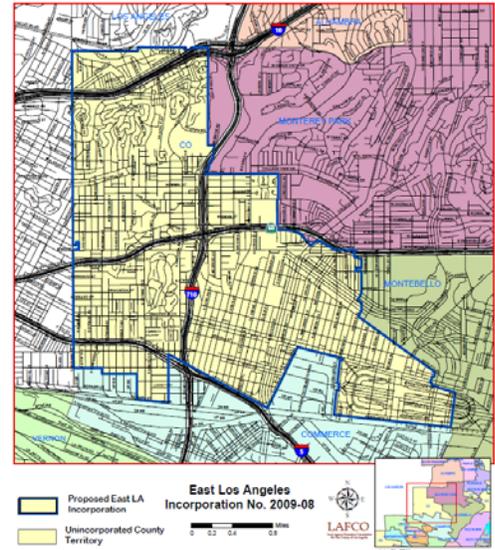


STRATEGIES FOR MUNICIPAL INDEPENDENCE: A CASE STUDY OF EAST LOS ANGELES

By Richard L. Berkson

On February 8, 2012, the Los Angeles Local Agency Formation Commission (LAFCO) voted to deny the application for the incorporation of East Los Angeles. This denial terminated the most recent East Los Angeles incorporation effort which extended for almost five years.

While many of the feasibility issues influencing LAFCO's denial were unique to East Los Angeles, other communities throughout the State face similar constraints to incorporation. A diagnosis of these constraints suggests a number of steps that could be taken to lay a foundation for improved local governance and increased potential for a successful incorporation in the future, both in East Los Angeles as well as other unincorporated communities.



Factors Contributing to Incorporation Infeasibility

A variety of factors contribute to the fiscal weakness of East Los Angeles. Some of these factors are “cyclical,” such as the persistent weak economic conditions; others are “structural,” such as California’s local government finance regime that disadvantages communities seeking incorporation in various ways; and still others are “endemic,” unique to an area, such as the limited development capacity in East Los Angeles or its weak economic base and retail sales performance. Understanding these factors is very important to evolving a governance and community development strategy. While little can be done about cyclical factors, structural factors, while challenging, can be addressed over time. Most importantly, the endemic factors that are a key limiting factor in East Los Angeles can be addressed in a variety of ways, thus strengthening the likelihood of incorporation in the future.

- **Lack of Economic Base** — The primary factor limiting the ability of a community to incorporate is an insufficient economic base to generate the revenues necessary to fund public services. Without adequate revenues, the need to increase taxes to achieve feasibility is likely to terminate most incorporation efforts.

In 2010, median household income in East Los Angeles was \$39,000 compared to \$52,700 for Los Angeles County. Recent successful incorporations, for example Menifee, California, averaged above \$70,000. Incomes are one indicator of property values and sales tax potential. Sales tax generated in East Los Angeles, typically a major source of funding for cities, is \$30 per resident compared to \$140 per resident for all cities in Los Angeles County. There are no regional retailers or “big box” stores in East Los Angeles to generate sales taxes. The area includes few hotel rooms to yield hotel tax, another common source of city revenue. The area is largely built-out, without many opportunities for future growth and development.

An increase in local utility users tax was considered as one option to improve feasibility in East Los Angeles; however, this created additional resistance to incorporation in this low-income community.

- **Adverse Economic Conditions and Government Budget Reductions** — A significant downturn in the economy reduces current and projected revenues available for a new city. The realignment of State revenues eliminated Vehicle License Fee (VLF) revenues to new cities, a major source of funding particularly in the initial years of a city. VLF accounted for more than 20 percent of East Los Angeles's projected budget. Redevelopment areas were eliminated in 2011, removing a source of funding for economic development and capital improvements.
- **County Access to Funding Sources** — County funding of services in unincorporated areas is often limited, which provides impetus to incorporation efforts. In East Los Angeles, there exists some dissatisfaction with the provision and allocation of funding to certain County-provided services. However, in urbanized counties such as Los Angeles, access to a broad revenue base and range of revenues can enable a county to provide some services at a relatively high level. These service levels can create a costly hurdle to incorporation as it can be difficult for a proposed new city to generate similar funding.

For example, libraries in East Los Angeles maintain hours that exceed those of most cities in the County, and sheriff protection expenditures are greater than the levels found in many cities. These services are the result of a shift of property tax and other general fund revenues generated in wealthier areas of the County to services in East Los Angeles, as well as County "Prop. 172" funds¹ which are unavailable to new cities.

- **Uncertainty About Future Governance and Regulation** — A community that has relied on county government may have little local governance experience and leadership. Residents, if generally satisfied with current services, may tend to prefer the county government they know rather than the uncertainty of a future, unknown city government. Typically, the business community will prefer county governance, viewing it as providing less local oversight and regulation, and perhaps easier to influence relative to a locally elected city council.

The East Los Angeles business community was one source of opposition to incorporation, expressing wariness about the potential for increased city regulation. Many residents stated their satisfaction with services provided by the County and concern about potential reductions in revenues and services that may accompany a new city. Recent incidents in other cities involving abuse of public authority and financial resources also raised issues about local governance.

¹ In 1993, voters approved Prop. 172, which increased State sales tax for the purpose of partially compensating for the loss of local revenues (e.g., property tax shifted to the State's Educational Revenue Augmentation Fund, or ERAF, in 1993-94). New cities formed after 1993 do not qualify for an allocation of Prop. 172 funds. The funds are restricted to "public safety" purposes.

Organizational Options for East Los Angeles

Despite LAFCO's finding of infeasibility and the related denial of the incorporation petition, various options are available to the community that could improve local economic conditions, governance, and quality of life in the near term and enhance the future potential for incorporation, as described below. Discussion and debate in community forums could improve prospects for adoption and implementation of these mechanisms, and increase local dialogue to mitigate the divisiveness that marked the incorporation process.

- 1. Unincorporated Area Budget (UAB)** — Residents and members of the business community could work with the County to create and review a local UAB.² The UAB would provide an informal budget, based on actual County budgets allocated to the area, for services and revenues generated in the community.

During the East Los Angeles incorporation hearings, discussion occurred about the possibility of creating a UAB to help to better inform the community about where their tax dollars were spent, and what levels of services were being provided. Commissioner Gloria Molina, Los Angeles County Supervisor, proposed that "...we should publish a budget on a regular basis for East Los Angeles."

This UAB could facilitate discussion and a better understanding about local municipal services, reducing the level of effort and time that would be required to prepare this information during a future incorporation effort. The UAB would also help the community to better understand the prospects for incorporation and, ideally, it would help to establish a stronger working relationship with the County.

- 2. Special Studies** —As part of a LAFCO Special Study, a detailed "Governance Options" analysis could be prepared. This analysis could include evaluation of a potential Municipal Advisory Council (MAC)/Area Planning Commission (APC) and Community Services District (CSD), described further in the next item. Reorganization of various services could be considered.
- 3. Municipal Advisory Council/Area Planning Commission** — A MAC, which can also serve as an APC, could provide an entity to represent community interests and review the UAB, as well as provide input into services and planning.

As established in Section 31010 of the California Government Code, the board of supervisors of any county may by resolution establish and provide funds for the operation of a municipal advisory council for any unincorporated area in the county to advise the board on matters of public health, safety, welfare, public works, and planning. Unless the board of supervisors specifically provides to the contrary, a municipal advisory council may represent the community to any state, county, city, special district or school district, agency or commission, or any other organization on any matter concerning the community.

² On May 1, 2012 the County of Los Angeles's Chief Executive Officer requested that Departments submit expenditures and revenues associate with delivering services to East Los Angeles for Fiscal Year 2010-11. This request was in response to the constituents of East Los Angeles "interested in obtaining financial information about their community" expressed during the incorporation process.

California Government Code Sec. 65902 states that a county “may provide that an area planning commission shall exercise all of the functions and duties of a board of zoning adjustment or a zoning administrator in a prescribed portion of the county”. The APC shall hear and decide applications for conditional uses or other permits, and applications for zoning variances.

- 4. Community Services District** — A CSD can be created and authorized to perform virtually any service that any special district can perform in California (GC 61100). The creation of a CSD would establish an independent governance entity as transition toward incorporation; it would act as a central, organizing entity for actions related to municipal services and establish working relationships between local government, the business community, and residents.

A CSD in East Los Angeles could provide local control of certain services/districts (i.e., the current Belvedere Garbage District, and existing lighting and landscape assessment districts), create a vehicle for future funding sources, and provide oversight of the UAB. The CSD could be empowered to provide service as a MAC and an APC.

The adoption of new taxes and assessments is rarely an easy process, particularly if it is perceived as the consequence of forming a new level of government such as a city. However, special taxes are more palatable when directly linked to maintenance and enhancement of specific services. Adoption of taxes, managed by a CSD, before incorporation could significantly improve city feasibility prospects and reduce local opposition driven by tax uncertainties.

- 5. Economic Development Plan** — An Economic Development Plan could be developed to identify strategies specific to the unique characteristics of East Los Angeles, which will help in focusing countywide resources and economic development programs on building the local economy and tax base. The plan could address specific concerns of local businesses about the appropriate role of governmental regulation, and issues related to the “informal economy” prevalent in the area. The plan could help to inform the community and decision makers about opportunities as well as constraints that limit the ability of local businesses to financially support economic development activities. Incentives for investment in the community from the private and public sectors would be important elements of the plan.

One of the plan’s key objectives in East Los Angeles would be to enhance the current revenue base, which in turn would improve fiscal prospects for a future city. The East Los Angeles CSD, or MAC/APC, could act as a forum for local input and direction on the plan.

- 6. Funding of Economic Infrastructure** — The CSD, or MAC/APC, could work with the County on strategies (e.g., creation of an Infrastructure Finance District [IFD]) to fund economic development in accord with strategies and goals of the Economic Development Plan, and seek special taxes and/or assessments to fund targeted services and improvements, in addition to regional, State, and federal grants.

In East Los Angeles, an IFD could partially restore funding to the former redevelopment areas that existed within East Los Angeles, as well as other potential areas targeted by the Economic Development Plan.

- 7. Incorporation Legislation** — The local governing entity could provide a forum and a political body to work in conjunction with other entities toward legislation to improve

potential viability of incorporation. For example, it would work on legislation to restore funding for new cities, provide for additional non-property tax funding based on transfer of services, and address other issues related to incorporation.

Conclusion

While East Los Angeles was unsuccessful in its recent incorporation effort, pursuing options such as those listed above can provide an improved foundation for cityhood. At the same time, the community will gain more responsive local governance, increased influence over land use decisions and public services, and opportunities to enhance the local business environment and economy. East Los Angeles is unique in many ways; yet, other urbanized areas considering incorporation face similar challenges. In these cases it may be valuable to pursue a similar agenda of improved governance and community development in advance of, or as a part of, incorporation efforts.

Richard L. Berkson is a Principal with Economic & Planning Systems, Inc. (EPS) and prepared the Comprehensive Fiscal Analysis of the Proposed Incorporation of East Los Angeles. EPS has worked on numerous incorporation studies in California and elsewhere in the U.S., in addition to conducting evaluations of governance options to incorporation.