24, 2008

Orange County LAFCO
12 Civic Center Plaza, Room 235
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Subject: Rossmoor Incorporation

Dear Mr. Withers and members of the Commission:

I have lived 30 Years in Rossmoor and was active in creating our unified school district. I served on the first Board of Education for that district. I have 40 years experience in systems engineering, operations research and strategic planning. My experiences have convinced me of a fundamental truth – **no structure, be it a building, a space program, a business process or an organization – can be any stronger than its foundation.** If you begin with a flawed foundation, you will end up with a flawed structure.

A “City of Rossmoor” would be built on a flawed foundation.

Two assets are missing from Rossmoor that bear upon our viability as a city – **money and size.** The cityhood proposal cures neither. **Our lack of money stems from our deficiency in commercial land, and no self-imposed alternative tax can make that deficiency whole.** Not to belabor a point, but our prime commercial property was given to Seal Beach by LAFCO in 1965. A utility tax can compensate for, but never cure, that disability.

Our small size will limit our ability to attract competitive contracts and to offer a rich diversity of services. Our budget is small in city terms. Anyone who tried to get an electrician to add one circuit to their house during the remodeling boom knows that in contracting, size matters. When a city the size of Rossmoor goes out for bid for contracts, it will likely find that neither the bids nor the subsequent performance are as competitive as they might have been for a larger city. This seems to be borne out by the CFA, about which your staff report (Attachment 2) states;

For the proposed Rossmoor incorporation, the Draft CFA indicates that the proposed incorporation is “revenue positive” for the County. This means that the County currently pays more in providing services to Rossmoor than it receives in revenues from the Rossmoor area. In effect, if Rossmoor successfully incorporates, the County will be in a better fiscal position than if Rossmoor remains unincorporated. Because there is no loss of revenue to the County if Rossmoor incorporates, there is no requirement for a revenue neutrality agreement between the affected agencies.

If the county “loses money” on the services it provides Rossmoor, surely Rossmoor will lose even more. This does not seem to be factored into the CFA.

The paucity of optional services in the CFA is most apparent in the size of the budget assumed for recreation services. The Rossmoor population includes approximately 20% school age children and 20% seniors. Surely our community would appreciate having recreation programs within the community. We are served by the Los Alamitos program, but none of their programs exist within our own facilities. With the budget as defined, we will never see that amenity within our boundaries.

The CFA may convince LAFCO that we will not go broke. But we will always lack the financial means for offering services at the same quality level as our community. Much is being touted about the merits of "controlling our future." I ask, "control what?"

The movement to incorporate is based on two false premises.

If you look at the RPC survey of September, 2006, you will see that 28% of the respondents at that time voted for incorporation, while 44% voted for some form of annexation. This survey was taken before the costs were known, and before Seal Beach had voted "no" on annexing Rossmoor. At worst, the survey ballots returned should be reprocessed to allocate the second choice of those who voted at that time for annexation by Seal Beach. At best, a new survey should be taken now that approximate costs can be projected for a stand-alone city.

The second false premise (and one that has been used as a strong incentive for self-determination by the residents) is that our police response time in Priority 1 calls is unacceptable. I have obtained the Priority 1 response data for 2007 from the OCSD, and that data reveals that there were 18 Priority 1 responses in 2007, with an average response time of about 7 ½ minutes. This represents a significant improvement over that reported in the MSR of 2005.

Annexation offers a better solution to incorporation.

I speak, of course, of Los Alamitos, Seal Beach being off the table. Some will say the RPC Governance Survey indicated a lack of interest in Los Alamitos. That was before our costs were verified and before Seal Beach expressed their disinterest. Being part of Los Alamitos would give Rossmoor a voice in the offerings of a robust Parks and Recreation program. It would give us a seat and a voice in an established process to address regional transportation and traffic problems. It would give us instant access to a mature, responsive and comprehensive public safety organization that should be able to achieve further improvements in response times. We would share in a broader tax base, and would share in a governance structure that can negotiate competitive contracts as well as more effectively address larger regional problems.

To me, the difference between and self-incorporating versus joining Los Alamitos is like the difference between being the sole owner of a sub-prime mortgage company versus having a half interest in a full service bank. The former may give a great sense of control, but the latter has a much better chance of long-term returns.

Requests for Information & Follow-up

I ask you to consider several issues in the final report – if not for your decision, then for ours.

1. Describe for us how and when the County of Orange might elect to reduce services to Rossmoor should we fail to incorporate or be annexed by another city, and the time-table for such reductions.
2. Oversee the reprocessing of the ballots from the original Rossmoor survey, or conduct a new survey, to ascertain the preferences of our residents in an expanded CSD, an incorporated city, or annexation by Los Alamitos.
3. If that new survey result shows sufficient interest in annexation, develop and execute a plan of action leading to a simultaneous election in both Rossmoor and Los Alamitos on the subject of annexation. You placed us in their Sphere of Influence. Help us develop the option to act on that.
- D-1 | 4. Ask your consultant to identify the major start-up tasks associated with becoming a city, and the estimated effort associated with each. I especially would like to see the costs of complying with mandated programs, such as storm water runoff , and an Emergency Action Plan. Include these in the final CFA.
- D-2 | 5. There is an inconsistency between the Road Maintenance budget for Rossmoor and Los Alamitos (even though not included in the CFA.) Rossmoor has 33 miles of roads; Los Alamitos has approximately 20 miles. Yet their maintenance budgets do not reflect this spread. Please ask your consultant to revisit the basis for his Rossmoor estimates.

Thank you for your time and for your interest in our future.

s/s Bernard Beskind
(562) 596-1511
Email: bernieb_90720@yahoo.com

March 24, 2009

To: Local Agency Formation Commission, Orange County
Attention: Robert Aldrich, Assistance Executive Officer
baldrich@oclafco.org

From: Philip J. Wyels
12522 Christy Lane
Los Alamitos, CA 90720-4711
pwyels@socal.rr.com

Subject: Proposed Rossmoor Incorporation (IN 07-02)
Comments on Draft CFA

• Utility Tax and Proposition 218 Requirements

The three Community Development services (Planning, Building & Safety, and Code Enforcement) are listed as Enhanced Level of Service (LOS) in Figure 7 of the CFA and Table 1 of the March 12, 2008 LAFCO staff report. They carry the same designation in Exhibit B in the RCSD application. However nowhere in these documents is there any indication of any enhancement of these three services. The only enhancement is in the Law Enforcement LOS. This is a result of an increase of 0.5 sworn personnel over the existing service level, and included dedicated patrol service and traffic enforcement for Rossmoor. Without the enhanced law enforcement the 'Utility Tax' is not needed (compare Table 5A with Table 1A). The CFA labels the 'Utility Tax' as a General Tax i.e. "any tax imposed for general government purposes" (Section 1, Article XIII C, California Constitution). Therefore it appears the 'Utility Tax' is really a Special Tax i.e. "any tax imposed for specific purpose, including a tax imposed for special purposes, which is placed into a general fund" (Subdivision (d), Section 1 Article XIII C of the California Constitution). If the above argument is upheld, a 2/3 majority of the voters will be required to approve the Utility Tax.

It is requested that LAFCO staff obtain a legal opinion prior to the June 18th public hearing,

E-1
• Utility Tax

The data obtained from the three utility companies and used to determine the baseline has produced questionable results. Rossmoor homes have been extensively modified over the last 50 years. Very few of the original homes remain. Most have 500 or more square feet added. Probably one third have swimming pools or spas. A sanity check of the data provided indicates average yearly residential utility bills of: Electric - \$1691, Water - \$452, Gas - \$574 for a total \$2,718 per home per year. The writer's comparable bills for the FY 06/07 were: Electric - \$5,848, Water - \$ 697, Gas - \$3,819 for a total \$10,365 for the 12 months. While I do not consider my cost to be an average in Rossmoor, the utilities' data used needs to be audited and resolved before June 18th. Utility tax Per Capita data used in comparisons of other cities to Rossmoor is misleading. Utilities are billed to residences, not people. The number of homes or residential connections needs to be used for a valid comparison.

E-1

The utility companies' rates are state controlled. What is the basis of a 2% per year rate increase in the total utility sales? The CFA recognizes Rossmoor is 'Built-Out' therefore any residential rate increase must be state authorized. Rates do not increase on a yearly basis.

• Revenue Neutrality

Exhibit 3 indicates a total annual County Surplus of \$592,703 as a result of the City incorporation. The text (page 19 and 45) indicates there is no net loss to the County; thus there is no annual mitigation payment requirement for the city. True but extremely misleading!

C-K-H 56815 (a) states, "It is the intent of the Legislature that any proposal that includes an incorporation should result in a similar exchange of both revenue and responsibility for service delivery among the county, proposed city and other subject agencies. It is the further intent of the Legislature that an incorporation should not occur primarily for financial reasons." C-K-H 56815 (b) states, "The commission shall not approve a proposal that includes incorporation unless it finds that the following two quantities [Revenues and Expenditures] are substantially equal ...". LAFCO OPR Incorporation Guidelines contains similar wording.

C-K-H 56815 (c) allows the commission to approve the incorporation if "(1) The county and all the subject agencies agree to the proposed transfer." [Or] "(2) The negative fiscal effect has been adequately mitigated by tax sharing agreements ...".

C-K-H 56815 (d) states, "Nothing in this section is intended to change the distribution of growth on the revenues within the affected territory unless otherwise provided in the agreement specified in paragraph (2) of subdivision (c)."

OPR Incorporation Guidelines contain a Revenue Neutrality Negotiation Process. When will LAFCO staff begin the process?

E-2

• Existing Capital Improvement Debt Service

It is noted Rossmoor City will maintain the existing RCSD fiduciary obligations. Although the repayment of the listed debts is from a fixed assessment in the property tax, the size of the yearly obligation is such that they should appear in the General Fund Revenues and Expenditures tables. Is the RCSD current Rossmoor Wall reserve funding contained within the Reserve Transfer from the RCSD? Does the county Property Tax Administration Fee in the tables contain charges for collecting and transferring these funds?

E-3

• Property Tax Assessed Valuation

The use of a 5% constant yearly increase in the Secured Assessed Valuation is very optimistic. Table 2-C indicates no new development over the 10-year period. The only possible increase would be due to the maximum 2% inflation allowed by Proposition 13, and resale or remodeling of existing homes. Given the state of the economy and the housing market, the growth assumption should be limited to 2% for at least the first five years.

E-4

• Growth Assumptions

The use of a 0.36% annual growth rate (Table 3-C) of Rossmoor population seems unrealistic considering the community is "built out." There are approximately 3,611 single-family homes and 150 apartments. The local elementary schools have experienced a steady student decline over the past years. Students are now being

E-4 | brought in from other districts. The use of a zero annual growth rate will provide a realistic CFA.

E-5 | • Animal Control Fees

The estimate of \$45,214 for 1200 licenses and 14 shelter services appears to be in error. The present Animal Care Service sterilized dog licenses fee is \$23 and first time use of shelter is \$75. The revenue would be \$28,650 not \$45,214. The number of 1200 dogs in 3761 residences is questionable. The use of assumed population growth rate is discussed above. The revenue and expenditure analysis for animal control should be reexamined. The 'standard methodology' used appears flawed.

E-6 | • Community Development

The year-to-year support costs for a half-time secretary are unreasonably high (Table 2-B). Contract Services for revising the general plan etc. of \$275,000 spread over year 2 through year 5 are also unreasonable and probably unnecessary, as the City would have adapted the existing county documents that have been used by Rossmoor the last 50 years. Increasing the baseline cost for ongoing contract services by a population growth factor is unrealistic. The costs of three services that make up this category are a factor of the number of homes, not the number of people living in them. Only an inflation factor should be applied to the baseline.

E-7 | • Street Lighting

Southern California Edison rates are state regulated. Do RCSD Street Lighting records indicate an increase in the year-to-year cost between 2000 and 2006/7 that would justify a 3.4% yearly inflation rate?

E-8 | • Insurance

What is the basis for the liability and property insurance costs? How was the required amount of liability protection determined? Who and what does it cover? What is the history of this type of insurance to justify the use of an annual inflation rate?

E-9 | • Road Fund Expenditures

There is no provision for a capital expenditure within the 10-year period. Lack thereof is shortsighted. As an example Rossmoor has an existing problem of poor curbside drainage. Piecemeal curb replacement over the years has resulted in a number of areas where contaminated runoff lies in low spots. There have been numerous complaints but the county has been lax in repair. The possibility of a slurry seal coating should have been included.

E-10 | • Interest Earnings

Should a downward adjustment be made due to the March 2008 drop in interest rates?

• Boundaries

The LAFCO staff report of March 12th indicates a possibility that the City boundary will include the western half of Los Alamitos Blvd. It also notes the Staff will work with the various agencies to resolve the issue prior to final action on the incorporation proposal. Assuming action is not completed prior to the Final CFA, the cost for maintaining this portion of the boulevard should be included in the Road Fund.

E-11 • Provisional Appropriations Limit

The total revenue interest earnings for FY 09/10 in Tables 1A/1B is \$91,159. What is the basis for \$188,524 in Exhibit 5?

Aldrich, Bob

From: ginwal5@netzero.net
Sent: Monday, March 31, 2008 10:10 AM
To: Aldrich, Bob
Subject: Rossmoor incorp.

I have my doubts that the amount of sales tax revenue expected is correct.

F-1 Please recheck these figures as I feel these are all small business that can generate that much income.

Thank You

R. Ginther

ginwal5@net zero.com

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Aldrich, Bob

From: John Hunt [johnhunt567@yahoo.com]
Sent: Monday, March 31, 2008 4:01 PM
To: Aldrich, Bob
Subject: Proposed Rossmoor Incorporation

It is a shame that an agency of the county such as yours has been hoodwinked by a few individuals who want city-hood for Rossmoor which started due to sheriff response times, but to go to a city to fix that problem is an overkill, particularly on shaky financial ground.

The initial survey was flawed and is now being explained in irrational terms. Utilizing the RPC's statistics, the vote to form a city was only nineteen votes ahead of the second choice of "Expand the Jurisdiction of the RCSD". This alternative (expanded RCSD) along with the Los Alamitos and Seal Beach alternatives totaled 69% of the vote for something other than self incorporation. Incorporation received 287 in favor of to 724 for something else. This is out of a total of 7361 registered voters.

The major flaw was not including an option to "Stay as We Are". originally when questioned a member of the RPC stated this was not an option because if we (Rossmoor) don't take action on our own the county, who wants to get out of providing municipal services, will do it for us. This was not true and now the RPSC is saying the "Expand the RCSD" meant "Stay as We Are". The terminology doesn't even make sense and it was very presumptuous to assume something needed changing by the RCSD taking responsibility for the sheriff.

They have now stated that 2300 individuals who signed the petition were in favor of incorporation. This is also not true. The petition was solely for a study to be preformed.

There are a number of specific concerns I have with your study which overall was well done except in that my opinion overestimated income and underestimated expenses, but I will touch on only four.

6-1 1. Capital Improvements - there are no dollars shown for capitol improvements. When I was president of the RCSD we had a major leak problem with the Rush Park community center which could only be fixed by changing the pitch of the roof and no dollars were available to fix the problem. The community has major facilities - from buildings, to parking lots, to park facilities at Rossmoor Park, Rush Park, and the Montecito Facility. I also understand there would be responsibility for one half of Los Alamitos Blvd., parkways, and sidewalks. Dollars must be set aside each year to cover capital expenses which will occur.

6-2 2. Roads - In the early 1970, as president of the RHA, a study was preformed regarding incorporation, the final result was that then supervisor Dave Baker and your agency told us it was not feasible due mainly to road, curb, and sidewalk maintenance and repair of \$208k. If that was true then, \$401k in today in today's dollars appears underestimated.

6-3 3. Utility Tax - Utility tax is being touted for increased police protection. If this is true, why is it not subject to the two thirds vote requirement of proposition 13?

6-4 4. Other Cities - If annexation of Rossmoor to either Seal Beach or Los Alamitos is not fiscally viable for either of them who both have a large sales tax base and a utility tax how can it be feasible for Rossmoor if just a utility tax to go it alone?

John H. Hunt
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Aldrich, Bob

From: kenbrown@socal.rr.com
Sent: Wednesday, April 09, 2008 2:34 PM
To: Aldrich, Bob
Cc: Crosthwaite, Joyce; rcsd@rossmoor-csd.org; rha@rossmoor-rha.org
Subject: Comments on Rossmoor Incorporation CFA

COMMENT: An attempt to impose a utility tax with less than two-thirds vote would likely be challenged as a violation of Prop. 218. The CFA's argument that it is a general purpose tax is not very convincing. A case could be made, on several grounds, that it is a single purpose tax. The subsequent court action could delay incorporation, and result in legal expenses to be borne by LAFCO, RHA, or RCSD.

QUESTION: What has to happen in order to decouple the incorporation question from the tax question?

H-1 COMMENT: In Table 4-A of the CFA, it states that the projected cost of "General Government/Misc" for Rossmoor is \$161 per per capita. For Canyon Lake it is \$72 per capita, and for Villa Park, \$56 per capita. Note that "Community Services Parks and Recreation" is stated separately in Table 4-A.

QUESTION: Why does it cost 2.2 times as much per capita to govern Rossmoor as Canyon Lake, and 2.8 times as much to govern Rossmoor as Villa Park?

COMMENT: The LAFCO website page showing questions from the CFA Workshop held in Rossmoor does not accurately or completely reflect the questions asked. The answers to the questions do not, in some cases, answer the questions.

QUESTION: Can the comments, questions and answers be published as stated to provide a more complete, accurate, record?

COMMENT: The incorporation question is important to the residents of Rossmoor. It is important that LAFCO maintain a perception of itself as an objective body. Presenting the comments and questions as stated by the residents will assist in maintaining that perception.

-Kenneth Brown, 12042 Silver Fox Road, Rossmoor

From: JNRattner@aol.com [mailto:JNRattner@aol.com]
Sent: Friday, April 11, 2008 3:04 PM
To: Aldrich, Bob
Subject: Rossmoor Incorporation and Draft CFA

Dear Mr. Aldrich,

As a forty-one year resident of Rossmoor, I have observed the events that have affected the provision of services to Rossmoor and in my review of the Draft Comprehensive Fiscal Analysis report prepared for LAFCO and the Community Workshop document for the March 12, 2008 meeting, I noticed several issues that I would like to bring to your attention which I hope will result in changes to the CFA for it to be somewhat more reflective of recent and past Rossmoor Community Services District (RCSD) fiscal and management performance.

I-1

RCSD has been in existence for twenty-one years and its elected Board of Directors has hired several General Managers, approved the hiring of other staff (now totaling 7.2 with two as contractors), approved all contracts over \$5,000, has a comprehensive Policy Manual and has overseen budgets from \$500,000 to the current budget of approximately \$1,500,000 plus a capital improvement budget of approximately \$500,000. None of this is mentioned in the CFA. The CFA does acknowledge that as of the end of the 06-07 fiscal year, RCSD had reserves of \$1,347,841, owned two large parks (about 8 acres each), two small parks, four buildings (at Montecito, Rush Park and Rossmoor Park) and all are maintained in very good condition. This is all the result of active and prudent fiscal management by the General Manager and the Board members.

I-2

On page 6 of the LAFCO agenda item 7a report it states "It must be stressed that LAFCO never intends for the CFA to be a projection of how the proposed city will actually function. Instead, the purpose of the CFA is to create a conservative projection of how the city could function....For example, the CFA does not account for prudent management by the city staff and city manager, but instead assumes 100% of each itemized expenditure is actually spent each fiscal year." But, on page 11 of the same report, and on page 5 of the Draft CFA, it states "It can be concluded that prudent fiscal management will be a necessary component of maintaining fiscal feasibility in the long term." Also, on pages 3, 50 and 53 of the Draft CFA it repeats that "Prudent fiscal management of city costs, including careful implementation of effective cost control policies in the early years of the city will be necessary to ensure costs do not exceed this anticipated level of revenue growth."

I-3

My point is that Rossmoor and RCSD has twenty-one years of "prudent fiscal management" in the providing of park and recreation services, street sweeping, street lighting, signature wall maintenance, parkway tree maintenance (for 5,500 trees) and maintenance of four buildings (three of which are frequently rented out) and the CFA should reflect the actual costs that RCSD experiences to present a more realistic picture. For example, the CFA states that the total expenses for the first full year (09/10) for the new city for the City Council, City Manager/Clerk, City Attorney, Finance and Non-Dept. is approximately \$880,000. However the similar categories (Board, General Manager, staff legal and finance for the base year (06/07) for RCSD was \$408,000 (for 5.7 staff persons). I realize that if four more persons (to bring staff up to 9.5) were hired for the new city the staff costs would rise about \$200,000, but not \$480,000.

I-4

Also, on page 15, it states that "new cities will have no initial fund balances on which to depend for cash flow during the initial start up period." and on page 51 it states "a new city has no historical track record on the cost or level of services required to meet the expectations of a newly incorporated community." However, on page 9 of the LAFCO 7a report and in the CFA report in several places it acknowledges that \$1,347,841 will be received from RCSD in the transition year (08/09). Consequently, based on the above facts, Rossmoor has extensive history and experience with RCSD, and the new City Council members will probably draw on these experiences and the existing RCSD staff to manage the new city of Rossmoor.

I-5

Furthermore, in Table 1-A of the CFA, it shows that for year 2 the Community Development Fees would be \$677,365 but expenditures would be \$876,870, with similar differences in later years. However, Orange County stated, on pages 39 and 40, that "costs were offset by fee revenue" for Planning and Building and Safety, but \$81,322 was spent in 06/07 for Code Enforcement with no revenue resulting and the GST Source Data document reported that most cities receive 20-30% for Code Enforcement inspection fees or fines. There seems to be a lot larger difference (about \$200,000) in Table 1-A for all ten years than reported by Orange County for Community Development or acknowledged by the GST source document.

I-6

The questionable excessive expenditures discussed previously, combined with the forecasted 10% "required" reserve plus an additional 32-35% "operating" reserve for the General Fund and the 78-80% "operating" reserve for the Road Fund being imposed on a new city have caused the CFA author to recommend a 7% Utility Tax. If Rossmoor had no history or experience of any kind of governmental management, perhaps this would be a "safe" forecast. However, I believe that the issues discussed above conclude that 7% is excessive, unnecessary and unfair to Rossmoor residents, and should be reduced at least to 4%, if the staff and other costs discussed above are reduced. This would reflect the history of "prudent fiscal management" in Rossmoor and encourage an affirmative vote by a majority of Rossmoor voters.

Thank you for this opportunity to present my views.
Joel Rattner

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From: Eric Jones [mailto:ericjones67@yahoo.com]
Sent: Tuesday, April 08, 2008 2:07 PM
To: Aldrich, Bob
Subject: slurry and overlay costs for Rossmoor

Please address the actual cost of the overlay and slurry seal that is done every 7-10 years. Your FAQ sheet is quoted as saying "Anticipated costs vary depending on road conditions and are

generally funded from local, state and federal transportation grant funds and accumulated

excess reserves." First, GST states they are "generally funded" which I read to mean it's not 100% for sure. Second, we need hard numbers. What has the county spent on Rossmoor streets to repair and slurry the roads every 7-10yrs. I'm worried this cost will fall on the new city. I see the cities around us- Long Beach, Los Alamitos, West Garden Grove. They all have roads in need of overdue repair. If there is grant money for this, why are their streets in terrible shape. If the state or county cries budget cuts, do we still get the grant money? I feel the county has done a good job of maintaining our streets and worry that we will shoulder the cost sometime and won't have the money to pay for it based on our tight budget that is projected in the CFA. Thanks for your time.

Eric

J-1