Strategic Planning Session

January 2007

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Introduction

To meet the statutory deadline of January 1, 2008, for the past four years Orange County LAFCO has focused a majority of its time on completion of Municipal Service Reviews (MSRs) and spheres of influence (SOIs). Currently LAFCO has finished MSRs and sphere of influence (SOI) updates for 20 (60%) of the 34 cities and 21 (70%) of the 30 special districts (including 27 independent special districts, two districts that have been dissolved or merged and one CSA). The remaining MSRs and SOIs are in progress and should be completed by July of 2007.

The Cortese-Knox-Hertzberg Act does not require a MSR for either a county or for LAFCO. However Orange County is completing a strategic planning effort which, although not a MSR, serves a similar function. While LAFCO also has had Strategic Planning sessions for the past ten years, these focused primarily on projects to be accomplished during the next twelve months. It seemed appropriate to complete an MSR in order to solicit input from LAFCO's partners (i.e., agencies, communities and the public) as well as take a longer view since the first round of MSRs/SOIs are almost completed.

So, LAFCO staff prepared the following report (Section II-MSR Report) and sent it to all cities and special districts in Orange County. Staff also contacted communities and individuals including those that might have had less than satisfactory interactions with LAFCO in the past.

We collected responses in two ways. (1) Comments could be directly sent to LAFCO staff. We received one letter from the Costa Mesa Sanitary District which is included in Appendix A. (2) Responders who wanted their comments to be confidential could send them to Sharon Browning, consultant for LAFCO. Ms. Browning did not receive any responses.

LAFCO staff then prepared a preliminary budget for Fiscal Year 2007-2008, a proposed work plan for 2007 and a brief review of work accomplished during 2006.

LAFCO MSR Report

1. Infrastructure needs or deficiencies.

LAFCO's infrastructure includes the actual physical hardware such as computers, office equipment and staff. Both will be addressed in this section.

Physical infrastructure has been substantially improved. The LAFCO GIS system is functional and is updated with past jurisdictional changes which previously were available only through hard copies. The majority of the staff can use the GIS system to produce maps for accurate records, for staff reports and for use by LAFCO's customers. Because past boundary changes have been integrated into the GIS system, the maps are accurate and can be used with confidence. We continue to improve the quality of the maps and will, in time, be able to produce display maps.

The hard files, which date back to 1963, have all been archived and are being indexed. Staff can now respond to requests for information in a fraction of the time by accessing the database, rather than retrieving files from storage. As an example, the Yorba Linda Water District discussed a potential annexation with LAFCO staff. Since the territory had already been annexed to the City of Yorba Linda, staff was able to access, within an hour, the previous map and legal description of the area. This will potentially save the District significant time and money if the annexation moves forward. LAFCO also purchased a scanner which will be used to scan new applications. LAFCO hired a student intern to help complete the database.

Staff is starting to revamp the routine administrative functions in the office to ensure the maximum use of infrastructure. Staff time is now tracked on the computer and is integrated with the accounting program which ensures an accurate accounting of time and materials for projects.

LAFCO lost three experienced employees during 2006. However the merger of the two administrative positions allowed LAFCO to consolidate routine office functions and to reduce costs. The new administrative position has been filled. An analyst position is also vacant and staff is considering what skills LAFCO will likely need, such as financial analysis, in a new employee. In the interim, staff is using student interns and consultants.

The staff continues to be a strength of the organization and we continue to improve our skills. Because MSRs and/or SOIs require facilitation, staff organized a series of facilitation workshops and invited other agency staff to attend. Staff from cities, special districts, the County and non-profit organizations attended. This year the staff has also taken part in a ropes course for team building, completed classes in Excel, worked with a consultant to improve public speaking skills and presentations and attended an intensive watershed planning seminar as well as organized the first "CALAFCO University" class on Homeowners Associations (HOAs) and Public Agencies. Staff also helped organize the annual CALAFCO conference and is hosting the 2007 CALAFCO Staff Workshop in April.

2. Growth and population projections

Orange County population is slightly over 3,000,000. It is the second most populous county in California and the fifth in the United States. Orange County has a total area of 789 square miles; it is the smallest county in Southern California. Approximately 65% of the County' (506 square miles) is incorporated. The remaining areas of unincorporated territory are broken down as follows:

AREA	SPHERE	# OF ACRES (% unincorporated)	POPULATION (% unincorporated)
Sunset Beach	---	84 (.02%)	1,319 (1.2%)
Rossmoor	Los Alamitos	988 (.2%)	10,560 (9.4%)
North Eastern Edge	Brea	4,162 (.8%)	0 (0%)
Anaheim Island	Anaheim	496 (.09%)	8,000 (7.1%)
Midway City	Westminster	351 (.06%)	5,919 (5.2%)
Orange Park Acres	Orange	396 (.08%)	1,103 (.98%)
North Tustin Island	Tustin/Orange	4,609 (.9%)	24,358 (22%)
Rancho Mission Viejo	---	22,815 (4.5%)	12 (.01%)
Small Islands	Various cities	961 (.2%)	13,421 (12%)
Canyon Areas			
Dedicated Open Space	---	135,526* (27%)	0 (0%)
Total Unincorporated	---	510,912	112,778

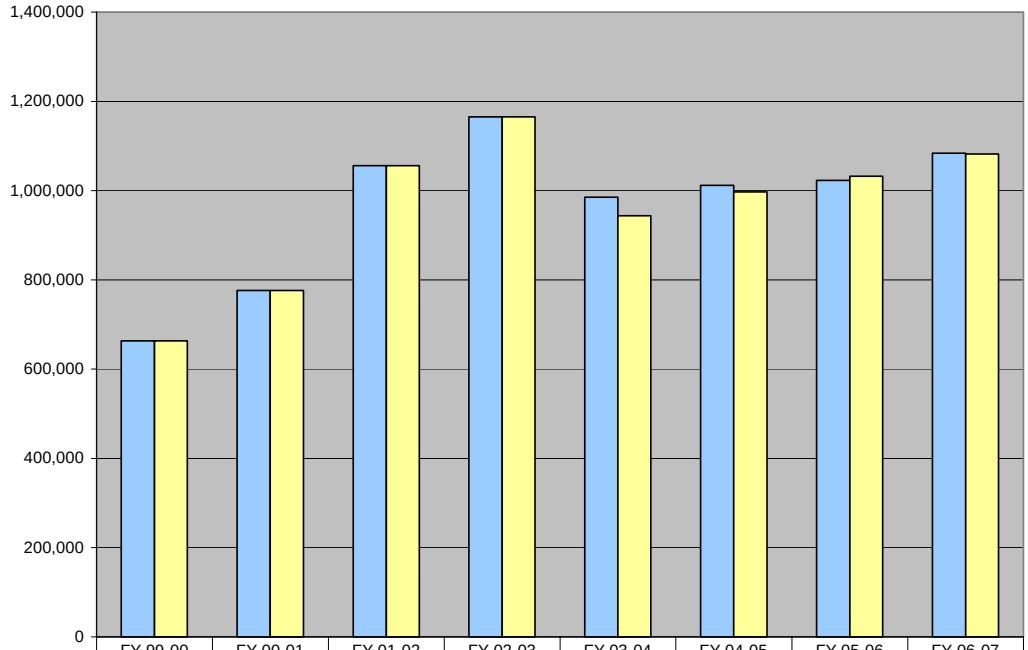
What these figures mean is that a majority of the typical, "day-to-day" work of most LAFCOs (i.e. annexations and detachments) have been completed in Orange County. Future projects are expected to be primarily MSRs and sphere updates, some annexations, particularly of islands, and occasional reorganizations.

In the past annexations and detachments have generated a majority of the fees for LAFCOs. Throughout the 1990s project related fees constituted approximately 20% of LAFCO's budget; in the past seven years, it has been less than 5% of the total budget. For example, the Orange County Sanitation District (OCSD) has been the most regular source of annexations fees as individual property owners annex to OCSD. While the impending blanket annexation of areas to OCSD makes the process easier and cheaper for property owners, it will affect LAFCO budget. This is not a discouragement of a blanket annexation, which is good government and should be encouraged, but a recognition that the work for Orange County LAFCO is changing and will have some impacts to the agency. For example, the cost to complete MSRs/SOIs, which is expected to be the majority of LAFCO's future work, is only occasionally recouped from the agencies involved.

Since LAFCO has broad powers to initiate reorganizations of special districts, there is a potential of some future district reorganizations. However it appears that the most successful reorganizations have been between agencies that are willing partners to merger. Therefore it is likely that most future reorganizations will come from the districts themselves.

3. Financing constraints and opportunities

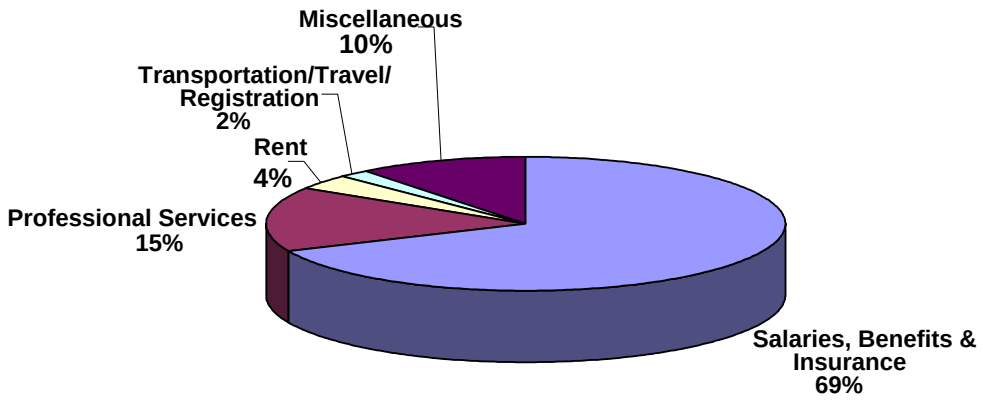
Since 2000, LAFCO's budget has been paid equally by the County, the cities and the special districts in Orange County. The following charts and graph show LAFCO's budget since 2000. During Fiscal Years 2004-2007, LAFCO's budget increased approximately 6% a year as approved by the Commission in 2004.



	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
REVENUES	663,238	776,318	1,056,164	1,164,955	985,514	1,011,958	1,023,091	1,083,982
EXPENDITURES	663,238	776,318	1,056,164	1,164,955	943,732	997,264	1,032,633	1,082,126

In September of 2006, LAFCO approved the merger of two administrative positions into a single administrative position. The new position, which has been filled, combines the functions of the two previous administrative positions and added new duties. In addition, a Project Manager left and that position is currently vacant. While there has been some salary savings, the Commission recently approved using the savings to hire consultants to assist staff in completing the remaining MSR/SOIs. Even with the salary savings, salary and benefits continue to be the primary use (approximately 70%) of funds. Expenditures by major categories are shown in the following graph.

FY 06/07 Expenditures by Major Category



Currently LAFCO has a five person staff consisting of an Executive Officer, an Assistant Executive Officer, a Senior Project Manager, a Project Manager (unfilled position) and a Commission Clerk/Office Manager.

A. Preliminary 2007 budget

State law requires LAFCOs to adopt a budget by June of each year. Typically LAFCO presents a draft budget in March and a final budget in April or May. This year, however, staff prepared a preliminary budget for the Strategic Planning session.

The preliminary budget will be presented again in March and a final budget adopted in April or May. The final budget allows the inclusion of assumptions used by the County of Orange for increase in benefit costs and by Orange County Employees Retirement Systems (OCERS) for increases in retirement costs, all of which affect LAFCO's budget. These assumptions are not available until March. However LAFCO staff has estimated potential increases using past trends and a preliminary budget for 2007 is included in Appendix B. It proposes a 3% increase, down from the 6% increase approved by the Commission in 2004.

B. Analysis of revenues and expenditures

Over the last three fiscal years, revenues have increased by 5%. Assessment revenues and interest income have increased while filing fees have declined. Expenditures have increased by $44,469 (5%) over the last three fiscal years. Salaries and benefits have increased by $75,240 and other costs have decreased by $30,771. Due to the recent staff changes, salaries and benefits are expected to decrease during the remainder of the fiscal year although some salary savings will be used for consultants to complete the Municipal Service Reviews (MSRs) and spheres of influence before the statutory deadline of 2008.

Salaries increased by $17,017 (3%) due to staff raises and promotions. Retirement benefits have increased by $33,095 (47%) as a result of increases in LAFCO's required retirement contributions. The retirement contributions are set by the County of Orange and have increased drastically due to declines in the market value of investments underlying retirement funds and lower than expected investment earnings. The increase in the cost of retirement benefits does not result from the enhanced formula adopted by the Commission; employees are paying for the cost of those benefits. Health insurance benefits have increased by $4,514 (10%) as a result of increases in premiums. LAFCO uses the County's health insurance plans and does not have control over this cost.

The most significant increase in other costs during the last three years is for the Municipal Service Reviews. Over $111,000 was been spent on MSR projects in the last three years. There has been a steady decline in professional service charges from $147,266 in the year ended June 30, 2004 to $133,030 in the year ended June 30, 2006. Professional fees are expected to vary depending on specific LAFCO projects and the need for expertise.

4. Evaluation of management efficiencies/cost avoidance opportunities

Over the past three years LAFCO's expenditures have decreased by approximately 5%. The reduction in expenditures has been the result of numerous efforts on the part of the staff to reduce costs including negotiating better contracts with vendors, reducing phone lines, sending agenda packages out by email and participating with other LAFCOs in joint Requests For Proposals (RFPs). Staff also explored working as extensions of staff to other LAFCOs who have more projects.

Staff has made significant progress toward a "paper-less" office and has reduced expenses of copying and mailing agendas and other hard copy reports. For distribution of agendas, emails are now sent with a link to the LAFCO webpage and people can download the portions of the agenda in which they have an interest.

Independent audits are conducted each year and no significant issues have been noted to-date. In fact Orange County LAFCO participated with San Bernardino and Riverside LAFCOs in issuing a RFP for an auditor for all three agencies; costs were reduced as a result. LAFCO reviews its "Policies and Procedures" manual and fee structure each year, making updates as needed.

Staff is also investigating the current benefit package offered to employees and different options for providing benefits including contracting with other agencies. Staff from two agencies that reviewed this MSR offered to explore options with LAFCO for providing benefits.

5. Opportunities for rate restructuring.

In 2004 LAFCO revised its fee structure for the first time in five years. The previous fee structure was based on acreage; acreage-based fee structures had been struck down by recent court decisions. Additionally, the old fee structure had not been adjusted for new requirements added by the State Legislature such as increased noticing for projects. The new fee structure is comprised of two parts—a fixed administrative fee and a time/materials deposit. Staff time and project specific costs like noticing are charged to the time/materials deposit. Prior to scheduling a public hearing, staff determines if additional funds are needed from the applicant or if a refund of a portion of the deposit is due to the applicant.

To implement the new fee schedule, staff began tracking time by projects. An electronic time sheet was developed and used but could not be integrated with the accounting system. A new time-keeping program was installed which is now fully integrated with the accounting software allowing staff to check deposit amounts for projects monthly.

LAFCO staff will revise the fee schedule in 2007 to clarify the components of the fixed administrative and, as the tracking of projects costs becomes more detailed, will return to the Commission to revise the fee schedule so that deposit amounts are consistent with the time required to bring projects to hearing.

However the fee received from applicants is not and will not become a significant revenue source. As noted previously, the number of projects and associated fees has been dropping over the previous ten years. This trend is expected to continue in the foreseeable future.

6. Opportunities for shared facilities

Currently LAFCO leases space, and contracts for some services like payroll and benefits with the County of Orange. This has proven to be both efficient and cost-effective. While LAFCO staff is exploring contracting with other vendors for these services, no other source has been identified which can match the expertise of staff and the level and costs of the services provided by the County.

LAFCO also leases office space from the County and has three years left on the remaining lease. As the workload for LAFCO decreases and the necessary adjustments in staffing are made, LAFCO may need less space. The current location is convenient to public hearing rooms and County staff; however the County is increasing its staff in some divisions and may not elect to renew the lease when it expires. Both the reduced staff at LAFCO, and the need for additional room of the County, may require LAFCO to eventually find new office space. One source may be in the proposed building designated for non-profits that is planned to be built in the Great Park. Other options include leasing space from other agencies in Orange County. During the review of this MSR two agencies offered to discuss possible shared space with LAFCO if the need arises.

7. Government structure options

There are two ways of addressing this determination—one as it is applied directly to LAFCO, i.e. "Can LAFCO be merged?" and second "What government structure options has LAFCO accomplished, in partnership with other agencies?"

There appears to be relatively few government structure options for LAFCO as an agency. Existing State law requires each county to have a LAFCO and each LAFCO to have both an independent Executive Officer and counsel. However there is a trend throughout the State to involve LAFCOs in other regional efforts. For example, recent legislation passed in 2005 required that regional Councils of Governments (COGs) use LAFCO's spheres of influence (SOIs) in determining allocations of affordable housing

needs. In our region, Orange and Los Angeles LAFCOs have helped to organize a meeting among the LAFCOs and the Southern California Association of Governments (SCAG) to discuss both affordable housing numbers as well as the State's new "blueprint" plan. Also Orange County LAFCO staff recently participated with other LAFCOs and CALAFCO in a discussion with the Public Utility Commission on establishing closer coordination between LAFCOs and the PUC. Finally LAFCO staff is proposing, as part of the 2007 work plan, that the Orange Commission hold a joint meeting with the Riverside LAFCO Commission to determine a sphere of influence for the Orange County Water District whose service area is located in both counties.

Orange LAFCO has had significant success in identifying and implementing government structure options. The following lists significant projects accomplished during the last five years. Most of these projects are a direct result of the stakeholder intensive MSR process that Orange LAFCO has pursued as well as the partnership among the County, the cities and LAFCO to annex islands under the provisions of Government Code Section 56133.

- MSAS El Toro Annexation
- Newport Coast Annexation
- Tonner Hills Annexation
- East Orange Annexations
- 80% of small islands (less than 150 acres) annexed
- Reorganization of Santiago Canyon Water District and Irvine Ranch Water District
- Dissolution of the Laguna Niguel Community Services District

8. Local accountability and governance.

The Orange County LAFCO Commission is comprised of 11 members, 7 regular voting members and four alternates, each serving a four-year term, Current members and their term of office and stipends/benefits are listed in the following chart:

Name	Title	Affiliation	Term	Stipend
William Campbell	Chair	Board of Supervisors	2003-2007	$100 per meeting
	Board of Supervisors Member	Board of Supervisors	2005-2009*	$100 per meeting
	Alternate Board of Supervisors Member	Board of Supervisors	2003-2007*	$100 per meeting
Robert Bouer	City Member	City of Laguna Woods	2004-2008	$100 per meeting
Peter Herzog	City Member	City of Lake Forest	2006-2010	$100 per meeting
Patsy Marshall	Alternate City Member	City of Buena Park	2004-2008	$100 per meeting
John Withers	Vice-Chair	Irvine Ranch Water District	2006-2010	$100 per meeting
Arlene Schafer	Special District Member	Costa Mesa Sanitary District	2004-2008	$100 per meeting
Charles Wilson	Alternate Special District Member	Santa Margarita Water District	2006-2010	$100 per meeting
Susan Wilson	Public Member		2006-2010	$100 per meeting
Rhonda McCune	Alternate Public Member		2005-2009	$100 per meeting

**fills remainder of 4-year terms for Tom Wilson and Jim Silva*

LAFCO Commissioners receive a stipend of $100 per regularly scheduled meeting plus mileage based on the rates as established by the IRS and some direct costs such as parking reimbursement. While there is no maximum amount per month Commissioners may earn, no stipends are given for committee meetings, conferences or other meetings. Typically the maximum stipend each Commissioner receives is $100 per month. Commissioners receive no other benefits.

Selection of both regular and alternate members from the County of Orange is determined by the Orange County Board of Supervisors. City members are selected by the City Selection Committee of the Orange County League of Cities and special district members are selected by the Independent Special Districts of Orange County (ISDOC). The LAFCO Commission selects the regular and alternate public members.

The LAFCO Commission holds its meetings on the second Wednesday of each month starting at 9:00 am in the Orange County Planning Commission hearing room (10 Civic Center Plaza Santa Ana, CA). In the past the Commission has held workshops and public hearings in various communities of Orange County to allow more public input.

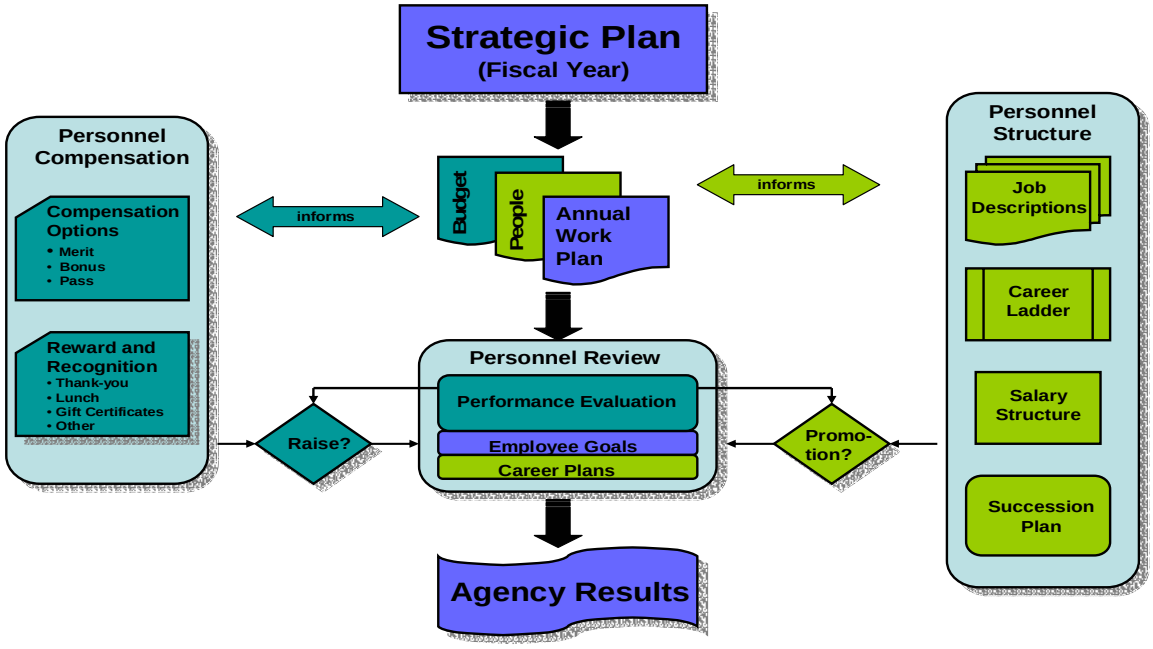
LAFCO maintains a website as required by State law and regularly posts agendas, reports, public notices and other information on the webpage.

Proposed of 2007 Work Plan

Staff is recommending a three pronged work plan for the first six months of 2007. The first portion would be a change in the timing of the LAFCO Strategic Plan which, in turn, affects the proposed work plan for 2007. Since 1996, the Strategic Planning session has been held on the last Friday in January. However staff is recommending that the Strategic Plan be moved to July of each year. The change in timing would correspond to the end of the fiscal year, allowing the Commission to more accurately match available resources with a proposed work plan. Related changes in the policies, procedures and fee schedule would also follow the adoption of the mid-year strategic plan.

Staff is currently developing a new personnel evaluation system based on a "pay for performance" basis that connects salary increases to individual performance, agreed upon goals, and progress. The adoption of the Strategic Plan would be followed by the employees setting their goals for the year based on the adopted Strategic and work plans. The "pay for performance" system would include a modified approach to the traditional annual merit increase. Instead, annual bonuses would be given based on progress toward meeting personal goals and based on the budget of the previous year. It will require six months to redesign the existing personnel system to ensure an equitable implementation. The following chart depicts the proposed changes.

LAFCO Strategic Planning and Performance Measurement



The second portion of the 2007 Work Plan is to complete the remaining MSRs and SOIs before July of 2007. The agencies that still must have a MSR and SOI completed are listed in the chart on the following page along with the project manager and estimated hearing date. The work plan is ambitious given the reductions in staff; however by using consultants and student interns (paid with salary savings), staff believes the work can be accomplished.

In addition to completing the MSR/SOIs listed above staff will also complete the SOIs for the Cities of Costa Mesa and Newport Beach along with the annexation request for West Santa Ana Heights. Staff continues to work with the City of Huntington Beach regarding pending and potential annexation of the large unincorporated Bolsa Chica area. Staff will also continue to process any applications that are submitted.

South County II

Project Manager—Bob Aldrich

	Estimated Hearing
City of Aliso Viejo	June 13,2007
City of Dana Point	June 13, 2007
City of Laguna Beach	June 13, 2007
City of Laguna Hills	June 13, 2007
City of Laguna Woods	June 13, 2007
City of Lake Forest	June 13, 2007
Capistrano Bay CSD	June 13, 2007
El Toro WD	June 13, 2007
Emerald Bay CSD	June 13, 2007
Moulton Niguel WD	June 13, 2007
South Coast WD	June 13, 2007
Laguna Beach WD	June 13, 2007
Three Arch Bay CSD	June 13, 2007
City of Newport Beach	May 9, 2007
City of Costa Mesa	May 9, 2007

Northern "Edge" Cities

Project Manager—Carolyn Emery

	Estimated Hearing
City of Buena Park	April 11, 2007
City of Cypress	April 11, 2007
City of La Palma	April 11, 2007
City of Laguna Hills	April 11, 2007
City of Placentia	April 11, 2007
OCSD	May 9, 2007

Other MSRs and SOIs

Project Manager—Joyce Crosthwaite

	Estimated Hearing
MWDOC	March 14, 2007
OCWD SOI	March 14, 2007
Costa Mesa SD	March 14,2007
Mesa Consolidated WD	March 14, 2007
City of Tustin	April 11, 2007

Review of 2006 Work Plan

During 2006 LAFCO staff completed the MSRs/SOIs for 23 agencies.

1. City of Mission Viejo
2. City of Rancho Santa Margarita
3. City of San Clemente
4. City of San Juan Capistrano
5. Santa Margarita Water District
6. Trabuco Canyon Water District
7. City of Huntington Beach
8. City of Yorba Linda
9. Yorba Linda Water District
10. City of Anaheim
11. City of Fountain Valley (MSR only)
12. City of Garden Grove
13. City of Santa Ana
14. City of Stanton
15. City of Westminster
16. Garden Grove Sanitary District
17. Midway City Sanitary District
18. County Service Area (CSA) 26—Harbors, Beaches and Parks
19. City of Costa Mesa (MSR only)
20. City of Newport Beach (MSR only)
21. Rossmoor Community Services District (SOI only)
22. City of Seal Beach (SOI only)
23. Rossmoor-Los Alamitos Sewer District (SOI only)
24. Sunset Beach Sanitary District (SOI only)
25. Orange County Water District (MSR only)

Staff also began work on the MSR/SOI for the Municipal Water District of Orange County and began data collection for the final round of MSRs/SOIs. Staff will complete the MSRs/SOIs for all agencies in Orange County by July 2007, approximately six month prior to the legislative deadline.

During 2006, staff continued to work with Rancho Mission Viejo on future governance options. One of the issues associated with future governance options is the interface between public agencies and private Home Owners Associations (HOAs). LAFCO staff organized a CALAFCO workshop, along with Rancho Mission Viejo, on the subject.

The workshop was well received and helped to educate participants. Staff is currently working with CALAFCO on subsequent workshops, and is participating with the Urban Land Institute on similar topics.

Two other reorganizations that were a direct result of the MSR processed were approved in 2006. The Irvine Ranch Water District and the Santiago Canyon Water District reorganized, simplifying governmental structure for residents while also ensuring a reliable water supply at lower rates. The reorganization of the Buena Park Library District was also approved by LAFCO. This reorganization involved swapping territory among four cities so that the Library District's territory was coterminous with the City of Buena Park's boundaries.

Staff continued to process annexations during 2006. This includes multiple annexations to the City of San Clemente as well as to the Orange County Sanitation District. While the pace of island annexations slowed considerably, Orange County has annexed 80% of the small islands (under 150 acres) originally identified including two notable successes. The Schuller island was finally annexed to the City of San Juan Capistrano, thus ending a ten year effort. The City of La Habra annexed six small islands based on incentives offered by the County of Orange. The County continues to negotiate with other jurisdictions for annexation of the remaining small and large islands. LAFCO staff continues to work with the County and cities on the annexation of the rest of the islands including the Santa Ana, Midway City and Bolsa Chica islands.

Staff continues to work on a regional and state-wide level. The Orange County Executive Officer is one of two Deputy Executive Officers for CALAFCO. Staff is planning the 2007 CALAFCO staff workshop and attended not only CALAFCO Board meetings (Peter Herzog, Orange County LAFCO City Commissioner is also Vice-Chair of CALAFCO) but also CALAFCO Legislative meetings.

Orange County LAFCO has had less success with keeping the momentum of the Orange County Leadership Symposium (OCLS). While a tentative date has been organized for March of 2007, other agencies that have supported OCLS in the past have undergone Board changes and it is too early to know if that organization's support will continue.

Appendix A—Comments Received on LAFCO MSR

Appendix B—

Preliminary 07-08 Budget