



MSR/SOI Report

City of Costa Mesa

July 12, 2006

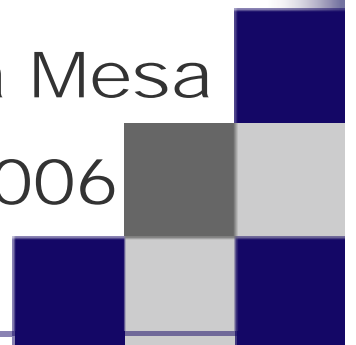




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EXECUTIVE SUMMARY

The purpose of this report is to provide a comprehensive review of the municipal services provided by the City of Costa Mesa. Municipal Service Reviews (MSRs) are required by the Cortese-Knox-Hertzberg Act of 2000 to be completed before (or concurrently with) an agency's sphere of influence update. The report is organized into five sections:

1. *Executive Summary* – Provides an overview of the report's structure and content.
2. *Introduction* – Explains the statutory requirements related to municipal service and sphere of influence reviews.
3. *History of Costa Mesa* – Provides a brief historical overview of the Costa Mesa MSR area.
4. *The Nine Determinations* – Examines the City of Costa Mesa's structure and service provision as they relate to the nine municipal service review (MSR) determinations required by law.
5. *Service Review Determinations* - Summarizes LAFCO staff's nine MSR determinations based on the analysis of the City of Costa Mesa's structure and service provision.

MUNICIPAL REVIEW SUMMARY

No significant issues were noted. The City is projected to have modest growth over the next 15 years (approximately 5,600 new residents), and no significant infrastructure needs or deficiencies were noted. While the City's operating and capital budget for FY 2006-2007 projects expenditures exceeding revenues by approximately \$7.7 million, this is largely due to the City's aggressive capital improvements program currently underway. The City has sufficient operating reserves and appropriations fund balances to cover the projected budget shortfall. No rate restructuring opportunities were noted. The City uses private contracts wherever possible to reduce costs and increase management efficiencies. The City uses a variety of means to increase local accountability and governance.

With respect to government structure options, there remain four unincorporated areas located within the City's sphere of influence: (1) West Santa Ana Heights; (2) the Santa



Ana Country Club; (3) the South Mesa area; and, (4) approximately ten acres of territory located north of 22nd Street and east of Santa Ana Avenue. Two government structure options exist for the City:

1. Annexation of West Santa Ana Heights, the Santa Ana Country Club, South Mesa and the ten-acre territory north of 22nd Street and east of Santa Ana Avenue, and
2. Annexation of territory not currently included in the City's current sphere of influence. This may include the 465-acre Banning Ranch property.



INTRODUCTION

Pursuant to a 2000 legislative requirement, LAFCO must conduct a comprehensive review of municipal service delivery and update, as necessary, the spheres of influence of agencies under LAFCO's jurisdiction not less than every five years. The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 requires that LAFCO review municipal services before updating the spheres of influence and to prepare a written statement of determination with respect to each of the following:

- 1) Infrastructure needs or deficiencies;
- 2) Growth and population projections for the affected area;
- 3) Financing constraints and opportunities;
- 4) Cost avoidance opportunities;
- 5) Opportunities for rate restructuring;
- 6) Opportunities for shared facilities;
- 7) Government structure options, including advantages and disadvantages of consolidation or reorganization of service providers;
- 8) Evaluation of management efficiencies; and
- 9) Local accountability and governance.

The MSR process does not require LAFCO to initiate changes of organization based on service review findings; it only requires that LAFCO make "determinations" regarding the provision of public services per Government Code Section 56430. The ultimate outcome of conducting a service review, however, may result in LAFCO taking discretionary action on a change of organization or a reorganization.





SPHERE OF INFLUENCE UPDATES

LAFCO is also charged with adopting a sphere of influence for each city and special district within the county. A sphere of influence is a planning boundary that designates the agency's probable future boundary and service area. Spheres are planning tools used to provide guidance for individual proposals involving jurisdictional changes. Spheres ensure the provision of efficient services while discouraging urban sprawl and the premature conversion of agricultural and open space lands. The Cortese-Knox-Hertzberg (CKH) Act requires LAFCO to develop and determine the sphere of influence of each local governmental agency within the county, and to review and update the SOI every five years. In determining the SOI, LAFCO must address the following:

- 1) Present and planned land uses in the area, including agricultural and open-space lands;
- 2) Present and probable need for public facilities and services in the area;
- 3) Present capacity of public facilities and adequacy of public service that the agency provides or is authorized to provide; and
- 4) Existence of any social or economic communities of interest in the area if LAFCO determines that they are relevant to the agency.

A comprehensive sphere of influence update will be completed for the City of Costa Mesa in 2007.

HISTORY OF COSTA MESA¹

Located on the "coastal tableland" above Newport Bay, Costa Mesa was once grazing grounds for cattle belonging to the Mission San Juan Capistrano. At the beginning of the 19th century, missionaries built an adobe "way station" for vaqueros who tended the herd. In 1810, the same area was a part of the Spanish land grant of Santiago Del Santa Ana made to Jose Antonio Yorba. By 1880, settlers had begun buying portions of the rancho from Yorba's heirs and established the town of Fairview. A school house and church were built near the present intersection of Harbor and Adams, and a 25-room hotel accommodated visitors to the nearby hot sulfur springs. By early 1889, a storm washed out the railroad and brought financial hardship to the community. The area reverted back to farming.

About that same time, the small town of Harper (named after a nearby rancher) emerged. Its first business, Ozmen's General Store, stood on the corner of Newport and

¹ City of Costa Mesa General Plan (2000)

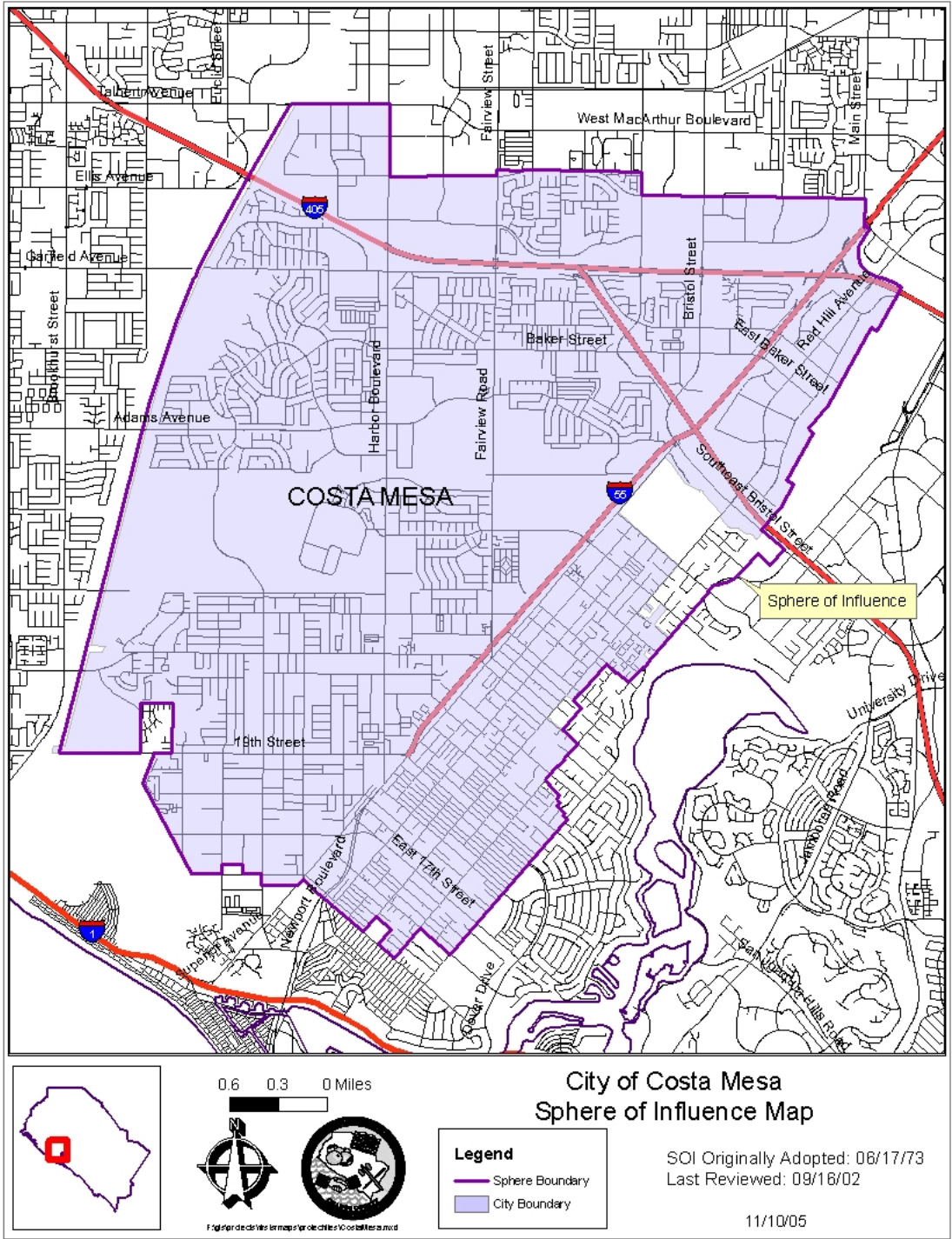


18th Street and contained the area's first post office, established in 1909. On May 11, 1920, Harper officially changed its name to Costa Mesa, which means "coastal tableland" in Spanish, and continued as an agricultural community growing sweet potatoes, corn, tomatoes, strawberries and apples. Building and oil drilling industries were just beginning to bring new growth to the City when the depression hit Southern California. More disaster followed with the 1933 earthquake shook the town, damaging businesses and the main school.

World War II brought thousands of people to the area for training at the Santa Ana Army Air Base, located on what is now the Orange County Fairgrounds, Orange Coast College and the present site of the Costa Mesa Civic Center. When the war ended, many returned with their families to begin the population boom which continues today. On June 29, 1953, the City was incorporated under the City Council-Manager form of government. The new City had an area of 3.5 square miles and a population of 16,640. Today, Costa Mesa is one of Orange County's leading cultural and business centers, encompassing a total of 16.8 square miles. According to the State Department of Finance, the current population is approximately 113,134.



Exhibit 1 - City of Costa Mesa Sphere Influence





THE NINE DETERMINATIONS

GROWTH AND POPULATION PROJECTIONS

Countywide Growth Trends

As of January 1, 2005, the official population estimate for Orange County from the California State Department of Finance for Orange County was 3,056,865. This population estimate ranks Orange County as the second most populous county in California and the fifth most populous in the nation. Population growth is expected to reach 3,340,282 people by the year 2020. The most significant factor contributing to Orange County's population growth is natural increase (births minus deaths). In terms of density, Orange County ranks second within California, just behind the County/City of San Francisco. *Table 1- County Population and Density Comparisons*, below, shows Orange County's size in comparison to other nearby counties.

Table 1 - County Population and Density Comparisons

County	Population	Unincorporated Percentage 2000	Unincorporated Percentage 2004	Land Area (acres)	Simple Density (persons/acre)
Alameda	1,466,900	9.3%	9.3%	472,060	3.11
Contra Costa	963,000	19.2%	15.7%	460,740	2.09
Los Angeles	9,716,000	10.5%	10.5%	2,598,980	3.74
Orange	2,978,816	7.7%	3.7%	505,220	5.73
Riverside	1,577,700	26.4%	26.8%	4,612,740	0.34
Sacramento	1,242,000	53.1%	45.7%	618,050	2.01
San Bernardino	1,742,300	17.3%	15.9%	12,833,600	0.14
Santa Clara	1,709,500	6.1%	5.7%	826,050	2.07
San Diego	2,856,300	16.1%	15.6%	2,687,940	1.06

Growth within the City of Costa Mesa

Starting as a small cattle grazing and agricultural community, Costa Mesa has grown into city of approximately 113,134 residents. Now known as the "City of the Arts," Costa Mesa encompasses a total of 16.8 square miles with its southern-most border less than two miles from the Pacific Ocean. The dominant industries for the City are trade, manufacturing, services, finance/insurance and real estate.



The Orange County Performing Arts Center, South Coast Repertory, Orange County Fairgrounds, Triangle Square, Metro Pointe and South Coast Plaza are prominent centers of cultural and economic activity within the City. The volume of sales generated by the South Coast Plaza, the City's regional mall, ranks it among the highest



volume shopping centers in the nation. The City of Costa Mesa offers 27 neighborhood and community parks, golf courses, 15 elementary schools, two intermediate schools, two high schools, and two County branch libraries. The City is also home to Orange Coast College, Vanguard University, Whittier Law School and National University.

The City has a total population of 113,134 and is project to reach 118,764 by 2020. The City has a diverse land use mix: 48 percent of which is designated for residential use, 14 percent for commercial use, 13 percent for industrial uses, and 25 percent allocated for public and semi-public uses. In 1998, employment in the city totaled 77,415, with projected employment in 2020 expected to increase to 106,708.

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Table 2 - City of Costa Mesa Land Use Distribution

Land Use Distribution	Total Acres	% of City
Low-Density Residential	2,170	27%
Medium-Density Residential	820	10%
High-Density Residential	878	11%
Commercial-Residential	44	0.5%
Neighborhood Commercial	45	0.6%
General Commercial	631	8%
Commercial Center	93	1%
Regional Commercial	115	1%
Urban Center Commercial	161	2%
Cultural Arts Center	54	0.7%
Industrial Park	714	9%
Light Industry	382	5%
Public/Institutional	1,287	16%
Golf Course	560	7%
Fairgrounds	146	2%



Table 3 – City of Costa Mesa Housing and Employment Projections

Year	Dwelling Units	Employees
2005	40,643	95,099
2010	40,873	102,461
2015	41,730	103,726
2020	42,469	106,708

Source: Center of Demographic Research, CSUF

The City’s General Plan, adopted in 2002, incorporates an integrated framework of growth management, land use, circulation, infrastructure and community design goals and policies which, when used together, manages growth and development and assists in maintaining and enhancing the City’s existing quality of life. A major goal of the General Plan’s Growth Management Element is to “...ensure that planning, management and implementation of traffic improvements and public facilities are adequate to meet the current and projected needs of the City.”

The City has adopted a seven-year Capital Improvements Program (FY 2005-06 through FY 2011-12) which allocates almost \$214 million over the seven year period for street maintenance and improvements, traffic signalization, parks, parkways and median upgrades, community programs and facilities maintenance. In FY 2005-2006 alone, the City has allocated approximately \$12 million for capital improvements, including \$3.4 million to upgrade the TeWinkle Park Athletic Field Complex. The City has adequately planned for future growth and associated infrastructure through its General Plan update process and Capital Improvement Program (CIP).

No significant issues were noted.

INFRASTRUCTURE NEEDS & DEFICIENCIES

This determination addresses the adequacy of existing and planned infrastructure needed to accommodate future growth and the efficient delivery of public services. The City of Costa Mesa was incorporated on June 29, 1953 and a City Council-Manager form of government was chosen. The City or other agencies which provide services to Costa Mesa residents are described in *Table 4*, below.



Table 4 - City of Costa Mesa Service Providers

Service	Current Provider
Animal Control	City of Costa Mesa
City Attorney	Contract (Jones and Mayer)
Planning and Community Development	City of Costa Mesa
Fire & Paramedic	City of Costa Mesa
Library	County of Orange
Parks & Recreation	City of Costa Mesa
Police	City of Costa Mesa
Solid Waste	Costa Mesa Sanitary District
Water	Irvine Ranch Water District Mesa Consolidated Water District
Sewer	Costa Mesa Sanitary District Orange County Sanitation District

The City's existing General Plan establishes levels of service for municipal services and mandates ongoing review of key public services. This helps to ensure orderly City growth and development and that services and facilities will be provided concurrent with need. To ensure ongoing implementation of adequate public service programs, the City adopts an annual budget, an annual capital improvement program (CIP) and work program to ensure that service levels are maintained or improved and that the CIP is adequately funded. For FY 2005-2006, the CIP budget allocates over \$12 million to enhance existing infrastructure and provide new infrastructure to aid in service delivery to the City of Costa Mesa. Key projects funded for FY 2005-2006 include street and traffic signal improvements, parks maintenance and upgrades, water quality projects and facilities maintenance.

Police Services

The City of Costa Mesa Police Department provides public safety services to City residents, businesses and visitors. The mission involves: crime prevention, field patrol (ground and air), crime investigation, apprehension of offenders, traffic enforcement and control, regulation of non-criminal activity, animal control and the performance of a number of related and support services. The Police Department is comprised of approximately 228 full-time personnel, of which 154 are sworn police officers and 74 are civilian support personnel. In addition there are part-time personnel and senior volunteers that augment department personnel.



An October 2005 survey of 22 police agencies within Orange County, conducted by the *Orange County Register*, indicated that the City has an officer to population ratio of one officer for every 783 residents. The *Register* survey measured effectiveness of police agencies in eight categories: response time, citizens per officer, homicide clearance, violent crime clearance, property crime clearance, burglary clearance, violent crime rate and property crime rate. When compared to other police agencies countywide, the Costa Mesa Police Department was one of only seven police agencies that received the highest “4-star” rating. According to the study, average response time for life-threatening emergencies within Costa Mesa averaged 3.23 minutes – one of the fastest response times of any police agency countywide.



Fire Services

The City of Costa Mesa Fire Department is responsible for fire prevention, enforcement of fire protection laws and ordinances, fire suppression, emergency medical services, hazardous materials response and weed abatement. There are six existing fire stations strategically located throughout the City. Costa Mesa has achieved and maintains a “protection class two”, which affords residents and business owners excellent base fire insurance rates. This is accomplished by continual monitoring of existing conditions, review of all building projects and planning for additional fire protection facilities, equipment, personnel and training to meet future needs.

Open Space, Parks and Recreation

Open space in Costa Mesa includes neighborhood and community parks, community centers, open space easements and golf courses. There are also County-owned regional facilities within and adjacent to the City limits and a large amount of institutional land. The total inventory of open space and recreation land comprises approximately 20 percent of the total land area of the City.

The City’s General Plan Open Space and Recreation Element states that the City’s long-term goal is to provide a minimum of 5.76 acres of permanent public open space (consisting of 4.26 acres of neighborhood and community parks and 1.5 acres in school



yards) for every 1,000 residents. The City has not met all of its current population's open space and parks needs, therefore, additional parks and facilities must be provided to serve existing constituents. Since not all of the needs can be met at once, the City has adopted a Parks, Recreation and Open Space Master Plan to guide future improvements to address current system deficiencies and to meet the long-term community needs.

Water and Sewer

Water service to the City of Costa Mesa is provided by two water supply agencies: Mesa Consolidated Water District and Irvine Ranch Water District (IRWD). A majority



of the City (85%) is within the boundaries of Mesa Consolidated which also serves unincorporated areas of the County and portions of Newport Beach. Properties to the southeast of Newport Boulevard, between 23rd and Bristol Streets, are served by IRWD. Approximately 75 percent of Mesa's water supply is pumped from natural underground water aquifers located in the Orange County Groundwater Basin. The remaining 25 percent of Mesa's water supply is imported from the Metropolitan Water

District via two wholesale water agencies: MWDOC and Coastal. Approximately 50 percent of IRWD's water is purchased from MWD; the remaining 50 percent of the supply comes from local groundwater wells.

Each water agency maintains master plans for services, facilities, maintenance, and improvements necessary to support existing and projected population growth and development. Conservation practices and requirements to meet regional, state and federal water quality regulations are included within the respective plans. Each agency maintains a capital improvements program for the provision of water system improvements, special projects and ongoing maintenance. Water demands are monitored and periodically the plans are updated to account for any service issues and regulatory changes.

The Costa Mesa Sanitary District (CMSD) is the local sewer agency for the majority of Costa Mesa. The remaining portions of the City are served directly by the Orange



County Sanitation District (OCSD). Both CMSD and CSDOC maintain master plans based on anticipated land use intensities in order to estimate and plan for future needs.

No significant issues regarding infrastructure needs and deficiencies were noted.

FINANCING CONSTRAINTS & OPPORTUNITIES

The City of Costa Mesa FY 05-06 adopted budget reflects the operating and capital spending plans for the General Fund, Special Revenue Funds, Capital Project Funds, and Internal Service Funds. The total budget for all funds is \$118.4 million, an increase of \$8.2 million or 7.47% compared to the adopted budget for FY 04-05. Table 5, below, illustrates these changes.

Table 5 - City of Costa Mesa Adopted Operating and Capital Spending Plans

Appropriations/ All Funds	Adopted FY 05-06	Adopted FY 04-05	Increase/Decrease Amount	Increase/ Decrease %	% of Total
Operating Budget	\$104,535,301	\$96,488,870	\$8,046,431	8.34%	88.31%
Transfers Out	1,874,000	2,938,680	(1,064,680)	-36.23%	1.58%
Capital Budget	11,970,254	10,720,058	1,250,196	11.66%	10.11%
TOTAL	\$118,379,555	\$110,147,608	\$8,231,947	7.47%	100.00%

Table 6, below, summarizes the City of Costa Mesa revenue fund sources for Fiscal Years 04-05 and 05-06. The table includes all governmental funds, including the General Fund (taxes, licenses and permits, fines, fees and charges, interest, etc.), special revenue funds and capital project funds. Sales and use taxes represents Costa Mesa's single largest revenue source which is estimated at \$43.8 million or almost 50 percent of the total General Fund revenues projected for FY 05-06. Property tax is the second largest source of revenue for the City. The FY 05-06 estimated revenue from all property tax collections is \$21 million or 23.62 percent of the total General Fund revenues.



Table 6 - City of Costa Mesa Revenue Funds

Governmental Fund Types	Adopted FY 05-06	Adopted FY 04-05	Increase/Decrease Amount	Increase/Decrease %	% of Total
General Fund	\$95,055,890	\$87,929,980	\$7,125,910	8.10%	85.39%
Special Revenue Funds	7,575,064	10,308,881	(2,733,817)	-26.52%	6.80%
Capital Project Funds	8,692,615	6,251,093	2,441,522	39.06%	7.81%
TOTAL	\$111,323,569	\$104,489,954	\$6,833,615	6.54%	100.00%

For many years, the City has embarked on an aggressive capital improvement program to improve and maintain its infrastructure including streets, curbs and sidewalks, storm



drains, traffic operations, parks, parkways, and medians, municipal buildings and facilities. Over the last nine years, the City has dedicated approximately \$121 million (or an average of \$13.5 million a year) for capital improvements. For FY 05-06, the City has allocated almost \$12 million for capital improvements.

For FY 05-06, projected City expenditures will exceed overall City revenues by approximately \$7,714,485. This is largely due to

the aggressive citywide capital improvements program underway. The City has sufficient general operating reserves and appropriations fund balances to cover the projected budget shortfall.

No significant issues were noted.



COST AVOIDANCE OPPORTUNITIES/OPPORTUNITIES FOR SHARED FACILITIES

The City of Costa Mesa contracts, when feasible, for various services including City attorney services, tree trimming, custodial services and specialized/personal enrichment recreation program services. The City's core services, police, fire, engineering, transportation, planning, building plan check and inspection, code enforcement, and parks and recreation services, continue to be provided by City staff.

No significant issues were noted.

OPPORTUNITIES FOR RATE RESTRUCTURING

The Costa Mesa City Council reviews its budget annually and establishes fees and charges for services to ensure that revenues are adequate to meet expected expenses. Fees charged by some service providers are beyond the purview of the City of Costa Mesa; however, the City works closely with service providers to ensure the most efficient and cost effective services.

No significant issues were noted.

GOVERNMENT STRUCTURE OPTIONS

In 2000, Orange County LAFCO, in cooperation with the County, and the League of Cities - Orange County Division, initiated a small islands program to facilitate the annexation of small unincorporated islands to adjacent Orange County cities. The City of Costa Mesa was an active participant in this program, initiating annexation of all unincorporated territory within their City's sphere of influence. In 2002, LAFCO approved the annexation of five small islands to Costa Mesa and a reorganization of territory with the City of Newport Beach of a larger 80-acre island ("Bay Knolls"). Annexation attempts by the City of Costa Mesa for both the Santa Ana Country Club and the South Mesa areas in 2002, while approved by LAFCO, were subsequently terminated by registered voter protest.

Four unincorporated areas, described below, remain within the City's sphere of influence:

- *West Santa Ana Heights* - 83 acres bounded on the west by the Santa Ana Country Club and to the south by the unincorporated South Mesa residential/commercial area. The West Santa Ana Heights area includes a mix of land uses including



residential, convalescent care, nurseries and dog kennels. East Santa Ana Heights was annexed to the City of Newport Beach in 2002.

- *Santa Ana Country Club* – the 125-acre private golf course facility is south of Bristol Street and bounded by Mesa Drive, Newport Boulevard, Santa Ana Avenue/Red Hill.
- *South Mesa* – The unincorporated South Mesa area, approximately 88 acres in size, is predominantly residential but includes a commercial center at the corner of Mesa Drive and Irvine Avenue.
- *22nd Street/Santa Ana Avenue* – Originally approved by LAFCO for annexation to the City of Costa Mesa in 2002, the annexation was subsequently terminated by registered voter protest.

Two government structure options currently exist for the City of Costa Mesa:

1. Annexation of West Santa Ana Heights, the Santa Ana Country Club, the South Mesa area and the 22nd Street/Santa Ana Avenue island, and
2. Annexation of territory not included in the City's current sphere of influence. This may include the 456-acre Banning Ranch property.

Other governmental structure options may also exist with the reorganization of special districts that currently serve the City. LAFCO will be examining those options during the next MSR/SOI five year cycle.

LOCAL ACCOUNTABILITY & GOVERNANCE

No significant issues regarding local accountability and governance were noted. The City of Costa Mesa has five (5) council members, elected at-large, for four year, staggered terms. The city council selects the Mayor and Mayor Pro Tem annually to serve one-year terms. The council members also serve on special committees that review specific issues and make recommendations to the full city council.

The city council meets on the first and third Tuesday of each month. All council meetings are televised live through the city's local cable television outlet. Reruns of the council meetings are available on line through the City's website: www.ci.costa-mesa.ca.us. The City maintains a website to increase local accountability. *Table 7*, below, lists the current city council members and their terms of office.



ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION
Municipal Service & Sphere of Influence Review Report for the
City of Costa Mesa (MSR 06-26)
July 12, 2006



Table 7 - Costa Mesa City Council Members

City of Costa Mesa Council Members	Title	Term Expires	Monthly Stipend*
Allan Mansoor	Mayor	2006	\$952.00
Eric Bever	Mayor Pro Tem	2008	\$952.00
Gary Monihan	Council Member	2006	\$952.00
Linda Dixon	Council Member	2008	\$952.00
Katrina Foley	Council Member	2008	\$952.00

*Council members are also eligible to receive certain insurance, medical and retirement benefits as well as professional training opportunities.



SERVICE REVIEW DETERMINATIONS

1) *Growth & Population Projections*

The City is projected to experience an increase of approximately 5,600 residents by the year 2020.

2) *Infrastructure Needs & Deficiencies*

The future growth projected for the City, while modest, will increase the demand for additional municipal level services. The City of Costa Mesa reviews infrastructure needs annually through its budget and capital improvement program to ensure that those city services will match projected growth. The City prides itself on providing a high level of municipal services for its residents.

3) *Financing Opportunities & Constraints*

For FY 05-06, projected City expenditures will exceed overall City revenues by approximately \$7,714,485. This is largely due to the aggressive citywide capital improvements program underway. The City has sufficient general operating reserves and appropriations fund balances to cover the projected budget shortfall.

4) *Opportunities for Rate Restructuring*

No issues regarding rate restructuring currently apply.

5) *Government Structure Options*

Two government structure options currently exist for the City of Costa Mesa:

- Annexation of West Santa Ana Heights, the Santa Ana Country Club, the South Mesa area and the 22nd Street/Santa Ana Avenue island, and
- Annexation of territory not included in the City's current sphere of influence. This may include the 456-acre Banning Ranch property.

Other governmental structure options may also exist with the reorganization of special districts that currently serve the City. LAFCO will be examining those options during the next MSR/SOI five year cycle.



6) **Local Accountability & Governance**

The City of Costa Mesa provides a strong resident outreach effort to its residents through its website, televised City Council meetings and community outreach efforts for City residents.

7) **Opportunities for Cost Avoidance**

No significant issues were noted.

8) **Opportunities for Management Efficiencies**

No significant issues were noted.

9) **Opportunities for Shared Facilities**

No significant issues were noted.