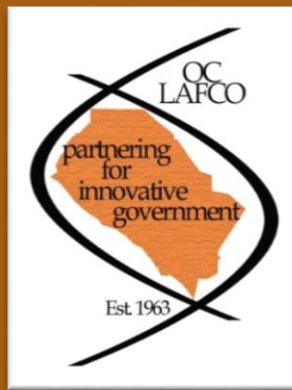


Orange County LAFCO Comprehensive Quarterly Report



1st Quarter / FY 2016-17
(July – September 2016)

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INTRODUCTION

This Comprehensive Quarterly Report presents an overview of the Commission's activities during the months of July, August, and September 2016. This report provides an update on projects and activities, a summary of the outreach efforts and an assessment of the agency's current budget and investment portfolio performance for the first quarter.

MANDATED PROJECTS

During the first quarter, OC LAFCO participated in meetings and discussions regarding projects identified in the annual work plan and began the process for a focused Municipal Services Review on a city utility services system. The filed and potential applications involved annexation to city boundaries, potential transfer of water and sewer systems, and the initiation of the planning for the fourth round of Municipal Services Reviews. The following section provides an update on project related activities that occurred in the first quarter.

Plano Trabuco/Dove Canyon Annexation to the City of Rancho Santa Margarita



In August 2013, the Roman Catholic Bishop of Orange submitted an application for the annexation of a portion of unincorporated territory that contains a piece of the Santa Margarita High School parking lot and the adjacent street intersection, in order to bring the entire property under jurisdiction of the City of Rancho Santa Margarita. The annexation involves a total of 1.7-acres, which includes 1.4-acres owned by the Santa Margarita High School and .3 of an acre of the right-of-way at the intersection of Plano Trabuco Road and Dove Canyon Drive. The processing of this proposed annexation was a multi-year project in which several technical issues, such as the future maintenance responsibilities, were addressed by the stakeholders.

During the first quarter, LAFCO staff continued to work with the stakeholders to finalize the terms and conditions of the resolution enacting the annexation. In October, the Commission approved this annexation proposal, which places the entirety of the Santa Margarita High School within the City of Rancho Santa Margarita and provides a more logical boundary for the City and landowner.

City of San Juan Capistrano Focused Municipal Services Review on Potential Transfer of Water and Sewer Systems

The Commission was informed in May, 2015 that the City of San Juan Capistrano was exploring the potential transfer of its water, sewer and storm water infrastructure and service responsibilities to a successor agency. Since that time, LAFCO staff has provided information to the City's legal representatives and other interested parties regarding potential service alternatives, OC LAFCO's role, and statutory requirements. During the first quarter of the 2016-17 fiscal year, OC LAFCO staff participated in meetings with the City Manager and staff regarding the LAFCO process and application requirements.

On August 22, 2016, the City submitted an application requesting a Municipal Services Review (MSR) focusing on the potential transfer of the City's water and wastewater facilities and operations to another public agency. In the application, the City acknowledged that this process may involve the potential sale, transfer or lease of the infrastructure and operations. Additionally, the City provided an attachment outlining the criteria that it recommends be considered in this Municipal Services Review.



The focused MSR process will comprehensively evaluate potential alternatives for the transfer of the City of San Juan Capistrano's water and wastewater operations and facilities to a public agency. Four districts: Irvine Ranch Water District, Moulton Niguel Water District, Santa Margarita Water District, and South Coast Water Districts, have been identified as agencies of interest to be included in this process. These special districts provide the same services to adjacent, overlapping, and nearby areas. A working group, comprised of executive and technical staff members from the City and these special districts, will develop a scope of work for the MSR process.

It is anticipated that the MSR process will require six to twelve months to complete. The first working group meeting will take place in November and will be facilitated by LAFCO Consultant Sharon Browning. At the first meeting, the group is expected to develop a scope of work and tentative timeline for the MSR process. In accordance with the Commission's fee schedule, the costs associated with this project will be borne by the City and/or other participants in the process.

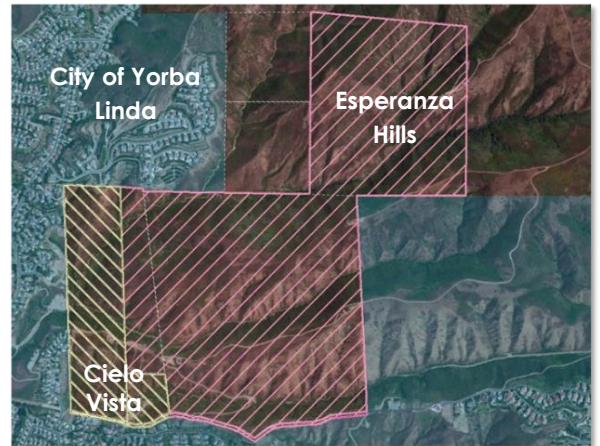
Cielo Vista and Esperanza Hills Potential Annexations

During the first quarter, LAFCO staff continued to monitor two residential development projects proposed in unincorporated territory within the City of Yorba Linda's sphere of influence. Esperanza Hills is a proposed 340-unit gated residential community on 469 acres and is adjacent to the Cielo Vista project which is a proposed 83-unit residential development on 84 acres immediately adjacent to the City of Yorba Linda.

In 2015, the project plans and environmental documents for the Esperanza Hills development project were approved by the Board of Supervisors after being recommended for approval by the County Planning Commission. The actions by the Board of Supervisors required a pre-annexation agreement be in place with the City of Yorba Linda as a condition of approval of the Vesting Tentative Tract Map,

which is required for construction of the project to proceed. However, the environmental document for the project was subsequently challenged in court by a community group and the processing of the project was suspended awaiting the outcome of the litigation.

At the end of August 2016, the court issued a Writ of Mandate requiring the developer to prepare a greenhouse gas mitigation plan, and the County to vacate the previous approvals and reconsider the project in light of the revised environmental document. The developer has prepared the mitigation plan and revised the documents. In the submittal of the revised plan, the developer requested that the pre-annexation agreement be removed from the conditions of approval. In this request, the developer stated that, despite numerous attempts, he has been unable to reach an agreement with the City on the terms of a pre-annexation agreement.



The County Planning Commission reviewed the revised project at its meeting on October 26. At that meeting, the Planning Commission requested additional information from staff and continued the item to its meeting of November 9. The project is tentatively scheduled for consideration by the Board of Supervisors in December.

In terms of the Cielo Vista Project, the County Planning Commission reviewed and recommended approval in March 2016. However, there is an environmental issue that must be addressed before the project is scheduled for consideration by the Board of Supervisors. As annexation of these projects to the City of Yorba Linda is not anticipated in the near future, the Executive Officer will discuss removing them from the agency's FY 2016-17 Work Plan with the Executive Committee.

Preparation for Fourth Round of Municipal Service Reviews

One of the most significant projects of the 2016-17 Work Plan is the development of a comprehensive roadmap for the preparation of Municipal Service Reviews (MSRs) for each of the 34 cities and 35 dependent and independent special districts under OC LAFCO's purview. State Law requires the preparation of MSRs for each agency prior to or concurrent with agency sphere of influence updates. Spheres of influence, by law, must be reviewed and updated at least once every five years.

The Commission has used its MSR process to proactively work with the County, cities, special districts, and community groups to establish logical boundaries, reorganize illogical boundaries, and encourage governmental structures that reflect Orange County's current and future demographics. The MSR process has also been an important mechanism for reviewing how agencies are planning to deliver public services in the most cost-effective and efficient manner.

The development and implementation of this roadmap remains key to the successful completion of the fourth round of MSRs, which will begin in 2018. In the first quarter, OC LAFCO staff discussed and identified various alternatives approaches to this project and determined that engaging a consultant through a Request for Proposals (RFP) would best serve the needs of the Commission. During the

second quarter, staff will prepare and release a RFP soliciting consultant firms to submit proposals for developing the roadmap which will include outreach to stakeholders, development of criteria to establish MSR focus boundaries, and prioritization of agencies and services to undergo MSR reviews. The schedule for this process is designed to have the consultant's proposed roadmap be a topic of discussion at the Commission's strategic planning session in March of 2017.

COMMISSION INITIATED PROJECTS

Update on Unincorporated Islands Program

In its 2016-17 Work Plan, the Commission identified progress on the County Unincorporated Areas Program as a "high priority" item. Although State legislation previously proposed to commit additional revenue for areas annexed by cities was not successful, the OC LAFCO Board and many of the relevant stakeholders remain committed to enhancing service delivery systems to these unincorporated areas. Currently, the inventory of County unincorporated areas includes a total of 33 islands: 10 that encompass over 150 acres each and 23 smaller ones. During the past quarter, staff compiled fiscal and demographic profiles on each of these remaining islands. These profiles are now available on the islands page of the OC LAFCO website.

Under the leadership of the Commission, OC LAFCO staff has proactively re-initiated efforts to collaboratively engage in discussion with the stakeholders concerning island annexations in the three cities identified in the Work Plan: La Habra, Fountain Valley, and Santa Ana. Additionally, staff continues to respond and engage in discussions with any City that expresses interest in annexing one of the islands. At its meeting in November, the Commission will receive an update on the program and a presentation on the profiles and other information provided on the County Unincorporated Areas Page of the website.

ADMINISTRATIVE ACTIVITIES

OC LAFCO Audit

Since 2001, an independent auditor has prepared OC LAFCO's audited financial statements. During the past year, OC LAFCO, together with a number of other LAFCOs within the Southern California region, conducted an RFP process to select a new auditor. The firm that was awarded the contract, Davis Farr, LLP, has performed the audit and will present the 2015-16 audited financial statements to the Commission at its meeting in November. The auditor did not find any material issues relating to LAFCO's accounting procedures and policies, current internal financial controls, or office procedures. After the Commission reviews the documents, the audited financial statements will be available on the OC LAFCO website.

CALAFCO Legislative Committee

The CALAFCO Legislative Committee provides LAFCOs a forum to participate in discussions that shape legislation of OC LAFCO interest. During the first quarter, OC LAFCO staff continued to participate in the CALAFCO Legislative Committee meetings and monitoring of legislation. In this quarter, the Legislature returned from summer recess in mid-August and continued to review and consider legislation through the conclusion of the session on August 31. During this period of high activity, the CALAFCO Legislative Committee continued to monitor legislation and engage in discussions with key stakeholders, legislative staff and legislators regarding several bills. Key bills of LAFCO interest included those proposing to modify portions of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. The Legislative Quarterly Report, which includes an overview of 2016 LAFCO-related legislation, will be reviewed by the Commission at its meeting in November.



Little Hoover Commission

The Little Hoover Commission is an independent state oversight agency created in 1962. The Commission's mission is to investigate state government operations and – through reports, recommendations and legislative proposals – promote efficiency, economy, and improved service. Its bipartisan board is composed of five citizen members appointed by the Governor, four citizen members appointed by the Legislature, two State Senators and two State Assembly Members.

On August 25, the Little Hoover Commission held its first of two public hearings regarding special districts as a follow-up to its May 2000 report entitled "[Special Districts: Relics of the Past or Resources for the Future.](#)" CALAFCO and the California Special Districts Association (CSDA), along with representatives from a number of fire, health services, water and other special districts, provided written and oral testimony. OC LAFCO staff provided information and data to CALAFCO staff to assist in the preparation of the written testimony, which is available on the CALAFCO website. At a second hearing on October 27, the Little Hoover Commission explored how special districts are incorporating climate change adaptation into current and long-term allocations of their property taxes, fee revenues, and reserves. The Commission is expected to issue a new report in early 2017.

At its monthly meeting in October, the Water Advisory Committee of Orange County (WACO) focused the agenda on an update on the Little Hoover Commission hearings and invited OC LAFCO and CSDA to make presentations. As part of that agenda, OC LAFCO's Assistant Executive Officer, Debra Kurita, gave a short overview of LAFCO history, provided highlights of the recommendations CALAFCO made in its testimony to the 2016 Little Hoover Commission, and explained the LAFCO consolidation process for special districts. She informed the audience that this process, which is open, public and transparent, requires detailed and objective analysis, input and participation by stakeholders, and is ultimately decided by a vote of the affected stakeholders.

OC LAFCO MEETINGS AND OUTREACH EFFORTS

During the first quarter, staff proactively supported administrative, mandated and Commission-initiated projects identified in the current work plan by participating in a number of meetings and special events.

South Orange County Economic Coalition Presentation

In July, Executive Officer Emery made a presentation on the process and outcomes of the South Orange County Visioning Process to the South Orange County Economic Coalition. She explained that the two-year process had been a proactive, participatory effort to collectively envision future governance with the unincorporated communities and affected agencies located within two South Orange County Study areas. Ms. Emery noted that the Commission received a final report in June and established two new study areas: one consisting of the communities of the developed communities of Coto de Caza, Stonecliffe, Wagon Wheel, Las Flores and Ladera Ranch and one of the developing communities in Rancho Mission Viejo. She further explained that the Commission directed staff to convene bi-annual meetings with the stakeholders of each study area to discuss current service related issues and provide an update on timing of future governance. Ms. Emery also noted that she will be meeting with representatives from Rancho Mission Viejo on a quarterly basis to receive updates on the progress and plans for development in order to effectively coordinate the future governance discussions with the timing of the development.



Small Public Water Systems

In August, LAFCO staff met with representatives from the State Water Resource Control Board and the County Environmental Health department to discuss opportunities to address any issues related to small public water systems in Orange County. Currently, there are 16 small water systems in Orange County that include mutual water companies and privately owned wells. The State Board staff asked LAFCO staff to work collaboratively on opportunities to proactively address concerns regarding water quality and improving efficiency for water delivery involving these systems.

Meetings and Outreach Efforts Listing

During the first quarter, the following meetings provided the opportunity for staff to work with County, city, and special district representatives, and other OC LAFCO stakeholders on key Commission projects.

Q1 FY 16-17 MEETINGS & OUTREACH EFFORTS
July Meetings
South Orange County Economic Coalition – Presentation on South County Governance Visioning Process
Costa Mesa Sanitary District Board Member and Staff – Discussion on [insert name of Mesa WD study here] and Consolidation Process
El Toro Water District General Manager -- Shared Services Program Upgrade
City of Costa Mesa staff – Discussion on Shared Services Program Upgrade
City of Fountain Valley staff – Discussions on potential small island annexation
City of Anaheim staff – Discussion on previous and potential island annexation
City of Orange staff -- Discussion on potential reorganization involving Orange and Garden Grove
OCERS Meeting – Board and Financial Update
Orange County CEO staff – Discussion of Retirement Costs
Center for Demographic Research Director – Receive Update and Overview of CDR
2016 Municipal Management Assistants of Southern California Summer Conference
ISDOC Executive Committee Meeting
August Meetings
LAFCO Consultant – Discussion on Policy Analyst Recruitment
Ad Hoc Committee on Policy and Procedures (8/5 and 8/31)
CALAFCO Southern Region Quarterly Meeting
State Water Resources Control Board and OC Health Care Agency – Discussion on Small Public and Community Water Systems
City of San Juan Capistrano staff – Discussion on Potential Utility Reorganization
Center for Demographic Research Management Oversight Committee
Orange County City Managers’ Association Monthly Meeting
Moulton Niguel Water District staff – Discussion on MSR Process for potential utility reorganization and overview of San Juan Basin Authority
Orange County Leadership Summit Planning Group
Cities of Orange, Garden Grove, and Landowner -- Discussion on potential reorganization
LAFCO Consultant -- Discussion on San Juan MSR Working Group Process
Serrano Water District staff – Received update on District operations
OCERS Financial Update Meeting
OCCOG Monthly Meeting
ISDOC Executive Committee
September Meetings
Ad Hoc Committee on Policy and Procedures
City of Fountain Valley and Orange County staff – Discussion on potential small island annexation
Orange County staff – Discussion on Plano Trabuco annexation
LAFCO Consultant -- Discussion on San Juan MSR Working Group Process
OCCOG Monthly Meeting
ISDOC Executive Committee
South Coast Water District – Presentation to Board on San Juan MSR Working Group Process

FY 2016-17 BUDGET OVERVIEW

This CQ report includes the first quarterly budget update for fiscal year 2016-17. The following budget review provides the Commission with the first quarter bank account balances and a comprehensive overview of OC LAFCO revenues and expenditures from July 1, 2016 through September 30, 2016 (see page 11).¹ The total budget approved by the Commission for 2016-17 is \$1,121,470.

Revenues

The majority of OC LAFCO's first quarter revenues is from the \$998,553 collected in apportionments from the funding agencies. The remaining balance of \$20,847 in apportionments is expected to be collected in the second quarter. In addition to the apportionments, LAFCO also earns interest from its investment portfolio. In the first quarter, OC LAFCO earned approximately \$1,921 in interest.

Another source of OC LAFCO revenue is the application filing fees. These filing fees are not used for budgeting purposes, but are shown in the quarterly overview as revenue. Further, the quarterly report includes a year-to-date accounting of application revenues and expenses incurred during the first quarter.

Expenditures

The total expenditures at the end of the first quarter are approximately 19 percent or \$213,471 of the total budget of \$1,121,470. The following table provides the comparison of the percentage of actual funds used and the target levels for the current fiscal year.

Total Funds Used by Quarter				
	1 st Qtr.	2 nd Qtr.	3 rd Qtr.	4 th Qtr.
Target	25%	50%	75%	100%
Actual	19%	--	--	--

¹ All financial statements contained in the CQ report are on an accrual accounting basis.

Balances and Investment Report

The following table illustrates the balance of OC LAFCO's bank accounts at the conclusion of the first quarter:

As of 9/30/16	Balance
770-Payroll Account	\$ 168,222
Wells Fargo Checking	164,551
Wells Fargo Savings	<u>210,487</u>
Total	<u>\$ 543,260</u>

To maximize funds, apportionment fees are deposited in the Local Agency Investment Fund (LAIF) and OC Fund accounts. Throughout the fiscal year, the accountant and designated staff members withdraw from the accounts to cover the agency's operational expenses.

The following table illustrates the balance of OC LAFCO's investment portfolio at the end of the first quarter:

As of 9/30/16	Balance
LAIF	\$825,882
OC Fund	\$467,050
Total	<u>\$1,292,932</u>

To date, OC LAFCO has earned approximately \$1,921 in interest which is approximately 66% of the projected interest earnings for fiscal year 2016-17.

Balance Sheet²

The CQ report includes the first quarter balance sheet to provide a better understanding of OC LAFCO's financial status. This financial document summarizes the agency's assets and liabilities as of September 30, 2016.

² Unaudited – Subject to Change

Orange County Local Agency Formation Commission
Quarterly Overview
July 1 - September 30, 2016

	1st Qtr.	YTD General Fund	YTD Filing Fees	TOTAL FY 16/17 Budget	General Fund Funds Use (%)	General Fund Fund Variance (\$) Revenues (Under)/Over budget
Revenue						
Transfer In from Unreserved Equity	\$ -	\$ -	\$ -	\$ 99,170	0.0%	\$ (99,170)
4000 - LAFCO Apportionment	998,553	998,553	-	1,019,400	98.0%	(20,847)
4050 - Filing Fees	-	-	11,231	-	0.0%	N/A
4150 - Misc Revenue	498	498	-	-	0.0%	498
4200 - Interest & Dividends	1,921	1,921	-	2,900	66.2%	(979)
Total Revenue	\$ 1,000,972	\$ 1,000,972	\$ 11,231	\$ 1,121,470	89.3%	\$ (120,498)
	1,000,972	1,000,972	11,231	1,121,470	89.3%	(120,498)
Expenditures						Expense (Under)/Over
5000 - Salaries	\$ 89,354	\$ 89,354	\$ 5,832	\$ 424,500	21.0%	(335,146)
5010 - Hourly Employees	3,191	3,191	-	10,000	31.9%	(6,809)
5100 - Benefits & Insurance	-	-	-	-	-	-
5102 - Optional Benefit Plan	-	-	-	18,500	0.0%	(18,500)
5104 - Deferred Compensation	884	884	-	9,100	9.7%	(8,216)
5106 - Retirement Benefits	27,174	27,174	-	131,800	20.6%	(104,626)
5108 - Health Care Insurance	10,275	10,275	-	52,400	19.6%	(42,125)
5109 - Retiree Health Benefits	3,193	3,193	-	14,500	22.0%	(11,307)
5110 - Dental Insurance	1,055	1,055	-	5,700	18.5%	(4,645)
5112 - Life Insurance	106	106	-	600	17.7%	(494)
5114 - Workers Compensation	-	-	-	2,000	0.0%	(2,000)
5116 - Medicare	1,179	1,179	-	6,900	17.1%	(5,721)
5120 - Salary Continuance	273	273	-	1,500	18.2%	(1,227)
5122 - Accidental Death Insurance	21	21	-	100	21.5%	(79)
5125 - Executive Employee Car Allowan	1,800	1,800	-	7,200	25.0%	(5,400)
Total 5100 - Benefits & Insurance	45,961	45,961	-	250,300	18.4%	(204,339)
5150 - Information Technology	1,803	1,803	-	10,000	18.0%	(8,197)
5151 - Telephone	3,103	3,103	-	12,000	25.9%	(8,897)
5200 - County of Orange	77	77	-	3,600	2.2%	(3,523)
5250 - General Liability Insurance	3,984	3,984	-	15,500	25.7%	(11,516)
5300 - Maintenance-Building	-	-	-	510	0.0%	(510)
5350 - Membership	7,886	7,886	-	29,700	26.6%	(21,814)
5450 - Office Equipment/Supplies	2,258	2,258	-	18,000	12.5%	(15,742)
5451 - Application Expenses	-	-	-	-	0.0%	-
5500 - Professional Services	-	-	-	-	-	-
5510 - Legal	11,196	11,196	300	60,000	18.7%	(48,804)
5520 - Accounting/Audit	8,464	8,464	-	46,000	18.4%	(37,536)
5530 - Human Resources	674	674	-	10,000	6.7%	(9,326)
5535 - Mapping/Archiving	-	-	-	6,400	0.0%	(6,400)
5540 - Other Professional Services	5,436	5,436	-	75,000	7.2%	(69,564)
Total 5500 - Professional Services	25,770	25,770	300	197,400	13.1%	(171,630)
5550 - Investment Admin Fees	162	162	-	640	25.3%	(478)
5560 - Banking Fees	50	50	-	920	5.4%	(870)
5575 - CEQA Filings	-	-	-	-	0.0%	-
5600 - Public Noticing	869	869	646	10,400	8.4%	(9,531)
5625 - Postage	-	-	7	2,900	0.0%	(2,900)
5650 - Office Lease	16,896	16,896	-	68,600	24.6%	(51,704)
5675 - Equipment Leases/Maintenance	1,068	1,068	-	8,300	12.9%	(7,232)
5700 - Commission & Staff Expense	970	970	-	8,400	11.5%	(7,430)
5710 - Commission Stipends & Taxes/Fees	2,518	2,518	-	15,600	16.1%	(13,082)
5750 - Staff Training	2,197	2,197	-	5,000	43.9%	(2,803)
5800 - Transportation/Travel	5,354	5,354	-	26,600	20.1%	(21,246)
5850 - Commission Meeting Exp	-	-	-	2,600	0.0%	(2,600)
5998 - Refund of Deposits	-	-	-	-	0.0%	-
Total Expenditures	\$ 213,471	\$ 213,471	\$ 6,785	1,121,470	19.0%	\$ (907,999)
Total Net Income (Loss)	\$ 787,501	\$ 787,501	\$ 4,446	\$ -		\$ 787,501

**OC Local Agency Formation
Commission 16/17
Balance Sheet**

As of September 30, 2016

	Sep 30, 16
ASSETS	
Current Assets	
Checking/Savings	
Cash and Investments	
1000 - County Acct-Payroll	168,221.69
1025 - Wells Fargo Checking	164,550.91
1030 - Wells Fargo Savings	210,486.53
1040 - OC Fund	467,049.72
1050 - Investment Acct - LAIF	825,881.71
Total Cash and Investments	1,836,190.56
Total Checking/Savings	1,836,190.56
Other Current Assets	
Other Current Asset	
1375 - Prepaid Expenses - Other	17,560.63
1376 - Retirement Prepaid Expense	106,088.30
Total Other Current Asset	123,648.93
Total Other Current Assets	123,648.93
Total Current Assets	1,959,839.49
Other Assets	
Other Assets	
1600 - Security Deposit	6,081.66
Total Other Assets	6,081.66
Total Other Assets	6,081.66
TOTAL ASSETS	1,965,921.15

**OC Local Agency Formation
Commission 16/17**

Balance Sheet

As of September 30, 2016

**LIABILITIES &
EQUITY**

Liabilities

Current Liabilities

Accounts Payable

Accounts Payable

2000 · Accounts Payable 11,291.65

Total Accounts Payable 11,291.65

Total Accounts Payable 11,291.65

Other Current Liabilities

Current Liabilities

2050 · Salaries Payable - OC (9050)

2050 · Salaries Payable - OC (9050) - Other 14,916.61

Total 2050 · Salaries Payable - OC (9050) 14,916.61

Total Current Liabilities 14,916.61

Total Other Current Liabilities 14,916.61

Total Current Liabilities 26,208.26

Total Liabilities 26,208.26

Equity

3000 · Unrestricted Net Assets 672,302.40

3050 · Restricted Net Assets

3950 · Reserve for Contingency 100,000.00

3960 · Reserve for Litigation 75,000.00

3970 · Reserve for Unfunded Liability 30,000.00

3980 · Reserve for Special Projects 5,781.61

Total 3050 · Restricted Net Assets 210,781.61

3900 · Retained Earnings 286,199.89

Net Income 791,947.01

Total Equity 1,961,230.91

TOTAL LIABILITIES & EQUITY 1,987,439.17

