



June 8, 2016

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**CAROLYN EMERY**  
Executive Officer

**TO:** Local Agency Formation Commission

**FROM:** Executive Officer  
Assistant Executive Officer  
Project Manager

**SUBJECT:** South Orange County Governance Visioning Process  
Final Report

### BACKGROUND

In 2013, the Commission initiated the South Orange County Governance Visioning Process. This multi-year project was designed to provide a forum for stakeholders to identify viable future governance alternatives for the established and developing communities in the unincorporated territory of South Orange County. The Visioning Process is a continuation of ongoing discussions between the Commission and local stakeholders regarding service impacts and governance issues in the area. The process reflects the Commission's commitment to a proactive and open approach of engaging stakeholders collaboratively. The attached Visioning Process Final Report (Attachment A) provides an overview of the information exchanged and feedback provided by the stakeholders during this process.

The Visioning Process has yielded a clearer understanding of the financial, legislative and other issues affecting the viability of the long-term governance alternatives. While potential governance alternatives may not occur in the near term, the fiscal model developed through this process can be updated for use in future stakeholder discussions. The stakeholders, however, did express interest in the Commission's continued leadership in a collaborative process to collectively share information and explore long-term efforts at providing localized governance for the unincorporated communities.

As an outcome of the Visioning Process, staff recommends that the Commission establish new boundaries for two study areas: South County Study Area 1 which will include the developed communities of Coto de Caza, Ladera Ranch, Las Flores, Stonecliffe, and Wagon Wheel;


and South County Study Area 2 which will contain the Rancho Mission Viejo communities. By employing these new study area boundaries, the Commission will provide the forum for the established communities to discuss governance alternatives as they become more feasible and to address common issues as they surface. Meanwhile, the emerging communities of Rancho Mission Viejo will have time to become established and representatives from those developments can participate in discussions about long-term governance for their communities. Additionally, the establishment of two study areas will allow the Commission to stay engaged and informed to meet its legislative intent of encouraging efficient service delivery and ultimately approving governance structures that support logical boundaries. To further this goal, staff recommends that the Commission engage the stakeholders of these study areas on a bi-annual basis to discuss current service related issues and the timing of future governance alternatives.

## RECOMMENDATIONS

Staff recommends that the Commission:

1. Receive and file the South Orange County Governance Visioning Process Final Report.
2. Establish South County Study Area 1 consisting of the developed communities of Coto de Caza, Stonecliffe, Wagon Wheel, Las Flores and Ladera Ranch.
3. Establish South County Study Area 2 consisting of the developing communities in Rancho Mission Viejo.
4. Direct 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.

Respectfully submitted,

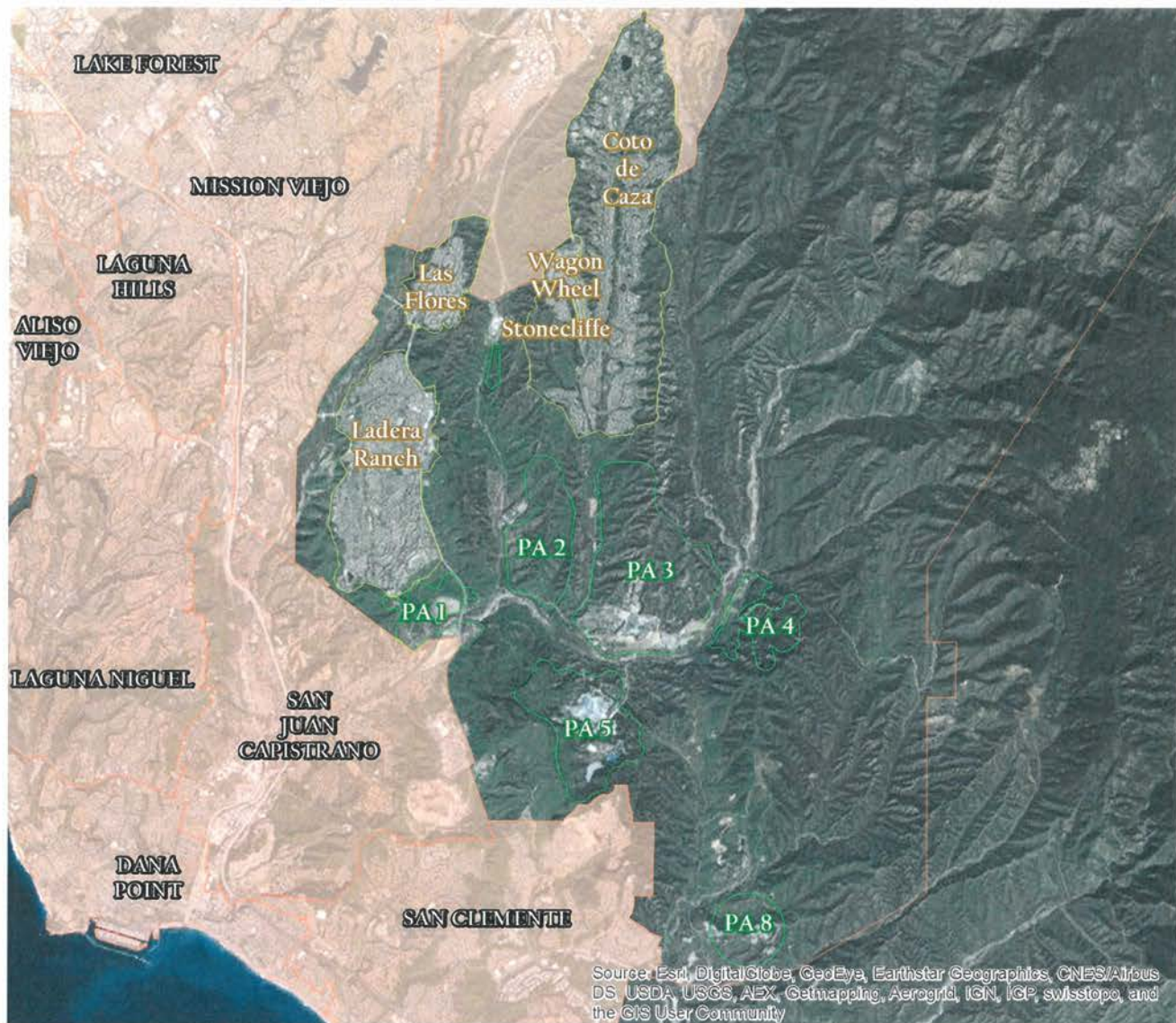
  
CAROLYN EMERY  
ATTACHMENT

  
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A. South Orange County Governance Visioning Process Final Report





# South Orange County Governance Visioning Process

Final Report





## INTRODUCTION

As the agency charged with ensuring the orderly formation of government entities, the Orange County Local Agency Formation Commission (OC LAFCO) has regularly engaged communities in unincorporated areas throughout the County in conversations about future governance. Over the past two decades, the Commission has been particularly active leading governance discussions for the unincorporated communities located in South Orange County. In August 2012, at its strategic planning session, the Commission directed staff to actively resume these discussions. Having closely monitored the Rancho Mission Viejo (RMV) development which began moving forward earlier that year, the Commission identified the South Orange County project as a primary objective in its work plan for the year. The Commission recognized that upon completion of the RMV development plan, which is projected to be in 2033, the estimated population of the unincorporated communities in the region will exceed 70,000. With this number of residents, the region will have a larger population than half of the existing cities in Orange County and will be comparable to the current size of the cities of Laguna Hills and San Clemente.

In September 2013, the Commission adopted the South Orange County Governance Visioning Process (“Visioning Process”). The multi-year process was designed to provide a forum for the exchange of information among local leaders, with input from the staffs of LAFCO, the County and the adjacent cities, to determine not if, but when future governance options might be viable. The discussions reviewed a broad array of governance alternatives, including the role of the County and homeowner associations as existing governance structures and the various alternatives for the future, such as annexation, the formation of a special district, or incorporation.

This report represents the culmination of the Visioning Process; however, the process it is yet another building block for future discussions. The following sections provide: (1) background on the transformation of South Orange County and LAFCO’s role encouraging logical boundaries, (2) an overview of the unincorporated communities involved, (3) an overview of the Visioning Process, (4) the feedback from the stakeholders regarding future governance alternatives, and (5) the recommended next steps.



## BACKGROUND

The Visioning Process is the continuation of an ongoing discussion between the Commission and local stakeholders to identify viable governance alternatives for the existing and planned communities in the unincorporated territory in South Orange County. The goal of the Visioning Process was for the Commission to renew relationships and receive feedback from local stakeholders regarding service impacts and governance issues related to the RMV development and the developed communities. The design of the process reflected the Commission's commitment to a proactive, open and transparent approach of engaging stakeholders in these discussions.

As the last and largest developable land in the area, the RMV development will be the catalyst for any governance alternative that is viable for the long-term. This section provides background on the development of South Orange County and the critical role of LAFCO in encouraging and facilitating logical governmental boundaries in the area.

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## TRANSFORMATION OF SOUTH ORANGE COUNTY

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The transformation of the South Orange County region from open space with rolling hills to one with a number of master planned communities resulted from coordinated efforts in land use planning and infrastructure improvements by the County, special districts and cities. Throughout this period of rapid development, OC LAFCO played an important role in encouraging the logical formation of stable governance structures and ensuring efficient service delivery. Although there is no formal template for the transition from a planned development to an incorporated city, a pattern for this progression emerged in South Orange County over the past 20 years. This unofficial roadmap has a stepped approach, allowing the communities to procure greater independence and control over service delivery along the way.

Historically, the path toward cityhood in South Orange County began with a master planned development. During the 1980s and 1990s the County often petitioned OC LAFCO to approve the formation of a dependent special district (County Service Area) to isolate county revenues and expenses within the community. For example, the Cities of Aliso Viejo, Laguna Niguel, Lake Forest, and Mission Viejo all began as County Service Areas.

As these communities matured, the residents often sought the creation of an independent special district (Community Services District) to enhance local representation by creating a separate independently elected board. For example, the cities of Mission Viejo and Laguna Niguel began as County Service Areas and transitioned to Community Service



Districts before eventually seeking cityhood. Incorporation efforts during that period benefited from a diversified tax base and additional funding from the State in the form of vehicle license fee revenue. At that time, OC LAFCO's role was a reactive one and the Commission processed incorporation proposals as they were received.

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## ENCOURAGING LOGICAL BOUNDARIES

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Over the past two decades, the Commission adopted a proactive stakeholder-driven approach that involves engaging local communities to discuss future governance. The new approach was an outgrowth of the Commission's efforts to address a new mandate by the State to periodically review how services are provided throughout the County and to determine which agencies are best suited to provide services to unincorporated communities.

Responsibility for the determination of where development occurs throughout the County rests with the local governments: the cities or the County for unincorporated territory. However, in charging LAFCO with overseeing boundary changes and the formation of new governments, the Legislature recognized that a separate independent agency with knowledge of the local issues, such as efficient municipal service delivery and local representation, was needed to objectively balance often competing interests. The Commission has fulfilled this legislative charge by reviewing the boundaries of proposed cities, establishing spheres of influence, and periodically engaging the unincorporated communities in South Orange County about future governance.

The Commission developed a tradition of engaging stakeholders in an open and collaborative forum. The Commission found that the success of its efforts to explore future governance is dependent upon active and informed participation from local stakeholders. As the residents are the end users of government services, stakeholder representatives become the technical experts for issues affecting their communities. As a result of this approach, the Commission has regularly engaged stakeholders from the developed unincorporated communities of Coto de Caza, Las Flores, Ladera Ranch, Stonecliffe and Wagon Wheel to discuss long-term governance as part of the municipal service review cycle. During the discussions, representatives from these communities have expressed a desire for greater control over the types and level of services provided within their communities. The future governance discussions have also included representatives from the adjacent cities of Rancho Santa Margarita, Mission Viejo, San Juan Capistrano and San Clemente.

The last city to form in the South Orange County study area was the City of Rancho Santa Margarita in 2000. During the City's incorporation process, OC LAFCO considered including the planned development communities of Coto de Caza, Las Flores, Stonecliffe and Wagon Wheel into Rancho Santa Margarita's boundary. Ultimately, they were not included due to several factors including the original vision of the master planned development, the boundary of the master maintenance corporation and the high estimated costs of providing municipal services to these communities.

In 2005, OC LAFCO staff hosted facilitated meetings with representatives from the unincorporated communities, the adjacent cities and representatives from the recently approved Rancho Mission Viejo development regarding future governance in preparation for the first municipal service review report for South Orange County. In 2009, OC LAFCO staff hosted facilitated meetings with staff from the City of Rancho Santa Margarita and the adjacent unincorporated communities. As a result of those discussions, the Commission amended the City's sphere of influence in 2010 to include the communities of Coto de Caza, Wagon Wheel, Stonecliffe, and Las Flores.

For the Visioning Process that began in 2013, staff conducted ascertainment sessions with stakeholders and ultimately developed a slightly different effort that was approved by the Commission. The latest stakeholder process was designed to encourage a two-way communication and information sharing effort that involved deliberate yet progressive governance planning. Through this process, the stakeholders received information about financing service provision as well as gained an understanding of the LAFCO process. Further, OC LAFCO staff developed several resources, including financial projections and criteria for evaluating various governance options based on state law, which provide a framework for future governance efforts. Additionally, OC LAFCO staff gained an appreciation of the issues important to each community, such as the impacts that traffic patterns and commercial patronizing have on the community identity for the residents. Ultimately, the unique character of each community and the issues affecting the lives of the residents provided an important back-drop for the Visioning Process discussions, the context for the feedback received from the stakeholders and ultimately staff recommendation regarding next steps for South County governance.



## SOUTH ORANGE COUNTY UNINCORPORATED COMMUNITIES

Approximately 44,000 residents currently live in the developed unincorporated communities in South Orange County. For these residents, the County of Orange is the primary government agency responsible for local and regional services and governance is provided by the County Board of Supervisors. However, water and sewer services are provided by the Santa Margarita Water District. Additionally, each of the planned communities have a homeowner association or a master maintenance corporation with an elected board that have assumed greater service responsibility for some services.

The communities in South Orange County are: Coto de Caza, Ladera Ranch, Las Flores, Stonecliffe, and Wagon Wheel and the developing portions of Rancho Mission Viejo (RMV). Each of the RMV planning areas is designed as a master planned community, sharing common traits with the existing communities. However, the history of each community, particularly how and when they were developed, provides the context for their community identity, their perspective on future governance, and their interest in engaging with LAFCO in the process.

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### COTO DE CAZA, WAGON WHEEL AND STONECLIFFE

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*Coto de Caza* was originally planned and developed as a private social and hunting resort community in the late 1960s. The OC Board of Supervisors formally approved the Coto de Caza Specific Plan for the community with 5,200 residential units in 1982. Today the community is home to almost 12,000



residents. Coto de Caza homeowners are within one of three independent homeowner associations: (1) Coto de Caza Community Association (includes 425 homes); (2) Los Ranchos Estates (includes 75 homes); and, (3) CZ Master Association (includes 3,474 homes).



Maintenance of the streets, open space and equestrian trails is the responsibility of the largest homeowner association, CZ Master Association which is governed by a five-member board and has an annual operating budget of over \$9 million. Service concerns among the community involve enhancing fire service and enforcement of traffic laws within the gated community and improving access to County planning and building departments. To address these concerns, CZ Master Association entered into a contract with California Highway Patrol for proactive traffic law enforcement within the gated community and continues to engage the Orange County Fire Authority in discussions regarding fire protection services. To improve access to planning and building activities, the Orange County Department of Public Works is currently developing a web-based customer service portal. Local governance continues to be important to the CZ Master Board of Directors, which remains committed to participating in future governance discussions led by the OC LAFCO. One current member of the CZ Master Association and one former board member represented the community for the Visioning Process stakeholder discussions.

Coto de Caza Snapshot	
Area	7.7 sq. miles
Housing Units	3,915
Population	11,888
Sphere of Influence	City of Rancho Santa Margarita

*Wagon Wheel* is a small residential enclave with approximately 2,500 residents. The community, which is located adjacent to Coto de Caza but outside of the gates, consists of 635 single family homes. Additionally, the Dakotas, a small multi-family condominium complex of 209 units is located at the center of Wagon Wheel. The Wagon Wheel Home Owner's Association (HOA) administers several amenities in the community, including recreational activities and park and landscaping maintenance. One member of the Wagon Wheel HOA board represented the community for the Visioning Process stakeholder discussions.

Wagon Wheel Snapshot	
Area	219 acres
Housing Units	844
Population	2,463
Sphere of Influence	City of Rancho Santa Margarita

*Stonecliffe* is a small gated residential community that is adjacent to Wagon Wheel and Coto de Caza. The community includes 145 single family homes with approximately 515 residents. The Stonecliffe HOA provides security and recreational services as well as maintenance of streets and common areas. One member of the Stonecliffe HOA represented the community during the Visioning Process stakeholder discussions.

Stonecliffe Snapshot	
Area	0.1 sq. miles
Housing Units	145
Population	515
Sphere of Influence	City of Rancho Santa Margarita

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## LAS FLORES

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The planned community of *Las Flores* was approved by the County Board of Supervisors in 1991. The boundary of the community includes approximately 1,000 acres, over half of which is dedicated open space. The vast majority of Las Flores consists of residential uses which provide housing for the community's 6,000 residents. The 1,982 residential units in the community are a mix of single-family residential units, condominiums, and apartments. Commercial development is limited to a 15-acre neighborhood center located at the intersection of Oso and Antonio Parkways.

Las Flores Snapshot	
Area	2.0 sq. miles
Housing Units	1,969
Population	5,971
Sphere of Influence	City of Rancho Santa Margarita

The L. F. Maintenance Corporation was established in 1995 to maintain, preserve, and control the common areas within the Las Flores community. The Las Flores Maintenance Corporation's legal counsel represented the community for the Visioning Process stakeholder discussions. Service concerns among the community involve emergency response times, animal control services and local access County planning and building services.



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## LADERA RANCH

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The construction of the *Ladera Ranch* planned community began in 1999. Today, the population of Ladera is approximately 23,000. There is 1.1 million square feet of non-residential uses within the community, including four commercial shopping centers and office and business parks. This balance of commercial and residential uses makes Ladera unique among the other established unincorporated communities in the region which have minimal to no commercial uses. The amount of commercial land available provides greater potential for sales tax generation which is an important factor in establishing the diversified revenue base necessary to support future local government.

Ladera Ranch consists of nine distinct villages connected by trails and community amenities with over 20 neighborhood parks and a 24-acre regional sports park. Two non-profit master maintenance corporations were formed to provide service administration and governance to the community as it was developed. The Ladera Ranch Maintenance



Corporation (LARMAC) maintains the community property and facilities in Ladera Ranch. LARMAC is comprised of a five-member board which also provides oversight and administration of the aesthetic review process and adherence to the established community guidelines. The Ladera Ranch Community Services (LARCS) is also comprised of a five-member board and provides recreational and community programs for Ladera Ranch residents.

The Ladera Ranch Civic Council, a volunteer based civic organization was formed to provide local governance to the community. Comprised of a seven-member board, the Civic Council considers public policy and service issues affecting the community, relays feedback to the 5<sup>th</sup> District Supervisor, and coordinates directly with various County departments on ways to address the issues.



Due to the ongoing study of potential governance alternatives for South Orange County, the Commission has not placed Ladera Ranch within the sphere of influence of an adjacent city. Issues important to the community include public safety and emergency response services, traffic and infrastructure improvements, and increased autonomy. A member of the Ladera Ranch Civic Council represented the community for the Visioning Process stakeholder discussions.

Ladera Ranch Snapshot	
Area	3.7 sq. miles
Housing Units	7,410
Population	22,980
Sphere of Influence	Not Assigned

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## RANCHO MISSION VIEJO

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The *Rancho Mission Viejo* development is the final master planned development project of the O'Neil family. The family's history in cattle ranching and agriculture was reimagined in the 1960s with the approval of the master plan for City of Mission Viejo in 1965. Over the next five decades the family completed the development of the

communities in what is now the City of Rancho Santa Margarita and the unincorporated communities of Las Flores and Ladera Ranch.

Rancho Mission Viejo includes 14,000 residential units along with supporting commercial uses within a 23,000-acre acre area generally located

south of Coto de Caza and east of Ladera Ranch. The development will occur within six planning areas consisting of 6,000 acres. The remaining 17,000 acres of land will be dedicated for recreation, open space and a natural habitat conservancy.



Since the Visioning Process was approved by the Commission, construction has completed for Sendero, Rancho Mission Viejo's first planning area, which added 1,200 new homes to the area. In 2015, construction began on the second planning area, Esencia, with 2,726 housing units expected to be completed by 2022. The remaining four planning areas are expected to proceed through 2033. At build-out the six planning area of Rancho Mission Viejo are projected to be home to 38,000 residents, nearly twice as large as Ladera Ranch.

Snapshot Rancho Mission Viejo (projections provided by RMV)		
Completed	Area	0.7 sq. miles
	Housing Units	1,227
	Population	3,820
Planned	Area	9.7 sq. miles
	Housing Units	12,773
	Population	34,078
Sphere of Influence Not Assigned		

Due to the ongoing study of potential governance alternatives for South Orange County, the Commission has not placed Rancho Mission Viejo within the sphere of influence of an adjacent city. The issues important to Rancho Mission Viejo include transportation, access and ensuring progress in its development plan. A senior vice president from RMV represented the developer for the Visioning Process stakeholder discussions.



## VISIONING PROCESS

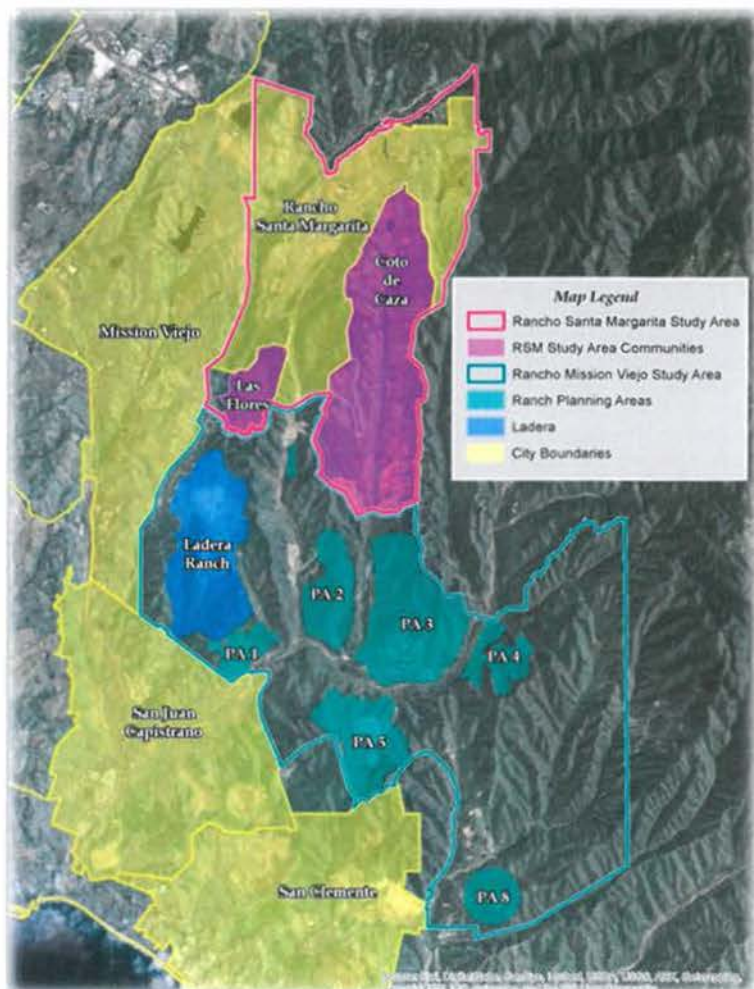
The multi-year Visioning Process was designed to engage local stakeholders to collectively and collaboratively identify future short-term and long-term governance options for the unincorporated communities located in South Orange County. Although the projected build-out date of 2033 for the RMV planning areas may seem far off, a thoughtful and deliberative path toward sustainable long-term governance in the region will require an investment of time and effort in the short-term.

### *South Orange County Governance Visioning Process*

#### *Purpose Statement*

*"To engage key affected agencies, community groups, and other stakeholders in an effort to develop short and long term viable governance options for the South Orange County study areas."*

To manage the discussions, the Commission established two study areas: (1) Rancho Santa Margarita, which included the City of Rancho Santa Margarita and the communities of Coto de Caza, Las Flores, Stonecliffe and Wagon Wheel, and (2) Rancho Mission Viejo, which included Ladera Ranch and the Rancho Mission Viejo planning areas. The Visioning process was facilitated by an independent professional and LAFCO staff participated in the discussions as one of the stakeholders to collectively envision future governance alternatives. The Visioning Process also included the preparation and presentation of financial data and the provision of detailed information on the various governance alternatives.



Financial data from the County and projections from Rancho Mission Viejo were used to complement the expertise of LAFCO staff in providing the technical foundation for the discussions. By providing fiscal data about County services to each of the communities and background information about the LAFCO process, the conversations were grounded in the existing economic and legislative realities. From July 2014 to August 2015, LAFCO staff hosted a series of 13 meetings with stakeholders from the Rancho Santa Margarita and Rancho Mission Viejo study areas.

Over the course of the Visioning Process, staff completed the four key milestones approved by the Commission as part of the Visioning Process: (1) outreach and issue identification, (2) financial accounting of county service responsibilities, (3) development of a fiscal model, and (4) vision planning and facilitated discussions. Each of the milestones is described in Table A.

**TABLE A: VISIONING PROCESS MILESTONES (2013-2015)**

Milestones	Description	Timeline
(1) Outreach & Issue Identification	LAFCO staff met with city and County staff, representatives from Rancho Mission Viejo and leaders from the unincorporated communities. This phase was valuable in renewing relationships and identifying issues affecting the communities that may impact governance discussions.	March 2013 – September 2013
(2) Financial Accounting	LAFCO staff worked with County staff and financial consultant to prepare financial matrices for each of the unincorporated developed communities. This new resource is the foundation for the fiscal model and provides stakeholders with a better understanding of how the County finances service to the communities.	September 2013 – January 2014
(3) Fiscal Modeling	LAFCO staff worked with County staff and financial consultant to develop assumptions for projections of future County revenues and expenditures. The model can be updated in the future and can aggregate any combination of unincorporated communities and Rancho Mission Viejo planning areas for scenario planning.	January 2014 – June 2014



Milestones	Description	Timeline
(4) Vision Planning & Facilitated Discussions	LAFCO staff hosted a total of 13 meetings for the Rancho Mission Viejo and Rancho Santa Margarita Working Groups. The facilitated discussions involved presentations and discussions of information related to the communities, governance, and LAFCO’s statutory responsibilities. The facilitated discussions provided the foundation for the feedback from each of the participating communities and local agencies on the timing and scope of future governance efforts.	July 2014 – December 2015

The Visioning Process was successful in re-engaging key stakeholders in exploring options that might address issues affecting the communities, providing greater financial accounting of service provision, and identifying the possible next steps for viable governance. As a result, there were candid discussions of the existing constraints on various governance options. In particular, the limitations on the viability of incorporation as an immediate option was thoroughly reviewed and discussed. This allowed the process to be about envisioning what governance options are feasible given the current and predictable future circumstances and identifying the next steps toward achieving what is possible, short or long term.

Whether the communities pursue a formalized conduit to the Board of Supervisors through a municipal advisory council or the continuation of stakeholder discussions with LAFCO staff, the Commission can continue to play a critical role. As these discussions often require balancing competing interests, LAFCO’s ongoing participation as convener, facilitator and objective resource provider ensures a solid foundation in the exploration for future governance in the region.

The Visioning Process provided a unique open forum for information exchange and candid discussions among the stakeholder representatives. In order to determine the interest in moving forward with any of the potential governance alternatives, LAFCO staff and the stakeholder representatives needed feedback from each of the city councils, governing boards and communities that were represented in the stakeholder working groups.

To that end, LAFCO prepared key governance questions designed to help focus the collective thoughts of stakeholder agencies and communities. Additionally, to assist the stakeholders in communicating all of the information shared during the working group discussions, LAFCO staff prepared an informational packet detailing the potential

governance options and the criteria used by LAFCO to determine viability in the short (within 5 years), mid (5-10 years), and long-term (10-20 years).

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## ENVISIONING FUTURE GOVERNANCE

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As previously mentioned, overall governance for the unincorporated areas is provided by the County Board of Supervisors. However, over time, the elected boards of the homeowner associations have assumed greater responsibility for providing some services directly to the residents. The stakeholder discussions about future governance began with an exploration of this evolving role of homeowner associations as providers of local services, such as parks, recreation and road repair.

The initial discussion focused on governance options that may not require LAFCO approval, such as forming a municipal advisory council to provide community feedback to the County Supervisor or developing shared service agreements to address specific concerns. In the absence of the more formalized governance structures, the communities have relied on the County, the master maintenance corporations and various forms of shared services contracts to address service related community needs. When the discussion turned to the formal governance options, LAFCO staff presented four key alternatives: annexation, formation of a county service area, formation of a community services district, and the incorporation of a new city. Noting that the primary objectives of each option are direct control of service administration and increased independence from the County.

### Key Governance Questions

*What specific services, if any, do you want addressed?*

*What additional information and/or data do you want from LAFCO?*

*Do you have service needs or other governance issues that you want to explore through a governance option?*

*What other questions or issues can LAFCO assist with that have not been discussed?*

*What questions, issues, and/or opportunities do you want identified through this governance envisioning process?*

*What other comments do you have?*

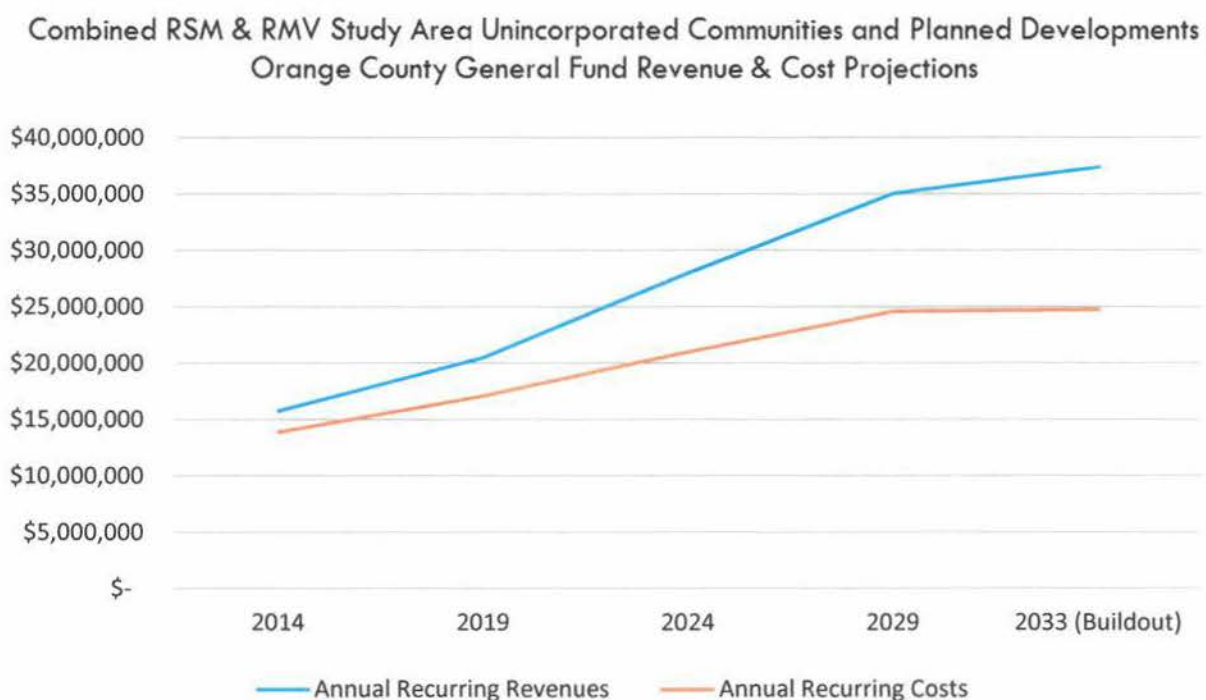
During these meetings, LAFCO staff presented information about the viability for each of the governance alternatives. The staff explained that all of the governance alternatives share two elements that are essential for their viability: the ability to generate adequate long-term financial resources and support from the community, County and, in the case of annexation, the annexing city. The financial information from the County provided a



key determining factor of the fiscal viability of each of these governance options. This financial information is a “snapshot” in time, based on Rancho Mission Viejo’s development projections and the County’s estimated revenues and costs for services. The financial models derived from the data provided by the County, indicated that certain options, such as annexation, are more fiscally viable in the short-term. However, several other factors, including political and community support from the City, County and residents would be required.

In its presentations, staff shared that the financial model indicated that incorporation of Orange County’s 35<sup>th</sup> city is not financially viable for several years. Table B presents the County’s revenue and costs data for the current and planned developments combined for the next 20-years in five year increments. Similar information for each individual community and various combinations was also shared. These fiscal models became the foundation for collaboratively determining the next steps in the process. It is important to note that the data presented from the fiscal model is not a fiscal analysis and that its purpose is to assist with exploration of future governance. A comprehensive fiscal analysis of the long-term viability would be required for the more complex governance alternatives, such as the formation of a community services district or incorporation.

**TABLE B: COUNTY GENERAL FUND REVENUE & COST PROJECTIONS**

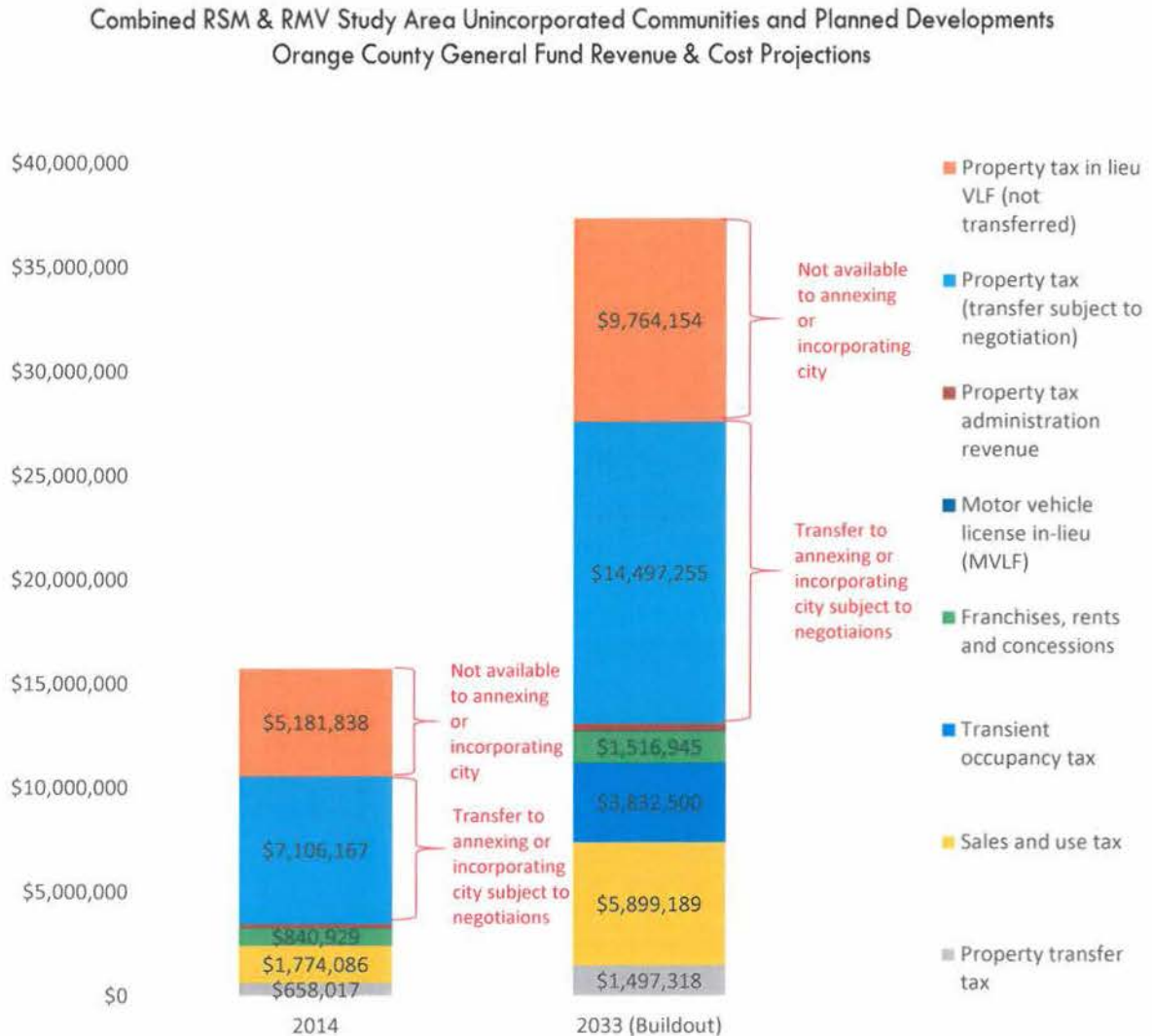


Although it appears that the revenues exceed expenditures for County service provision to the unincorporated areas, it is important to note that not all of those revenues would transfer if any of the four key alternative structures were implemented. This is due, in part, to the fact that the County provides a number of services regardless of the city or community boundaries. The costs and revenues that support these county-wide services, such as District Attorney, Probation, Public Defender and Sheriff jail operations, are included in the figures depicting annual recurring revenues and expenditures in Table B. The long-term financial viability of any of the governance alternatives will require a comprehensive fiscal analysis and will be dependent on the outcome of the negotiations with the County for any transfer of revenues.

Table C provides snapshots of the County's current and projected revenues for all of the unincorporated communities. The chart includes the three major revenue categories: (1) property taxes, (2) property tax in-lieu of vehicle license fee (VLF) and (3) sales and use tax. Property taxes represent the largest revenue source and any transfer of all or a portion of this revenue is subject to negotiation as part of a proposed annexation, incorporation or the formation of a County Service Area or Community Services District. The second largest revenue source, property tax in lieu of VLF, would remain with the County and would not transfer to an annexing or incorporating city. Sales and use tax and franchise revenue would be collected by an annexing or incorporating city, but these revenues are not typically available to County Service Areas or Community Services Districts.



**TABLE C: COUNTY GENERAL FUND REVENUE PROJECTIONS**



During the Visioning Process, staff shared that there are two factors that affect the viability of each of the potential governance options that are under LAFCO's jurisdiction. The first is the ability to generate the revenues necessary to support the services to be provided by the community. This ability for new communities was significantly and negatively impacted by the loss of the vehicle license fee (VLF) revenue. This revenue stream was directed away from local governments in 2011 as part of the Governor's public safety realignment plan. This legislative action directly affected the financial viability of future incorporations or city annexations of any large inhabited areas. Previously, city incorporations and city annexations of large inhabited areas benefitted financially from a larger share of the VLF revenue. Since 2011, there have been five

attempts to reinstate the lost VLF revenue. Each of these efforts have either stalled in a legislative committee or been vetoed by the Governor. Unless the VLF revenue is reinstated, the financial viability of future city annexations and incorporation efforts will require more diversified revenue streams.

Local taxation can potentially provide the revenue necessary to make any of the governance options financially viable in the long-term. However, the 2009 Rossmoor incorporation effort provides an important reminder that residents may be supportive of a new city, but not supportive of additional taxes. The proposal was approved by LAFCO with a condition that the voters approve both the incorporation and the imposition of either a 7 percent or a 9 percent user utility tax. The measures failed to get support from more than 30 percent of the registered voters and the incorporation effort failed. The case study also highlights the unreliability of a locally adopted tax which can be repealed by the residents, undermining the financial stability of the new city.

Key Factors Affecting the Viability of Future Governance:

1. Ability to generate stable revenues.
2. Phasing of the Rancho Mission Viejo

The timing of the phased development of Rancho Mission Viejo is the second key factor affecting the viability of future governance for the South Orange County region. The financial information that was shared during the Visioning Process demonstrated the viability of future governance is heavily reliant on a strong and diversified revenue stream, especially in the absence of the VLF revenue. The future Rancho Mission Viejo planning areas include a commercial component which will eventually provide revenue stability for municipal services and potential governance options, but not for several years.



## STAKEHOLDER FEEDBACK

Since the conclusion of the stakeholder process, LAFCO staff presented overviews of the Visioning Process to several of the communities and adjacent cities to answer questions and receive feedback. The feedback received from the stakeholder agencies fall into two broad categories: local issues or regional concerns. The following section provides a summary of that feedback.

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### FEEDBACK FROM COMMUNITIES AND LOCAL AGENCIES

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#### *RANCHO SANTA MARGARITA*

Over the past 15 years, the City of Rancho Santa Margarita participated as a stakeholder in several efforts by the Commission to discuss the future governance of the unincorporated communities of Coto de Caza, Stonecliffe, Wagon Wheel and Las Flores that are adjacent to the City's border. During the Visioning Process, Rancho Santa Margarita staff affirmed the City's willingness to engage in discussions with the County regarding alternative service delivery options to the unincorporated communities where there could be mutual benefits, cost savings and efficiencies. However, the City staff reiterated the importance of the community's original vision to maintain a City with a "small town village character" and was hesitant to engage in conversations that may result in a change in the character of their community, such as annexation. The City staff noted their community's concern that the annexation of Coto de Caza, Las Flores, Stonecliffe and Wagon Wheel would result in significantly changing the character of the City and may affect the quality of life of the City's residents.

#### *COTO DE CAZA*

The representatives of the community, a current and a former CZ Master Association board member, noted that interim or long-term governance options such as incorporation or the formation of a special district (County Service Area or Community Services District) are not viable options at this time. Nevertheless, they expressed their interest in participating in future stakeholder discussions with the other unincorporated communities in the region.

The stakeholders also offered intuitive recommendations for issues affecting the community. To address a service concern with fire service response, they recommended the extension of Crown Valley Parkway from Ladera Ranch to the

south end of Coto de Caza which could potentially improve response to the area from the Orange County Fire Authority's Station 58 located in Ladera Ranch. The stakeholders also noted that the extension of Crown Valley Parkway could assist with future sphere of influence determinations by the Commission.

#### *STONECLIFFE*

A representative from the Stonecliffe homeowners' association participated in the discussion, but no direct feedback was submitted.

#### *WAGON WHEEL*

The Board of the Wagon Wheel homeowners' association stated that there are no specific service or governance related issues that the community sees a need to address at this time. The Board of Directors of the Wagon Wheel HOA support its existing state as an unincorporated community.

#### *LADERA RANCH*

Through the Ladera Ranch Civic Council, the community of Ladera Ranch expressed interest in the formation of a municipal advisory council within the next five years as a formalized conduit between the community and the County to assist in identifying and addressing local service level issues. Similar to Coto de Caza, the community of Ladera Ranch is interested in continuing dialogue with other unincorporated communities to help identify common interest, needs, and objectives.

The Ladera Ranch Civic Council requested that LAFCO (1) update the financial information presented in the Stakeholder Information Packet periodically to stay current and (2) collaborate with the County of Orange to sponsor or support legislative efforts to reestablish the vehicle license fee revenue for new incorporations that was redirected to support other state functions through the passage of SB 89 as part of the Governor's public safety realignment effort in 2011.

#### *LAS FLORES*

Through the Las Flores Maintenance Corporation, the community of Las Flores participated in the discussions, but no direct feedback was submitted.

#### *RANCHO MISSION VIEJO*



The representative for the developer of Rancho Mission Viejo expressed support for LAFCO's efforts to encourage ongoing governance discussions in the region. The RMV representative also acknowledged several factors, including real estate market cycles, that may affect the timing of future governance efforts and expressed the commitment of Rancho Mission Viejo as an ongoing participant in the Commission's planning and forecasting of future governance efforts.

#### *CITY OF SAN CLEMENTE*

The City of San Clemente Council and staff have expressed concern on potential impacts that the development of Rancho Mission Viejo's Planning Area 8 may have on City assets and services. Planning Area 8, which is immediately adjacent to the City's boundary, is the last of the RMV planning areas and construction is projected to begin in 2027. To assist the City in analyzing the potential annexation of Planning Area 8, the City Council requested that LAFCO develop a resource which includes step-by-step guidelines for the City to follow. As LAFCO continues to engage the local stakeholders over the next year, the information presented in the Stakeholder Information Packet can be used to develop a roadmap with step by step milestones and tasks for future governance alternatives.

#### *SAN JUAN CAPISTRANO*

The San Juan Capistrano City Council and staff expressed support for LAFCO's efforts to encourage ongoing governance discussions among the unincorporated communities and the adjacent cities and districts. The City also notes that the current restrictions on vehicle license fee revenues impair any efforts at annexation by the City or future incorporation efforts by the unincorporated communities. The community of Sendero (Rancho Mission Viejo's Planning Area 1) is adjacent to the City's border. The City's staff requested to be contacted regarding any proposed changes to governance of the unincorporated communities adjacent to its border and committed to ongoing participation in discussions regarding long-term governance through annexation or incorporation.

#### *SANTA MARGARITA WATER DISTRICT*

The Santa Margarita Water District provides services to all of the unincorporated communities included in the Visioning Process. The District is currently working with Rancho Mission Viejo on service provision and infrastructure development

to all of the planning areas. In offering comments to the Visioning Process, the representative from the Santa Margarita Water District noted that none of the information provided or the discussions conducted lead the District to believe that any changes in governance in any of the subject areas would have a detrimental impact on the services provided by the District.

#### *COUNTY OF ORANGE*

The County of Orange is a key stakeholder in the discussions of long-term governance for the unincorporated communities. The County stakeholders included the Chief Executive Officer, Chief Finance Officer, and staff from the 5<sup>th</sup> Supervisorial District. In providing feedback to LAFCO, these stakeholders reaffirmed that the County will continue its role as an information resource and reinforced its commitment to reviewing and analyzing any governance options that are proposed by the communities.

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#### **STAKEHOLDER FEEDBACK ON REGIONAL ISSUES**

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The stakeholder discussions often included issues beyond the scope of local governance, such as regional mobility and the economy. While these issues are not directly tied to the viability of any of the governance options explored, they are of interest to the stakeholders and will continue to shape ongoing discussions in the region.

#### *REGIONAL MOBILITY*

Through this process the stakeholders agreed that future road development will impact the communities of interest and should be prioritized to improve access among the developed and developing unincorporated communities in South Orange County regardless of future boundary changes. The discussion focused on the potential extension of State Route 241 and the congestion on Interstate 5. The extension of State Route 241 in some form is important in providing direct access to Interstate 5 and connecting the northern communities (Coto de Caza, Las Flores, Stonecliffe and Wagon Wheel) to the unincorporated communities to the south (Ladera Ranch and the RMV Planning Area). One option presented by the representatives from Coto de Caza is the extension of Crown Valley to the new Los Patrones Parkway, which is currently under construction from RMV to the current terminus of State Route 241.



The Commission's Visioning Process coincided with the completion of an ascertainment study regarding regional mobility prepared for the Foothill/Eastern Transportation Corridor Agency (TCA). The study was completed in January 2016 and will be one of many resources that the TCA will consider in determining how the agency will proceed in addressing mobility needs in South County.

## *ECONOMY*

The stakeholders noted that economic impacts need to be considered in any discussion of future governance, especially how individual communities may be affected by future development of the RMV planning areas. There was a general recognition that the current economic realities resulting from the 2009 economic recession and the loss of VLF revenues will impact feasibility of future governance efforts.

A major point of interest was the loss of vehicle license fee revenue for incorporations and large inhabited city annexations. Previously, new cities would receive a larger share of the property tax in-lieu of VLF revenue due to new development or annexation of developed lands. The absence of the VLF revenue for newly incorporated cities and cities that annex large inhabited areas, places greater emphasis on sales tax and other revenues to ensure long-term financial viability of the potential future governance alternatives. The housing market was raised as another economic factor that may impact the timing of the phased development of Rancho Mission Viejo.

## ROADMAP FOR FUTURE GOVERNANCE

The Commission achieved the outcomes identified for the Visioning Process which were to (1) provide an understanding of the County's service costs and revenues for each existing and planned community; (2) collectively identify, consider and discuss potential viable governance alternatives with the stakeholders; and (3) identify possible timing and next steps for the exploration of viable governance alternatives by the unincorporated communities. As a result, the stakeholders have a clear understanding of current and potential alternative governance structures for the residents of the unincorporated communities in South Orange County. Additionally, the Commission and stakeholders have a better understanding of the timing of future governance efforts and a fiscal model that can be updated for use in future stakeholder discussions.

Based on the information shared during the Visioning Process, the common consensus among the stakeholders is that exploration of the long-term governance alternatives, those requiring LAFCO approval, are not feasible at this time. The stakeholders, however, did express interest in LAFCO's continued leadership in a collaborative process to collectively share information and explore long-term efforts at providing localized governance for the unincorporated communities.

As the Commission continues to engage local communities over the next few years, the issues affecting stakeholder consensus, such as any changes to state law regarding the VLF revenue and the timing of the planned RMV developments, will continue to shape the conversation and the consideration of future efforts to establish local governance through LAFCO. As identified in the stakeholder discussions, the eventual build-out of Rancho Mission Viejo is an important backdrop for discussions of long-term governance. As the RMV development builds out, LAFCO staff will continue to engage in information sharing with the RMV representatives and present the Commission and the stakeholders with regular updates.

As an outcome of the Visioning Process, staff recommends that the Commission reconfigure the study areas to establish South County Study Area 1 for the developed communities of Coto de Caza, Ladera Ranch,

### Ongoing Governance Efforts:

- Establish South County Study Area 1 consisting of the developed communities of Coto de Caza, Stonecliffe, Wagon Wheel, Las Flores and Ladera Ranch.
- Establish South County Study Area 2 consisting of the developing communities in Rancho Mission Viejo.
- Conduct bi-annual meetings with each group to discuss current service related issues and future governance.



Las Flores, Stonecliffe, and Wagon Wheel and establish South County Study Area 2 for the Rancho Mission Viejo planning areas. During the final meetings of this process, representatives from many of the communities expressed interest in participating in future discussions on governance alternatives involving both the developed and developing south county areas. By employing these new study area boundaries, it will provide a forum for the established communities to discuss governance alternatives and to address common issues as identified in the stakeholder feedback. Meanwhile, the emerging communities of Ranch Mission Viejo will have time to become established and representatives from those developments can participate in discussions about long-term governance for their communities. Finally, the establishment of two study areas will allow the Commission to stay engaged and informed to meet its legislative intent of encouraging efficient service delivery and ultimately approving governance structures that support logical boundaries.