

Orange County LAFCO Comprehensive Quarterly Report



1st Quarter / FY 2017-18
(July – September 2017)

INSIDE LOOK:

Mandated Projects – Page 1

Commission Initiated Projects – Page 5

Administrative Activities – Page 6

Meetings and Outreach Efforts – Page 7

FY 2016-17 Budget Overview – Page 8

INTRODUCTION

This Comprehensive Quarterly Report presents an overview of the Commission’s activities during the months of July, August, and September 2017. 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

The Commission’s 2017-18 Work Plan identified 11 mandated projects; three of those projects are currently active applications, three reflect anticipated applications and the balance are mandated administrative projects. During the first quarter, OC LAFCO staff participated in meetings and discussions involving a number of these active and anticipated routine and complex changes of organization. The filed and potential applications include an annexation to city boundaries and the potential transfer of water and sewer systems. The mandated administrative projects include an update to the OC LAFCO policies and procedures and the implementation of the Stakeholder Input Process for the fourth round of Municipal Services Reviews. The following section provides an update on project related activities that occurred in the first quarter.

Lewis Street Reorganization Project

In June 2017, LAFCO received a reorganization application from the City of Garden Grove requesting the detachment of .901 acres from the City of Orange and the annexation of that property into the City of Garden Grove. The purpose of the reorganization is to place the entire property owned by the Christ Catholic Cathedral Facilities Corporation under one jurisdiction, the City of Garden Grove, to allow for the efficient delivery of municipal services to a 70 single-family development by Shea Homes., The subject acreage includes .018 acres of residentially zoned property and .721 of the Lewis Street public right-of-way.

During the first quarter, LAFCO staff worked collaboratively with the stakeholders on several documents that are required to process the annexation. It is anticipated that the application will be completed by November and the action will be considered by the Commission at its meeting in December.



Focused Municipal Service Review of the Potential Transfer of Water and Wastewater Systems for the City of San Juan Capistrano



This multi-year project began in August 2016 when the City of San Juan Capistrano submitted an application for a review of the options for divesting itself of the utility systems. In May, LAFCO released a Request for Proposals for qualified consultants to perform an operations, facilities and financial analysis for this MSR and distributed it directly to 33 consulting firms as well as posting it on both the OC LAFCO and CALAFCO websites; however, no proposals were submitted. After conducting an analysis of the factors that may have contributed to the lack of responses from the consulting community, staff restructured the process and developed two separate RFPs – one for the infrastructure assessment of the City’s current system, and one for the fiscal analysis of the alternative service options. The direct outreach to the consultants was expanded to approximately 60 firms and the documents were again posted on the OC LAFCO and CALAFCO websites. Additionally, the consultants were invited to participate in a pre-proposal conference during which LAFCO and City staff discussed the scope of work and answered questions related to the project. As a result, in October, LAFCO received three proposals for the infrastructure assessment and four for the fiscal analysis. The responses will be reviewed by LAFCO and City staff and it is expected that the recommendation for the award of the contracts will be considered by the Commission in December. The current project schedule anticipates that the final report will be presented to the Commission in the summer of 2018.

Amendments to the LAFCO Policies, Procedures and Guidelines

State law requires the Commission to adopt policies and procedures to perform its legislative authority and enhance internal processes. Annually, in its Work Plan, the Commission selects a number of policies and procedures to review and update. In the FY 2017-18 Work Plan, the following policy areas were identified:



- Commission Bylaws;
- Disadvantaged Unincorporated Communities;
- Standards for Evaluating Service Plans and Preparing Municipal Service Reviews;
- Spheres of Influence Policy and Guidelines for Preserving Community Identity; and
- Policies and Procedures for the Review and/or Processing of Out-of-Area Agreements by the Executive Officer.

An Ad-Hoc committee of the Commission has been formed to work with staff and legal counsel to review and, if necessary, revise those policies identified in the Work Plan. In the first quarter, the Committee reviewed and developed recommendations regarding amendments to the Commission Bylaws and establishing a new policy on addressing Disadvantaged Unincorporated Communities (DUCs). The proposed new DUCs policy will comply with the provisions of SB 244, which were designed to ensure that the disadvantaged unincorporated communities are properly identified, mapped, and

included in LAFCO actions regarding changes of organization, sphere of influence updates or amendments, and municipal service reviews. The recommendations regarding updating the Commission Bylaws are non-substantial and designed to reflect current operations. The proposed DUCs policy and amendments to the Bylaws will be considered by the Commission at its meeting in November. The Ad Hoc Committee's schedule anticipates that the remaining policies will be reviewed during the second and third quarters with recommendations being considered by the full Commission in February and May.

COMMISSION INITIATED PROJECTS

Update on Unincorporated Islands Program

The County Unincorporated Areas Program is identified as a "high priority" project in the Commission's 2017-18 Work Plan. Currently, the inventory of County unincorporated areas includes a total of 33 islands: 23 that meet the small island criteria of under 150 acres and 10 larger islands.

During the first quarter, the Executive Officer made a presentation to the Stanton City Council on the Islands Program, highlighting information on the three remaining islands within that City's sphere. During that presentation, the City Councilmembers raised many questions and concerns regarding the condition and maintenance of the infrastructure and the additional costs associated with providing services to the islands. OC



Executive Officer Emery presenting to the Stanton City Council

LAFCO staff is currently working with City and County staffs on these issues and on identifying the annexation challenges for these unincorporated islands.

Additionally, during the first quarter, staff participated in several meetings with the stakeholders involved in a proposed development within the 17th Street and Tustin Island within Santa Ana's sphere of influence. Staff continued to provide the City, County and the representatives of the property owner, information regarding the annexation process and participated in discussions regarding the provision of municipal water and wastewater services through out-of-area agreements.

Further, during this quarter, staff continued its efforts in supporting the City of La Habra in its consideration of the potential annexation of the six remaining small islands within its sphere of influence. It is anticipated that the City will submit an application for the annexation of these islands in January 2018 and the action is expected to be considered by the Commission in February.

ADMINISTRATIVE ACTIVITIES

CALAFCO Committees

OC LAFCO staff participates in discussions that shape legislation of interest to the agency and to LAFCOs in general through its membership on the CALAFCO Legislative Committee. During the first quarter, the Legislature returned from summer recess in mid-August and continued to review and consider legislation through the conclusion of the session on September 15. 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 2018 LAFCO-related legislation, will be reviewed by the Commission at its meeting in December.



Additionally, during the first quarter, OC LAFCO staff played key roles in the design and development of the program for the 2017 CALAFCO Annual Conference that was held on October 25-27 in San Diego. Executive Officer Emery served as the Program Chair for the Conference Planning Committee, providing leadership to the team of Board Members and staff volunteers. OC LAFCO staff members, Debra Kurita and Gavin Centeno served as committee team leader and sub group member respectively for conference sessions, responsible for securing panel speakers and moderators and providing feedback on session content and other details.



Chair McGregor



Luis Tapia and fellow Panelists

Two of the sessions featured speakers from OC LAFCO: Chair McGregor was a panel member for the session entitled, "Commission Decisions: The Great Balancing Act" and Luis Tapia, Policy Analyst, showcased the OC LAFCO's Unincorporated Island Program for the session entitled, "Unincorporated Islands: Rescuing City Castaways." The Conference also featured general sessions on ethics, branding your LAFCO and the results of a statewide poll on LAFCOs.

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 17-18 MEETINGS & OUTREACH EFFORTS
July Meetings
Stanton City Council – Presentation on Island Program
North Orange County Cities Association – Presentation on MSR Process
Jim Ruth, Rossmoor General Manager – Discussion of MSR Process
LAFCO Consultant – Organizational Assessment
LAFCO Consultant – MSR Stakeholder Outreach Process
CALAFCO Program Conference Committee
OCERS Financial Update Meeting
August Meetings
Orange County City Managers’ Association – Presentation on MSR Process
City of Tustin – MSR Process and Santa Ana Island Update
California Society of Municipal Finance Officers – Presentation on MSR Process
Orange County Grand Jury
OCTA – Meeting on Governmental Affairs and MSR Process
CALAFCO Southern Region Meeting
CALAFCO Program Conference Committee
CALAFCO Board of Directors Meeting
City of Orange – Potential Change of Organization
OCCOG – monthly meeting
LAFCO Consultant – Organizational Assessment
LAFCO Consultant – MSR Stakeholder Outreach Process
OCERS Financial Update Meeting
El Toro Water District- Community Advisory Group
September Meetings
Pre-Submittal Conference for RFPs for City of San Juan Focused MSR
Pre-Filing Meeting – Santa Ana Island Project
Executive Committee Quarterly Meeting
MWDOC Managers’ Meeting– Presentation on MSR Process
Rancho Mission Viejo Quarterly Meeting
Commission Ad-Hoc Committee on Policies and Procedures
OCERS Financial Update Meeting
Public Agency Retirement Services (PARS) – Review of services
CALAFCO Program Conference

FY 2017-18 BUDGET OVERVIEW

This CQ report includes the first quarterly budget update for fiscal year 2017-18. 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, 2017 through September 30, 2017 (see page 11).¹ The total budget approved by the Commission for 2017-18 is \$1,138,040.

Revenues

The majority of OC LAFCO's first quarter revenues is from the \$1,019,772 collected in apportionments from the funding agencies. The remaining balance of \$50,628 in apportionments is expected to be collected in the second quarter. In addition to the apportionments, OC LAFCO also earns interest from its investment portfolio. In the first quarter, the agency earned approximately \$3,836 in interest which is 45% of the interest revenues anticipated for the fiscal year.

Further, OC LAFCO receives some miscellaneous revenues during the year. In July, the County informed the agency that the last two repayments to OC LAFCO accounts for the outstanding balance from the funds owed through the Orange County bankruptcy settlement "Plan B" will be \$251 and \$37 to be paid in FY 2017-18 and FY 2018-19 respectively. The original claim balance for OC LAFCO in the bankruptcy settlement of 1997 was \$3,181. When received, these two payments, which reflect the end of the County's bankruptcy obligations, will be accounted for in the miscellaneous revenues.

Another source of OC LAFCO revenue is the application filing fees. These filing fees are not used for budgeting purposes, and are shown in the quarterly overview as revenue within the Special Fund column. Additionally, during the current fiscal year, CALAFCO provides a stipend to cover a portion of the costs associated with the Executive Officer serving as a Deputy Executive Officer for the association. The Special Fund column in the quarterly report includes a year-to-date accounting of application and CALAFCO stipend-related revenues and expenses incurred during the first quarter.

Expenditures

The total General Fund expenditures at the end of the first quarter are approximately 22 percent or \$250,359 of the total budget of \$1,138,040. The following table provides the comparison of the percentage of actual funds used and the target levels for the current fiscal year.

Total FY 2017-18 Funds Used by Quarter				
	1 st Qtr.	2 nd Qtr.	3 rd Qtr.	4 th Qtr.
Target	25%	50%	75%	100%
Actual	22%	--	--	--

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

There are two projects, the Organizational Assessment and the development of the Municipal Service Review Stakeholders Input Process that were approved and budgeted in the 2016-17 fiscal year; however, the work was not completed during that fiscal year and the projects carried over into FY 2017-18. The combined outstanding balance for these contracts at the end of the 2016-17 fiscal year was \$40,350. As these funds were appropriated but not expended during FY 2016-17, the \$40,350 approved and budgeted for these projects is now reflected in the unreserved equity account for the current fiscal year. The following table provides the detail of the expenditures on these two projects. Including this information in this report allows the Commission and staff to monitor the impact of the expenditures associated with these two continuing projects in order to determine if a budget adjustment will be necessary during the year.

Contracts Carried-Over from FY 2016-17			
<i>Type of Service</i>	<i>Total 17/18 Carry-over</i>	<i>1st Quarter Expenditure</i>	<i>Balance</i>
MSR Stakeholder Input	\$ 13,800	\$ 3,450	\$10,350
Org. Assessment	26,550	3,000	\$23,550
Total	<u>\$40,350</u>	<u>\$6,450</u>	<u>\$33,900</u>

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 9/30/17	Balance
770-Payroll Account	\$ 367,060
Wells Fargo Checking	137,468
Wells Fargo Savings	<u>210,555</u>
Total	<u>715,083</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 9/30/17	Balance
LAIF	\$733,921
OC Fund	\$471,074
Total	<u>\$1,204,995</u>

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, 2017.

² Unaudited – Subject to Change

Orange County Local Agency Formation Commission
Quarterly Overview
July 1 - September 30, 2017

	1st Qtr. General Fund	YTD Special Revenue Funds	TOTAL FY 17/18 Budget	General Fund %
Revenue				
Addition/(Use) of Unreserved Equity	\$ -	\$ -	\$ 59,140	0.0%
LAFCO Apportionment	1,019,772	-	1,070,400	95.3%
Filing Fees	-	-	-	0.0%
Misc Revenue	436	-	-	0.0%
Interest & Dividends	3,836	-	8,500	45.1%
Total Revenue	\$ 1,024,045	\$ -	\$ 1,138,040	90.0%
Expenditures				
Salaries	\$ 103,330	\$ 3,097	\$ 415,800	24.9%
Hourly Employees	-	-	10,000	0.0%
Benefits & Insurance				
Optional Benefit Plan	-	-	18,500	0.0%
Deferred Compensation	1,188	-	6,800	17.5%
Retirement Benefits	37,860	-	124,500	30.4%
Health Insurance	14,254	-	55,000	25.9%
Retiree Health Benefits	4,494	-	16,100	27.9%
Dental Insurance	1,618	-	5,400	30.0%
Life Insurance	151	-	550	27.5%
Workers Compensation	-	-	2,950	0.0%
Medicare	1,563	-	5,900	26.5%
Salary Continuance	373	-	1,400	26.6%
Accidental Death Insurance	31	-	110	27.7%
Executive Car Allowance	2,400	-	7,200	33.3%
Total - Benefits & Insurance	63,931	-	244,410	26.2%
Information Technology	1,752	-	10,000	17.5%
Telephone & Internet	3,443	-	14,200	24.2%
County of Orange	-	-	4,000	0.0%
General Liability Insurance	4,945	-	16,510	30.0%
Memberships	7,014	-	31,600	22.2%
Office Equipment/Supplies	1,755	-	18,000	9.7%
Professional Services				
Legal	14,143	-	60,000	23.6%
Accounting/Audit	10,585	-	42,900	24.7%
Human Resources	1,260	-	8,000	15.8%
Mapping/Archiving	884	-	6,400	13.8%
Other Professional Services	-	-	100,000	0.0%
Total - Professional Services	26,872	-	217,300	12.4%
Investment Admin Fees	127	-	600	21.1%
Banking Fees	8	-	220	3.7%
Public Noticing	-	-	10,400	0.0%
Postage	104	-	1,000	10.4%
Rents/Maintenance	17,473	-	70,900	24.6%
Equipment Leases	774	-	4,500	17.2%
Comm. & Staff Expense	1,819	-	8,400	21.6%
Comm. Stipends & Taxes/Fees	1,879	-	16,200	11.6%
Professional Development	8,244	-	15,000	55.0%
Transportation/Travel	6,549	490	22,700	28.9%
Commission Meeting Expense	340	-	6,300	5.4%
Refund of Deposits	-	-	-	0.0%
Total Expenditures	250,359	3,587	1,138,040	22.0%
Total Net Income (Loss)	\$ 773,685	\$ (3,587)	\$ -	

OC Local Agency Formation Commission 16/17
Balance Sheet
As of September 30, 2017

	Sep 30, 17
ASSETS	
Current Assets	
Cash and Investments	
1000 · County Acct-Payroll	367,060
1025 · Wells Fargo Checking	137,468
1030 · Wells Fargo Savings	210,555
1040 · OC Fund	471,074
1050 · Investment Acct - LAIF	733,921
1059 · Fair Market Value Adjustments	(1,087)
Total Cash and Investments	1,918,992
Other Current Assets	
Other Current Asset	
1299 · Miscellaneous Receivable	288
1300 · Interest Receivable - Other	1,384
1375 · Prepaid Expenses - Other	22,712
1376 · Retirement Prepaid Expense	93,995
1550 · Due from Other Governments	1,459
Total Other Current Asset	119,838
Total Other Current Assets	119,838
Total Current Assets	2,038,829
Other Assets	
1600 · Security Deposit	6,082
Total Other Assets	6,082
Total Other Assets	6,082
TOTAL ASSETS	2,044,911
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
2000 · Accounts Payable	10,694
Total Accounts Payable	10,694
Other Current Liabilities	
Current Liabilities	
2001 · Accrued Liability	4,169
2050 · Salaries Payable - OC (9050)	13,940
Total Current Liabilities	18,109
Total Other Current Liabilities	18,109
Total Current Liabilities	28,803
Total Liabilities	28,803
Equity	
3050 · Restricted Net Assets	
3950 · Reserve for Contingency	100,000
3960 · Reserve for Litigation	75,000
3970 · Reserve for Unfunded Liability	30,000
3980 · Reserve for Special Projects	7,900
3050 · Restricted Net Assets	212,900
3000 Unrestricted Net Assets	1,880,209
Total Equity	2,016,108
TOTAL LIABILITIES & EQUITY	2,044,911