

**8a** | Commission  
Discussion

May 10, 2023

**TO:** Local Agency Formation Commission  
of Orange County

**FROM:** Executive Officer  
Policy Analyst II

**SUBJECT:** OC LAFCO Fiscal Indicators

**BACKGROUND**

The OC LAFCO fiscal indicators and the web-based program were developed to assist the Commission in responding to its legislative mandate to conduct ongoing municipal service reviews (MSRs). The initial effort involved input from the cities, special districts, and members of the California Society of Municipal Finance Officers and resulted in general indicators involving agency revenues, expenditures, and reserves and a user-friendly dashboard that displayed the respective data. Since the beginning of this effort in 2008, additional activities involving the agency's fiscal indicators have occurred in an effort to improve the program as a key resource to the Commission and our local agencies. Key milestones for the indicators include:

- **2008-2011:** Development of Fiscal Indicators and Web-based Program.
- **2011-2015:** Web-based Program launched.
- **2020:** Improvement of indicators included in Commission's Work Plan.
- **2022-2023:** Improvements to indicators and web-based program completed by consultants and staff.
- **2023:** Began implementation of indicators (Southwest and West MSRs).
- **2023 (to be completed):** Data and Web-based Program migration to agency website.

The next section of this report provides additional details on the improved fiscal indicators and web-based program.

**2023 OC LAFCO Fiscal Indicators**

The OC LAFCO fiscal indicators were most recently enhanced to include quantitative and benchmark metrics and improve the web-based structure to facilitate the ongoing maintenance and updating of the fiscal data more efficiently. In addition to a new look, the fiscal indicators are

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now aligned with the indicators established by the California State Auditor to assess the fiscal risks for cities. The OC LAFCO indicators, however, go beyond the State’s approach by applying the indicators also to special districts. Overall, the intent of the improved indicators is to provide a general indication of an agency’s fiscal health and to flag, where appropriate, any trends that may warrant further evaluation and planning. A description of the indicators and what each denotes are described in the table below.

OC LAFCO Fiscal Indicators	
INDICATOR	DESCRIPTION
<b><i>Annual Change in Revenues</i></b>	Compares revenue growth to long-term inflation (historically about 2-3%). Weak or declining revenues are an indication of potential fiscal issues.
<b><i>Annual Change in Expenditures</i></b>	Compares expenditure growth to long-term inflation. High expenditure growth exceeding inflation and revenue growth indicates current or potential fiscal concerns.
<b><i>Adequate Operating Reserves</i></b>	Compares operating reserves typically providing at least two months of operating funds (i.e., 16.7% of annual expenditures). Total reserves may be greater and may include funds available for capital or other uses. Inadequate operating reserves indicate poor fiscal health.

**NOTE:** *OC LAFCO Fiscal Indicators for each agency are derived from the respective agency’s financial data and sources (i.e., audited financial reports).*

The first use of the improved fiscal indicators is underway in part to the MSR process for the Southwest and West regions. During the process, OC LAFCO consultants have engaged the respective agencies in discussions on their respective indicators, and the agencies will have additional opportunities to provide feedback during the review of the administrative draft MSRs. Once the Southwest and West MSRs are received and filed by the Commission, the fiscal data for these agencies will be migrated to the improved OC LAFCO Fiscal Indicators web-based program. The program will be housed on the agency’s website, updated annually, and expanded to include more agencies concurrent with the completion of their MSR.

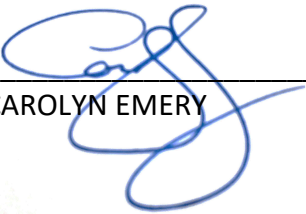
At the May 10 meeting, OC LAFCO Consultant, Richard Berkson, will provide a presentation on the indicators and address questions of the Commission. In addition to the fiscal indicators, Mr. Berkson has provided his 30 years of experience in financial analysis to OC LAFCO through the evaluation and preparation of multiple fiscal studies involving MSRs, annexations and city incorporations. In part to the presentation, Commission staff will also preview the web-based program.

**RECOMMENDED ACTIONS**

Staff recommends the Commission:

1. Receive and file the OC LAFCO Fiscal Indicators report.
2. Provide additional direction, if warranted.

Respectfully submitted,



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CAROLYN EMERY



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GAVIN CENTENO