SANTA CLARA LAFCO

**Local Agency Formation Commission of Santa Clara County**
777 North First Street
Suite 410
San Jose, CA 95112
**SantaClaraLAFCO.org**



# REGULAR MEETING
# DECEMBER 7, 2022 ▪ 1:15 PM
# AGENDA

Chairperson: Rich Constantine ▪ Vice-Chairperson: Mike Wasserman

## *** BY VIRTUAL TELECONFERENCE ONLY ***

Pursuant to Government Code section 54953(e), this meeting will be held by teleconference only due to the COVID-19 state of emergency. No physical location will be available for this meeting. However, members of the public will be able to access and participate in the meeting as noted below.

## PUBLIC ACCESS AND PUBLIC COMMENT INSTRUCTIONS

### PUBLIC ACCESS

Members of the public may access and watch a livestream of the meeting on Zoom at **https://sccgov-org.zoom.us/j/99884067829**. Alternately, the public may listen in to the meeting by dialing **(669) 219-2599** and entering **Meeting ID 99884067829#** when prompted.

**WRITTEN PUBLIC COMMENTS** may be submitted by email to LAFCO@ceo.sccgov.org. Written comments will be distributed to the Commission as quickly as possible. Please note that documents may take up to 24 hours to be posted to the agenda on the LAFCO website.

**SPOKEN PUBLIC COMMENTS** will be accepted through the teleconference meeting. To address the Commission, click on the link **https://sccgov-org.zoom.us/j/-99884067829** to access the Zoom-based meeting.

1. You will be asked to enter an email address and name. We request that you identify yourself by name as this will be visible online and will be used to notify you that it is your turn to speak.

2. When the Chairperson calls for the item on which you wish to speak, click on "raise hand" icon. The Clerk will activate and unmute speakers in turn. Speakers will be notified shortly before they are called to speak. (Call in attendees press *9 to request to speak, and *6 to unmute when prompted.)

3. When called, please limit your remarks to the time limit allotted.

## NOTICE TO THE PUBLIC

1. Pursuant to Government Code §84308, no LAFCO commissioner shall accept, solicit, or direct a contribution of more than $250 from any party, or his/her agent; or any participant or his /or her agent, while a LAFCO proceeding is pending, and for three months following the date a final decision is rendered by LAFCO. Prior to rendering a decision on a LAFCO proceeding, any LAFCO commissioner who received a contribution of more than $250 within the preceding 12 months from a party or participant shall disclose that fact on the record of the proceeding. If a commissioner receives a contribution which would otherwise require disqualification returns the contribution within 30 days of knowing about the contribution and the proceeding, the commissioner shall be permitted to participate in the proceeding. A party to a LAFCO proceeding shall disclose on the record of the proceeding any contribution of more than $250 within the preceding 12 months by the party, or his or her agent, to a LAFCO commissioner. For forms, visit the LAFCO website at www.santaclaralafco.org. No party, or his or her agent and no participant, or his or her agent, shall make a contribution of more than $250 to any LAFCO commissioner during the proceeding or for 3 months following the date a final decision is rendered by LAFCO.
2. Pursuant to Government Code Sections 56100.1, 56300, 56700.1, 57009 and 81000 et seq., any person or combination of persons who directly or indirectly contribute(s) a total of $1,000 or more or expend(s) a total of $1,000 or more in support of or in opposition to specified LAFCO proposals or proceedings, which generally include proposed reorganizations or changes of organization, may be required to comply with the disclosure requirements of the Political Reform Act (See also, Section 84250 et seq.). These requirements contain provisions for making disclosures of contributions and expenditures at specified intervals. More information on the scope of the required disclosures is available at the web site of the FPPC: www.fppc.ca.gov. Questions regarding FPPC material, including FPPC forms, should be directed to the FPPC's advice line at 1-866-ASK-FPPC (1-866-275-3772).
3. Pursuant to Government Code §56300(c), LAFCO adopted lobbying disclosure requirements which require that any person or entity lobbying the Commission or Executive Officer in regard to an application before LAFCO must file a declaration prior to the hearing on the LAFCO application or at the time of the hearing if that is the initial contact. In addition to submitting a declaration, any lobbyist speaking at the LAFCO hearing must so identify themselves as lobbyists and identify on the record the name of the person or entity making payment to them. Additionally, every applicant shall file a declaration under penalty of perjury listing all lobbyists that they have hired to influence the action taken by LAFCO on their application. For forms, visit the LAFCO website at www.santaclaralafco.org.
4. Any disclosable public records related to an open session item on the agenda and distributed to all or a majority of the Commissioners less than 72 hours prior to that meeting are available for public inspection at the LAFCO Office, 777 North First Street, Suite 410, San Jose, California, during normal business hours. (Government Code §54957.5.)
5. In compliance with the Americans with Disabilities Act, those requiring accommodation for this meeting should notify the LAFCO Clerk 24 hours prior to the meeting at (408) 993-4705.

**1. ROLL CALL**

**2. PUBLIC COMMENTS**

This portion of the meeting provides an opportunity for members of the public to address the Commission on matters not on the agenda, provided that the subject matter is within the jurisdiction of the Commission. No action may be taken on off-agenda items unless authorized by law. Speakers are limited to THREE minutes. All statements that require a response will be referred to staff for reply in writing.

**3. APPROVE CONSENT CALENDAR**

The Consent Calendar includes Agenda Items marked with an asterisk (*). The Commission may add to or remove agenda items from the Consent Calendar.
All items that remain on the Consent Calendar are voted on in one motion. If an item is approved on the Consent Calendar, the specific action recommended by staff is adopted. Members of the public who wish to address the Commission on Consent Calendar items should comment under this item.

***4. APPROVE MINUTES OF AUGUST 3, 2022 LAFCO MEETING**

***5. RESOLUTION 2022-10 ALLOWING FOR VIDEO AND TELECONFERENCE MEETINGS DURING COVID-19 STATE OF EMERGENCY UNDER GC §54953(e)**

**Recommended Action**: Adopt Resolution No. 2022-10 allowing for video and teleconferencing meetings during COVID-19 State of Emergency under GC §54953(e).

## PUBLIC HEARINGS

**6. WEST VALLEY SANITATION DISTRICT SOI AMENDMENT AND ANNEXATION 2022-01 (LINDA VISTA AVENUE)**

**Recommended Action:**

CEQA Action

1. As Lead Agency under CEQA, determine that the proposal is categorically exempt from the provisions of CEQA pursuant to State CEQA Guidelines §15319 (a) & (b), and §15303(d).

Project Action

1. Approve amendment of the West Valley Sanitation District's sphere of influence (SOI) to include approximately 1.1 acres of land, Assessor Parcel Number 510-34-022, located at 19131 Linda Vista Avenue, as shown in Attachment A, and adopt SOI determinations.

2. Approve the annexation of approximately 1.1 acres of land, Assessor Parcel Number 510-34-022, located at 19131 Linda Vista Avenue, to the West Valley Sanitation District, as depicted in Attachment B (Exhibits A & B).

3. Waive protest proceedings pursuant to Government Code §56662(a).

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## ITEMS FOR ACTION / INFORMATION

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### 7. ANNUAL FINANCIAL AUDIT REPORT

**Recommended Action:**

1. Receive a presentation from Chavan & Associates, LLP on LAFCO's Annual Financial Audit Report.
2. Receive and file the Annual Financial Audit Report (June 30, 2022) prepared for Santa Clara LAFCO by Chavan & Associates, LLP.

### 8. UPDATE ON COUNTYWIDE FIRE SERVICE REVIEW

**Recommended Action**: Accept report and provide direction, as necessary.

### *9. ADOPTION OF AMENDED CONFLICT OF INTEREST CODE

**Recommended Action**: Approve and adopt Resolution No. 2022-11 adopting LAFCO's amended Conflict of Interest Code.

### 10. ADOPTION OF SCHEDULE OF 2023 LAFCO MEETINGS

**Recommended Action**: Adopt the schedule of LAFCO meetings and application filing deadlines for 2023.

### 11. EXECUTIVE OFFICER'S REPORT

**Recommended Action:** Accept report and provide direction, as necessary.

**11.1 Update on LAFCO Clerk Recruitment**

**11.2 Letter on Notice of Preparation for County of Santa Clara Housing Element EIR**

**11.3 Santa Clara County Association of Planning Officials Meeting**

**11.4 Inter-Jurisdictional GIS Working Group**

### 12. CALAFCO RELATED ACTIVITIES

**12.1 Report on the 2022 CALAFCO Annual Conferennce**

**For information only.**

### 13. RESOLUTIONS OF COMMENDATION FOR OUTGOING LAFCO COMMISSIONERS

13.1 Chairperson Rich Constantine

13.2 Commissioner Linda J. LeZotte

13.3 Commissioner Mike Wasserman

**14. PENDING APPLICATIONS / UPCOMING PROJECTS**

14.1 Gilroy Urban Service Area Amendment 2021 – Wren Investors and Hewell

**15. COMMISSIONER REPORTS**

**16. NEWSPAPER ARTICLES / NEWSLETTERS**

**17. WRITTEN CORRESPONDENCE**

17.1 Letters from Special District Risk Management Authority Regarding President's Special Acknowledgement Award

**For information only.**

## CLOSED SESSION

**18. PERFORMANCE EVALUATION**

Public Employee Performance Evaluation (Government Code §54957)

Title: LAFCO Executive Officer

**19. REPORT OUT OF CLOSED SESSION**

**20. ADJOURN**

Adjourn to the regular LAFCO meeting on February 1, 2023 at 1:15 PM in the Board of Supervisors' Chambers, 70 West Hedding Street, San Jose.

SANTA CLARA LAFCO

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# LAFCO MEETING MINUTES
# WEDNESDAY, AUGUST 3, 2022

## CALL TO ORDER

The meeting was called to order at 1:15 p.m.

Pursuant to the provisions of Government Code section 54953(e), this meeting was held by teleconference only.

## 1. ROLL CALL

**The following commissioners were present:**
- Chairperson Rich Constantine
- Commissioner Ellenberg
- Commissioner Yoriko Kishimoto
- Commissioner Linda J. LeZotte
- Commissioner Mike Wasserman
- Commissioner Susan Vicklund Wilson
- Alternate Commissioner Helen Chapman
- Alternate Commissioner Russ Melton
- Alternate Commissioner Terry Trumbull

**The following commissioners were absent:**
- Commissioner Sergio Jimenez
- Alternate Commissioner Cindy Chavez
- Alternate Commissioner Matt Mahan

**The following staff members were present:**
- Neelima Palacherla, LAFCO Executive Officer
- Dunia Noel, LAFCO Assistant Executive Officer
- Emmanuel Abello, Associate Analyst
- Mala Subramanian, LAFCO Counsel

## 2. PUBLIC COMMENTS

There were none.

## 3. APPROVE CONSENT CALENDAR

**Chairperson Constantine** determined that there are no members of the public who would like to speak on the item.

The Commission approved agenda items #4, #5, #8, #9, #11, #12, #13 and #14 on consent.

Motion: Kishimoto Second: Wasserman

AYES: Constantine, Ellenberg, Kishimoto, LeZotte, Wasserman, Vicklund Wilson

NOES: None ABSTAIN: None ABSENT: Jimenez

**MOTION PASSED**

## *4. *CONSENT ITEM:* APPROVE MINUTES OF JUNE 1, 2022 LAFCO MEETING

The Commission approved the minutes of June 1, 2022 meeting.

## *5. *CONSENT ITEM:* RESOLUTION 2022-09 ALLOWING FOR VIDEO AND TELECONFERENCE MEETINGS DURING COVID-19 STATE OF EMERGENCY UNDER GC §54953(e)

The Commission adopted Resolution No. 2022-09 allowing for video and teleconferencing meetings during COVID-19 State of Emergency under GC §54953(e).

## 6. UPDATE ON COUNTYWIDE FIRE SERVICE REVIEW

Dunia Noel, Senior Analyst, presented a brief report.

In response to an inquiry by **Commissioner Ellenberg**, Ms. Noel informed that Ms. Palacherla had reached out to Matrix Consulting Group on the County fire study. She stated that the new consultant, AP Triton, has restarted the data collection and wants to make sure that they are confident in the data used in the study. She noted that LAFCO's study is independent and separate from the County's and it is uncertain how data sharing with the County would occur. Ms. Palacherla indicated that the County maybe close to publishing its report. She indicated that AP Triton is trying to ensure that the fire agencies studied will have the confidence in the accuracy of the data and have committed to work with fire agencies and offer assistance as needed to get the correct data in a methodical way.

**Commissioner Ellenberg** agreed that if the County is close to completing its study there would be no opportunity for coordination and suggested that the County study be used as a resource for the LAFCO study. In response to another inquiry from Commissioner Ellenberg, **Chairperson Constantine** noted that the information obtained by the previous consultant was in some cases old, inaccurate, or plagiarized and was one of the reasons for letting them go. In response to her follow-up inquiry regarding why LAFCO hired such a consultant, **Chairperson Constantine** stated that

LAFCO went through an RFP process and did its due diligence by checking the previous consultant's prior work and references, but there was no indication about their poor performance on prior projects. He stated that there was only a limited pool of consultants at that time since the County had also initiated its fire study at the same time. He noted that there was no way to foresee and avoid this. In response to another inquiry by **Commissioner Ellenberg**, Ms. Palacherla indicated that to ensure quality data, the request for information is now detailed and specifies the format and date range, and that AP Triton is in the process of obtaining data from the fire chiefs and their designated lead persons for the project. Ms. Noel added that AP Triton's team includes a consultant who had worked on LAFCO's previous service reviews and is familiar with the County, so it will be a different approach this time with better results expected.

**Chairperson Constantine** observed that staff did an excellent job and has maintained control over the process, recognized the issues with the prior consultant early, and quickly halted work before incurring further costs, rather than proceeding with the project and producing a poor report. **Commissioner Kishimoto** stated that she and Commissioner Wilson are on the Technical Advisory Committee (TAC), along with other representatives from the Santa Clara County City Managers Association and the Santa Clara County Fire Chiefs Association. She informed that at the August 1st TAC meeting, AP Triton introduced a large team of consultants who will work on the various aspects of the project. She stated that the TAC is impressed with the new consultant and their approach to data collection. She noted that data collection is a major challenge for the project given that cities and fire agencies vary in scope of services and have different standards, formats and timelines.

**Commissioner Wasserman** expressed appreciation to Commissioner Ellenberg for raising questions about the service review. He stated that it is important to gather information relevant to the study and noted that there will be some duplication between LAFCO's service review and the County's study. In response to his inquiry, Ms. Palacherla stated that the data obtained from the County's consultants has been shared with AP Triton. **Commissioner Wasserman** recalled his proposal at the start of the service review process to hire the same consultant for the LAFCO and the County studies so there would be no duplication of work or conflicting findings and recalled that it was explained that the County's study is different from LAFCO's mandated service review. He proposed that AP Triton consider the County's report as an information resource.

**Chairperson Constantine** determined that there are no members of the public who would like to speak on the item.

The Commission accepted the report.

Motion: Constantine Second: Kishimoto

AYES: Constantine, Ellenberg, Kishimoto, LeZotte, Wasserman, Vicklund Wilson

NOES: None ABSTAIN: None ABSENT: Jimenez

**MOTION PASSED**

## 7. UPDATE ON COUNTY'S CLASSIFICATION STUDY FOR LAFCO

Ms. Palacherla presented a brief report.

**Chairperson Constantine** determined that there are no members of the public who would like to speak on the item.

The Commission directed LAFCO staff to work with County to recruit for and fill the vacant LAFCO Clerk position.

Motion: Ellenberg Second: Vicklund Wilson

AYES: Constantine, Ellenberg, Kishimoto, LeZotte, Wasserman, Vicklund Wilson

NOES: None ABSTAIN: None ABSENT: Jimenez

**MOTION PASSED**

## *8. *CONSENT ITEM:* FY 2021-2022 ANNUAL REPORT

Ms. Palacherla presented a brief report.

The Commission accepted the Annual Report for FY 2021-2022.

Motion: Constantine Second: Vicklund Wilson

AYES: Chapman, Constantine, Ellenberg, Jimenez, LeZotte, Wasserman, Vicklund Wilson

NOES: None ABSTAIN: None ABSENT: Jimenez

**MOTION PASSED**

## *9. *CONSENT ITEM:* EXECUTIVE OFFICER'S REPORT

The Commission noted the report.

### *9.1 Community Workshops on County's 2023-2031 Housing Element Update

### *9.2 Presentations to Santa Clara County Civil Grand Jury

### *9.3 First Amendment to the Website Hosting and Maintenance Agreement between LAFCO and Covive

### *9.4 Special Districts Association Meeting

## 10. CALAFCO RELATED ACTIVITIES

### 10.1 Nominations to the CALAFCO Board of Directors

Ms. Noel presented the staff report.

### 10.2 Designate Voting Delegate and Alternate

Ms. Noel presented a brief report.

**Chairperson Constantine** informed that he is also attending the Conference and offered to serve as the Alternate Voting Delegate.

The Commission appointed Commissioner Sergio Jimenez as the voting delegate and Chairperson Constantine as the alternate voting delegate.

Motion: Vicklund Wilson Second: Wasserman

AYES: Constantine, Ellenberg, Kishimoto, LeZotte, Wasserman, Vicklund Wilson

NOES: None ABSTAIN: None ABSENT: Jimenez

**MOTION PASSED**

### 10.3 Additional Information on the Upcoming CALAFCO Annual Conference (October 19 – 21)

Ms. Noel presented a brief report.

**Chairperson Constantine** requested that members planning to attend the Conference inform staff as soon as possible.

The Commission noted the report.

## *11. *CONSENT ITEM:* PENDING APPLICATIONS / UPCOMING PROJECTS

The Commission noted the pending application, Gilroy Urban Service Area Amendment 2021 – Wren Investors and Hewell.

## *12. *CONSENT ITEM:* COMMISSIONER REPORTS

There were none.

## *13. *CONSENT ITEM:* NEWSPAPER ARTICLES / NEWSLETTERS

There were none.

## *14. *CONSENT ITEM:* WRITTEN CORRESPONDENCE

There were none.

## 15. CLOSED SESSION

The Commission adjourned to Closed Session at 1:50 p.m.

## 16. REPORT OUT OF CLOSED SESSION

Chairperson Constantine reconvened the meeting at 1:59 p.m. and stated that there is no reportable action from the Closed Session.

## 17. ADJOURN

The Commission adjourned at 2:00 p.m., to the next regular LAFCO meeting on October 5, 2022, at 1:15 p.m., in the Board of Supervisors' Chambers, 70 West Hedding Street, San Jose.

Approved on ________________________ 2022.

_____________________________________
Rich Constantine, Chairperson
Local Agency Formation Commission of Santa Clara County

By: ________________________________
Emmanuel Abello, LAFCO Clerk

ITEM # 5

**RESOLUTION NO. 2022-10**

**RESOLUTION ALLOWING FOR VIDEO AND TELECONFERENCE MEETINGS DURING THE COVID-19 STATE OF EMERGENCY UNDER GOVERNMENT CODE § 54953(e)**

**WHEREAS**, on March 4, 2020, the Governor of the State of California proclaimed a State of Emergency for COVID-19; and

**WHEREAS**, Government Code § 54953(e) allows the Commission to continue to meet virtually until such time as the Governor declares the State of Emergency due to COVID-19 over and measures to promote social distancing are no longer recommended; and

**WHEREAS**, on September 21, 2021, the Santa Clara County Health Officer recommended that public bodies continue to meet remotely to enhance safety at public meetings; and

**WHEREAS**, in light of this recommendation, the Commission desires for itself and for all other Commission legislatives bodies that are subject to the Brown Act to continue to meet via video and/or teleconference; and

**WHEREAS**, pursuant to Government Code § 54953(e), the Commission will review the findings required to be made every 30 days or thereafter and shall not meet without making those continued findings.

**NOW THEREFORE,** the Commission does hereby resolve and finds on behalf of itself and all other Commission legislative bodies: (1) a state of emergency has been proclaimed by the Governor; (2) the state of emergency continues to directly impact the ability of the Commission's legislative bodies to meet safely in person; and (3) local officials continue to recommend measures to promote social distancing.

**PASSED AND ADOPTED** by the Local Agency Formation Commission of Santa Clara County, on December 7, 2022 by the following vote:

**AYES**:
**NOES:**
**ABSENT:**
**ABSTAIN:**

Rich Constantine, Chairperson
LAFCO of Santa Clara County

**ATTEST:**

**APPROVED AS TO FORM:**

Emmanuel Abello, LAFCO Clerk

Malathy Subramanian, LAFCO Counsel

ITEM # 6

SANTA CLARA LAFCO

Local Agency Formation Commission of Santa Clara County
777 North First Street
Suite 410
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**LAFCO MEETING:** **December 7, 2022**

**TO:** **LAFCO**

**FROM:** **Neelima Palacherla, Executive Officer**
**Dunia Noel, Asst. Executive Officer**

**SUBJECT:** **WEST VALLEY SANITATION DISTRICT SOI AMENDMENT AND ANNEXATION 2022-01 (Linda Vista Avenue)**

## STAFF RECOMMENDATION

### CEQA Action

1. As Lead Agency under CEQA, determine that the proposal is categorically exempt from the provisions of CEQA pursuant to State CEQA Guidelines §15319 (a) & (b), and §15303(d).

### Project Action

1. Approve amendment of the West Valley Sanitation District's sphere of influence (SOI) to include approximately 1.1 acres of land, Assessor Parcel Number 510-34-022, located at 19131 Linda Vista Avenue, as shown in Attachment A, and adopt SOI determinations.
2. Approve the annexation of approximately 1.1 acres of land, Assessor Parcel Number 510-34-022, located at 19131 Linda Vista Avenue, to the West Valley Sanitation District, as depicted in Attachment B (Exhibits A & B).
3. Waive protest proceedings pursuant to Government Code §56662(a).

## PROJECT DESCRIPTION AND BACKGROUND

LAFCO of Santa Clara County received an application, by landowner petition, to amend the sphere of influence (SOI) of the West Valley Sanitation District (WVSD) to include Assessor Parcel Number 510-34-022 and to annex the parcel into the District in order to allow the WVSD to provide sanitary sewer services to the parcel. Please see **Attachment A** for an overview map depicting the current WVSD boundaries in relation to the proposed SOI amendment and annexation proposal.

Assessor Parcel Number 510-34-022 is approximately 1.1 acres in size and is located at 19131 Linda Vista Avenue in unincorporated Santa Clara County. The subject property is located outside the Urban Service Area and Sphere of Influence of the City of Monte Sereno.

The property is currently developed with a single-family residence and an accessory dwelling unit that are both served by a single septic system which is located partially on the subject parcel and partially on a neighboring property (APN 510-34-023) that is owned by a different landowner. In response to a complaint from the owner of APN 510-34-023 (neighboring landowner), the County of Santa Clara Department of Environmental Health (DEH) inspected the septic system and determined that the system is experiencing a complete failure, causing an imminent public health hazard for the owners of both parcels and potentially beyond. As discussed in greater detail below, the replacement or repair of the existing septic system is not feasible due to onsite constraints. DEH has recommended that the owner of APN 510-34-022 connect to a public sewer system, if feasible. The nearest sanitary sewer service provider is WVSD.

On November 9, 2022, WVSD adopted Resolution No. 22.11.19 (**Attachment C**) indicating that the district supports the requested SOI amendment and annexation of APN 510-34-022 due to the unique circumstances involved and that the District has the ability to provide sewer service to the subject parcel which is currently developed with a single-family residence and accessory dwelling unit.

**Attachment B** (Exhibits "A" and "B") describes and depicts the boundaries of the proposed annexation.

### WVSD SOI Amendment and Annexation 2008-02 (Overlook Road)

In 2008, the SOI for the WVSD was amended to include 22 parcels located off Linda Vista Avenue, Beckwith Road, and Overlook Road in order to address an environmental health problem for existing residences. DEH conducted surveys of the area and provided a professional opinion as to the current and future state of septic systems in the area. DEH found that several properties have documented problems or issues with their septic systems or site restrictions which limit the repair or expansion of existing septic systems. DEH found that due to the age of the homes and septic systems in the area, the types of materials used in septic system construction prior to the 1970s, the small size of the lots, the terrain, the soil type and vegetation in the area, and the minimal size of the septic tanks and leach fields, it is very likely that septic system failures could occur in the area at any time. DEH concluded that such failing septic systems could create a threat to the public health and safety of the area residents.

The current proposal seeks to expand WVSD's SOI and annex a parcel that is located on Linda Vista Avenue, adjacent to the WVSD SOI Amendment and Annexation 2008-02 (Overlook Road) proposal. Please see **Attachment A** for overview map depicting the current WVSD boundaries in relation to the proposed SOI amendment and annexation proposal.

## ENVIRONMENTAL ASSESSMENT

### Categorical Exemption

LAFCO of Santa Clara County is the Lead Agency under the California Environmental Quality Act (CEQA) for the proposed SOI amendment and annexation of APN 510-34-022 to the West Valley Sanitation District. The proposed SOI amendment and annexation are exempt under State CEQA Guidelines §15319(a) & (b) and §15303(d).

*§15319: Class 19 consists of only the following annexations:*

*(a) Annexation to a city or special district of areas containing existing public or private structures developed to the density allowed by the current zoning or pre-zoning of either the gaining or losing governmental agency whichever is more restrictive, provided, however, that the extension of utility services to the existing facilities would have a capacity to serve only the existing facilities.*

*(b) Annexation of individual small parcels of the minimum size for facilities exempted by §15303, New Construction or Conversion of Small Structures.*

*§15303: Class 3 consists of construction and location of limited numbers of new, small facilities or structures, installation of small new equipment and facilities in small structures from one use to another where only minor modifications are made in the exterior of the structure. The number of structures described in this section are the maximum allowable on any legal parcel. Examples of this exemption include but are not limited to:*

*(d) Water main, sewage, electrical, gas, and other utility extensions, including street improvements, of reasonable length to serve such construction.*

## CONSISTENCY WITH LAFCO FACTORS AND POLICIES

### Impacts to Prime Agricultural Lands and Open Space

The subject parcel is not under a Williamson Act Contract and does not contain open space or prime agricultural lands as defined in the Cortese Knox Hertzberg Act. Therefore, the proposed SOI amendment and annexation will not impact agricultural or open space lands.

### Public Health and Safety Issues

The subject parcel is developed with a single-family residence and an accessory dwelling unit. The County of Santa Clara Department of Environmental Health (DEH) issues septic permits and oversees system installations and repairs for properties in Santa Clara County. DEH has inspected the property's existing septic system and has determined that the system is experiencing complete failure, causing an imminent public health hazard. Replacement or repair of the existing system is not feasible due to onsite constraints including steep slopes, poor accessibility and a portion of the existing septic system residing on a neighboring property (APN 510-34-023) without proper easement agreement. Given these challenges, DEH has recommended connection to the public sewer system, if feasible. WVSD's sanitary sewer main is located in the vicinity, along Overlook Road.

### Logical and Orderly Boundaries

The subject parcel is not within WVSD's SOI but is contiguous to the WVSD's boundary and SOI. See **Attachments A & B** for maps.

The existing SOI for WVSD for the most part is coterminous with the urban service area of the West Valley cities of Los Gatos, Monte Sereno, and Saratoga. The subject parcel is in an unincorporated part of Santa Clara County and is not within a city's urban service area (USA). The County of Santa Clara's General Plan policies state that urban services such as water and sewer service should not be provided outside of city USAs. Exceptions to these policies are limited to resolving situations where there is a documented existing threat to public health and safety. WVSD, LAFCO, and the West Valley cities have similar policies. As discussed above, the existing septic system serving the dwellings on the subject parcel is experiencing a complete failure, causing an imminent public health hazard; and. a repair or replacement of the failing existing septic system is not feasible due to onsite constraints.

The County Surveyor has reviewed the annexation map and has found that the annexation boundaries are definite and certain. The Surveyor has also determined that the project conforms to LAFCO's policies regarding the annexation of roads. The proposal will not create an island, corridor, or strip. The County Assessor has reviewed the proposal and found that the proposal conforms to lines of assessment.

### Growth Inducing Impacts

Assessor Parcel Number 510-34-022 is approximately 1.1 acres in size and located in unincorporated Santa Clara County. The parcel is developed with a single-family residence, accessory dwelling unit, garage, and pool.

The parcel has a County of Santa Clara land use designation of Hillsides and is zoned HS (Hillsides) with a minimum lot size of 20 to 160 acres land area per a dwelling unit (based on the slope-density formula). The parcel is not eligible for further subdivision due its zoning designation and size. A connection to WVSD's sewer system would not change this.

Directly to the southwest of the subject parcel are unincorporated lands located within WVSD's SOI and boundary. These lands were part of the LAFCO approved WVSD SOI Amendment and Annexation 2008-02 (Overlook Road) proposal and were substantially developed at the time of that proposal.

Directly to the north, east, and south of the subject parcel are lands located outside of WVSD and WVSD's Sphere of Influence and outside of city USAs. These lands are unincorporated and currently developed with single-family residences.

The County, LAFCO, WVSD, and West Valley cities all have policies that discourage the provision of urban services such as water and sewer services outside of city USAs. Exceptions to these policies are limited to resolving situations where there is a documented existing threat to public health and safety that cannot be resolved onsite. These policies help limit growth inducement in the area.

Furthermore, any additional lands that require sanitary sewer services from the WVSD, would first need to be included in the WVSD's SOI and then annexed into the WVSD. An amendment of the District's SOI and annexation to the District would require LAFCO approval and LAFCO would conduct the required environmental analysis, including the consideration of the potential growth-inducing impacts of such a proposal.

### Ability of District to Provide Services

Per information provided by WVSD, the District has adequate sewer capacity to provide sanitary sewer services to the subject parcel without detracting from the existing services levels within the district. The owner of the subject parcel will fund and install a private sewer pump and a 2-inch sanitary sewer lateral line that will begin on the subject parcel, extend approximately 540 feet west past two neighboring properties via a private utility easement, and connect to the WVSD's existing sewer main along Linda Vista Avenue.

The existing 8-inch sewer main has adequate capacity to accommodate the flow from the proposed annexation. There is adequate treatment capacity in WVSD's agreement with the Regional Wastewater Facility (RWF) to accommodate this annexation. WVSD's treatment capacity allocation with the RWF is 11.697 million gallons per day. The actual flow to the RWF in FY 2021-22 was 9.677 million gallons per day. The average flow from a single-family home is 186 gallons per day (gpd) and the average flow from an accessory dwelling unit is 100 gpd. Per WVSD staff, the proposed annexation will not trigger any sewer related public capital improvements.

## SPHERE OF INFLUENCE AMENDMENT

Effective January 1, 2001, the CKH Act of 2000 requires that a service review be conducted prior to the establishment or amendment of a sphere of influence (SOI). In 2013, LAFCO conducted and adopted a service review and SOI update for the WVSD which included service review determinations and SOI determinations.

### Proposed Sphere of Influence Determinations

In considering and recommending approval of this SOI amendment, Santa Clara LAFCO must prepare a written statement of determinations with respect to each of the following:

1. **Nature, location, extent, functions, and classes of services provided.**

   West Valley Sanitation District (WVSD) provides sewer collection services for the City of Campbell, Town of Los Gatos, City of Monte Sereno, a portion of the City of Saratoga, and some unincorporated territory to the west of these cities. WVSD contracts with the San Jose-Santa Clara Regional Wastewater Facility for wastewater treatment and disposal. WVSD also provides contract stormwater management and storm drain maintenance services to the Town of Los Gatos and cities of Saratoga, Monte Sereno, and Campbell.

2. **Present and planned land uses in the area, including agricultural and open-space lands.**

   The subject parcel is located in unincorporated Santa Clara County and is designated Hillsides in the County General Plan. The land use designation includes residential uses. The parcel is developed with a single-family residence and an accessory dwelling unit. The parcel does not include agricultural or open space lands as defined in the CKH Act.

3. **Present and probable need for public facilities and adequacy of public services that the agency provides or is authorized to provide.**

   The subject parcel is in unincorporated Santa Clara County and developed with a single-family residence and an accessory dwelling unit. According to the County's DEH, the septic system that serves the two dwellings is experiencing a complete failure, causing a public health hazard. DEH has recommended a connection to a public sewer system, if feasible. WVSD's sanitary sewer system is nearby and the District has the ability to provide sewer services to the proposal area. The District's present capacity of public facilities and services is adequate.

4. **Present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.**

   The West Valley Sanitation District has the ability to provide sanitary sewer services to the subject parcel. The District's present capacity of public facilities and services is adequate.

5. **Existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.**

   The proposal area is unincorporated land that is located outside of the City of Monte Sereno's USA and SOI and outside of WVSD's SOI. The area is subject to the County of Santa Clara's land use and zoning regulations. The proposal area is somewhat remote and access to the area is either through the City of Monte Sereno or the Town of Los Gatos. The proposal area is adjacent to the LAFCO approved WVSD SOI Amendment and Annexation 2008-02 (Overlook Road) proposal.

6. **Present and probable need for water, wastewater, and structural fire protection facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.**

   There are no disadvantaged unincorporated communities (DUCs) within WVSD's SOI based upon analysis of available information (i.e., U.S. Census Bureau 2020 Decennial Census).

## WAIVER OF PROTEST PROCEEDINGS

The territory proposed for annexation is uninhabited, i.e., fewer than 12 registered voters reside within the territory. The annexation proposal has consent from all landowners of the property proposed for annexation. LAFCO has not received a request from the WVSD or from any other affected local agency, for notice, hearing or protest proceeding on the proposal. Therefore, pursuant to GC §56662(a), LAFCO may waive protest proceedings.

### Notice of Public Hearing

In addition to notifying affected agencies, mailed notice of this item was provided to all landowners and registered voters within the affected territory and to all landowners and registered voters within 300 feet of the affected territory of the reorganization proposal, pursuant to Government Code §56157. The notice was also posted on the LAFCO Website and the County bulletin board used for posting public notices; and published in the San Jose Post Record.

## SUMMARY AND RECOMMENDATION

The subject parcel (APN 510-34-022) is located in the unincorporated area and outside of the Urban Service Area and Sphere of Influence of the City of Monte Sereno. The County, LAFCO, WVSD, and West Valley cities all have policies that discourage the provision of urban services such as water and sewer services outside of city USAs. Exceptions to these policies are limited to resolving situations where there is a documented existing threat to public health and safety that cannot be resolved onsite.

The County's DEH has determined that the septic system serving the single-family residence and accessory dwelling unit on APN 510-34-022 is experiencing a complete failure, causing an imminent public health hazard. The replacement or repair of the existing system is not feasible due to onsite constraints. Therefore, DEH has recommended that the owner of APN 510-34-022 connect to a public sewer system to resolve the hazard, if feasible. The nearest sanitary sewer service provider is WVSD. The property owner has requested a SOI amendment and annexation of APN 510-34-022 to WVSD in order to receive sanitary sewer service from the District.

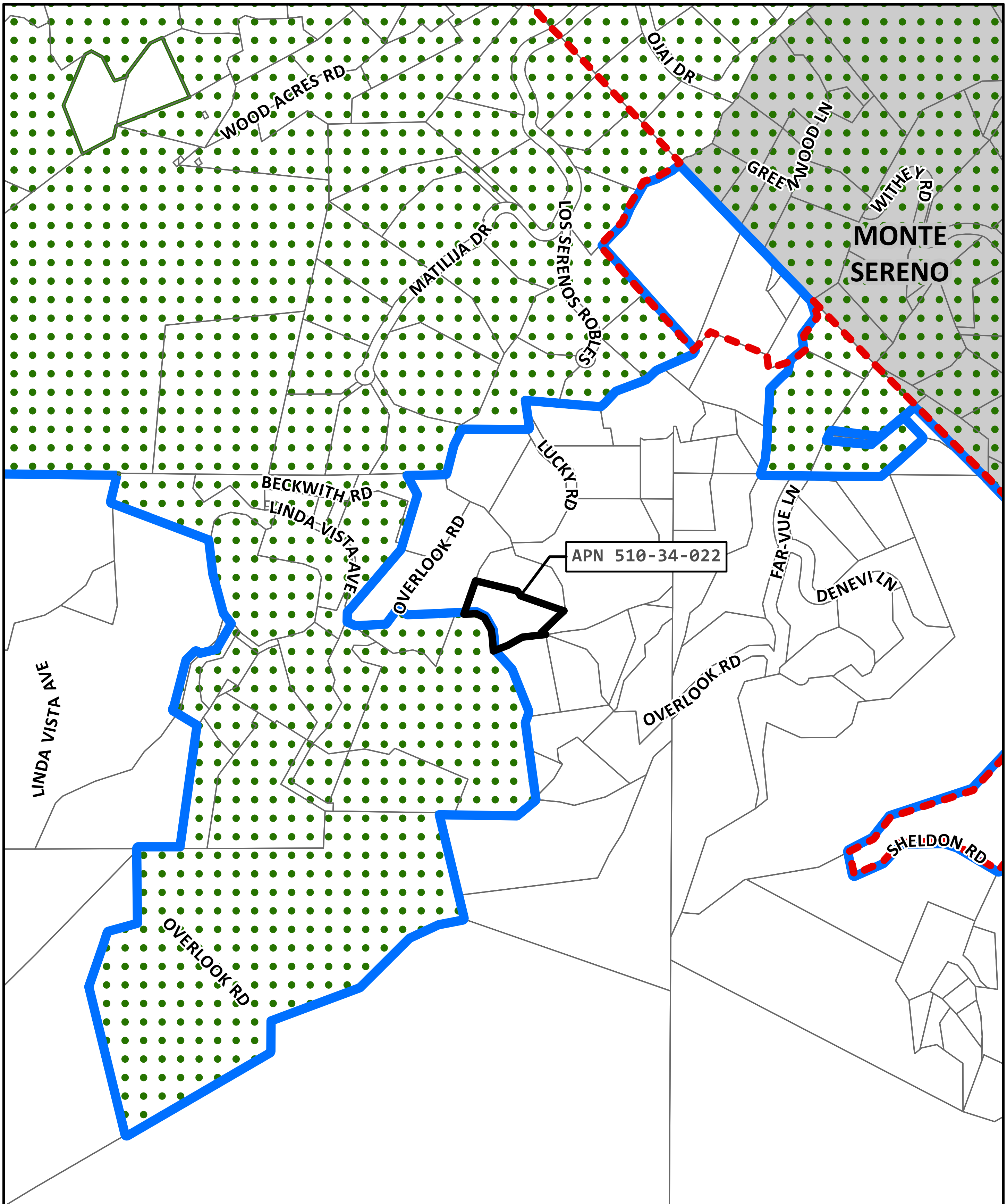
Given the unique circumstances, WVSD has adopted a resolution in support of the proposal. WVSD has the capacity and ability to provide sanitary sewer services to the subject parcel without detracting from the existing service levels within the District. The owner of the subject parcel has agreed to construct a private sewer pump and a sewer lateral which will allow for the property to be connected to the District's existing sanitary sewer main located on Linda Vista Avenue, approximately 540 feet west of the subject parcel. The subject parcel is located in unincorporated Santa Clara County and cannot be subdivided due to its zoning designation and size. The proposal has no significant growth inducing impacts or adverse impacts on agricultural or open space lands in the area.

Therefore, staff recommends approval of the amendment of WVSD's SOI to include APN 510-34-022 and the annexation of the subject parcel to WVSD.

## ATTACHMENTS

| | |
|---|---|
| Attachment A: | Overview Map depicting the proposed SOI amendment and annexation in relation to West Valley Sanitation District and adjacent city boundaries |
| Attachment B: | Legal Description (Exhibit "A") and Map (Exhibit "B") of Proposed Annexation to the West Valley Sanitation District |
| Attachment C: | West Valley Sanitation District Resolution No. 22.11.19 supporting the West Valley Sanitation District SOI Amendment and Annexation 2022-01 (Linda Vista Avenue) |

ITEM # 6 Attachment A




**County of Santa Clara**
Department of Planning and Development
County Government Center, East Wing
70 West Hedding St., 7th Floor
San Jose, California 95110

**West Valley Sanitation District Sphere of Influence Amendment and Annexation 2022-01 (Linda Vista Ave.)**

**1.13 acres +/-**

November 22, 2022

Boundary of Proposed Annexation & SOI
City of Monte Sereno USA
West Valley Sanitation District SOI
West Valley Sanitary District
City of Monte Sereno

N
0 100 200
Feet

Sheet 1 of 1

# EXHIBIT "A"

## WEST VALLEY SANITATION DISTRICT SPHERE OF INFLUENCE AMENDMENT AND ANNEXATION 2022-01 (LINDA VISTA)
## GEOGRAPHIC DESCRIPTION

All that certain real property situate in the County of Santa Clara, State of California, being a portion of the NE. ¼ of the NE. ¼ , of Section 19, Township 8 South, Range 1 West, M.D.B.& M, being more particularly described as follows:

**ALL** of the 1.099 Acre Southerly Lot as shown on that certain Record of Survey entitled "Lands of Dean Ladd" filed for record on April 4, 1967 in Book 220 of Maps at Page 31, Santa Clara County Records, being more particularly described as follows:

**BEGINNING** at the southwesterly corner of said 1.099 Acre Lot, being a point on the centerline of Linda Vista Avenue, 30 feet wide, as shown on said Record of Survey and also being the existing West Valley Sanitation District Boundary as described in the "West Valley Sanitation District Sphere of Influence Amendment and Annexation 2008-02 (Overlook Road)";

**THENCE** along said existing West Valley Sanitation District Boundary and centerline of Linda Vista Avenue, the following (5) courses and distances:

1. ***North 68°01'35" East, 77.27 feet*** along the existing boundary;
2. ***South 62°56'00"East, 34.09 feet*** along the existing boundary;
3. ***South 29°29'30" East, 50.32 feet*** along the existing boundary;
4. ***South 07°05'00" East, 35.68 feet*** along the existing boundary;
5. ***South 04°44'00" East, 46.38 feet*** along the existing boundary;

**THENCE** leaving said existing West Valley Sanitation District Boundary, along the exterior lines of said 1.099 Acre Lot, the following nine (9) courses and distances:

1. ***North 70°31'00" East, 58.30 feet;***
2. ***North 61°10'00" East, 63.50 feet;***
3. ***North 84°08'20" East, 89.24 feet;***
4. ***North 29°10'00" East, 44.00 feet;***
5. ***North 53°05'00" East, 64.20 feet;***
6. ***North 71°19'23" West, 185.18 feet;***
7. ***North 34°27'45" West, 22.11 feet;***
8. ***North 77°58'27" West, 159.16 feet;***
9. ***South 25°13'50" West, 149.05 feet*** to the ***POINT OF BEGINNING.***

Containing 1.099 Acres, more or less.

END OF LEGAL DESCRIPTION

# EXHIBIT "A"

## WEST VALLEY SANITATION DISTRICT SPHERE OF INFLUENCE AMENDMENT AND ANNEXATION 2022-01 (LINDA VISTA)

## GEOGRAPHIC DESCRIPTION

As shown on **EXHIBIT "B"** attached hereto and by this reference made a part hereof.

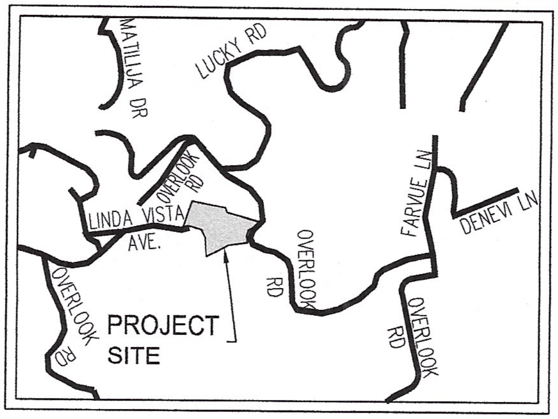
Date 17 NOV 2022

Shane R. Barber LS 9097

LICENSED LAND SURVEYOR
SHANE R. BARBER
PLS 9097
STATE OF CALIFORNIA

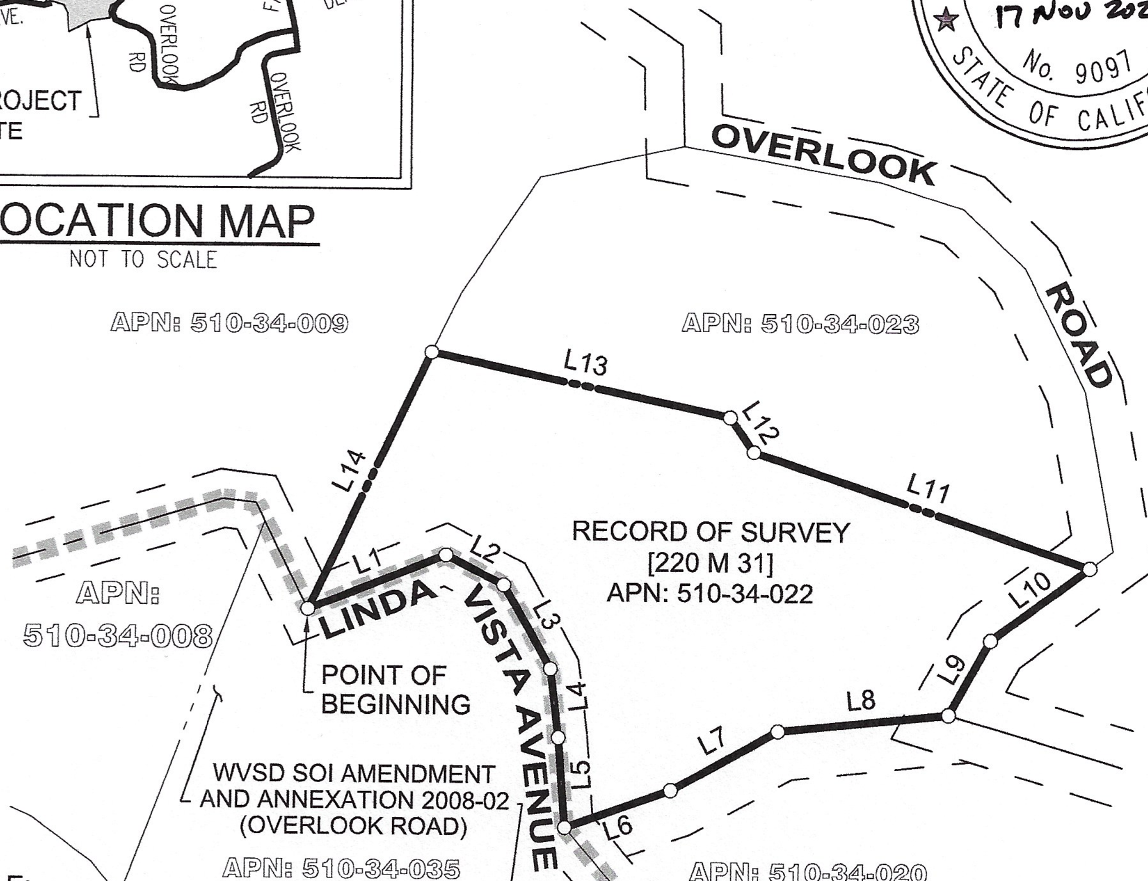
For assessment purposes only. This description of land is not a legal property description as defined in the Subdivision Map Act and may not be used as the basis for an offer for sale of the land described.

# EXHIBIT B




## LOCATION MAP

NOT TO SCALE


LINE TABLE:

| LINE | BEARING | DISTANCE |
|---|---|---|
| L1 | N 68°01'35" E | 77.27' |
| L2 | S 62°56'00" E | 34.09' |
| L3 | S 29°29'30" E | 50.32' |
| L4 | S 07°05'00" E | 35.68' |
| L5 | S 04°44'00" E | 46.38' |
| L6 | N 70°31'00" E | 58.30' |
| L7 | N 61°10'00" E | 63.50' |
| L8 | N 84°08'20" E | 89.24' |
| L9 | N 29°10'00" E | 44.00' |
| L10 | N 53°05'00" E | 64.20' |
| L11 | N 71°19'23" W | 185.18' |
| L12 | N 34°27'45" W | 22.11' |
| L13 | N 77°58'27" W | 159.16' |
| L14 | S 25°13'50" W | 149.05' |

1.099 ACRES

DISCLAIMER:
"FOR ASSESSMENT PURPOSES ONLY. THIS DESCRIPTION OF LAND IS NOT A LEGAL PROPERTY DESCRIPTION AS DEFINED IN THE SUBDIVISION MAP ACT AND MAY NOT BE USED AS THE BASIS FOR AN OFFER FOR SALE OF THE LAND DESCRIBED"

0 100 200

Scale 1" =100ft

## LEGEND

EXISTING WEST VALLEY SANITATION DISTRICT BOUNDARY

PROPOSED ANNEXATION BOUNDARY

**GKM Engineering**
CIVIL ENGINEERING • SURVEYING • LAND PLANNING
16185 Los Gatos Blvd. Suite #205
Los Gatos, CA 95032
(408) 656 5917
GKMengineering.com

PROJECT:
WEST VALLEY SANITATION DISTRICT S.O.I. AMENDMENT AND ANNEXATION 2022-01 (LINDA VISTA AVE.)

JOB NO.:
A220926

DATE :
11/17/2022

SCALE:
1" = 100'

SHEET
1 of 1

RESOLUTION NO. 22.11.19

A RESOLUTION OF THE BOARD OF DIRECTORS OF WEST VALLEY SANITATION DISTRICT OF SANTA CLARA COUNTY, CALIFORNIA, SUPPORTING THE SPHERE OF INFLUENCE AMENDMENT AND ANNEXATION DESIGNATED "WEST VALLEY SANITATION DISTRICT ANNEXATION 2022-01 (19131 LINDA VISTA AVENUE), APN 510-34-022"

WHEREAS, West Valley Sanitation District of Santa Clara County, California ("District"), has received a proposal submitted by a property owner to the Local Agency Formation Commission of Santa Clara County ("LAFCO") for Sphere of Influence Amendment and Annexation of territory designated as "West Valley Sanitation District Annexation 2022-01 (19131 Linda Vista Avenue), APN 510-34-022", which territory is more particularly described in Exhibits "A" and "B" ("Territory") which are attached hereto and made part hereof by reference ("Sphere of Influence Amendment and Annexation 2022-01"); and

WHEREAS, the Territory is located in unincorporated Santa Clara County is improved with a single-family home and accessory dwelling unit with sewage disposal accomplished through a septic system; and

WHEREAS, the County of Santa Clara Department of Environmental Health ("County DEH") has inspected the Territory and determined the seepage pit component of the septic system is located on the neighboring property at 19120 Overlook Road and is failing, causing an imminent public nuisance and health hazard; and

WHEREAS, due to physical constraints of the Territory including steep slopes and poor accessibly, a replacement septic system is impractical to construct and, thus, the County DEH has required the property owner of the Territory to routinely pump the seepage pit until a permanent solution is provided; and

WHEREAS, the Territory is adjacent to West Valley Sanitation District's existing service area and an existing District sewer main with sufficient capacity is located approximately 540 feet to the west of 19131 Linda Vista Avenue; and

WHEREAS, the District's support of the Sphere of Influence Amendment and Annexation 2022-01 will allow the Territory's connection to the District's sewer main via a private sewer lateral and no new public sewer infrastructure is expected to be constructed to connect to the Territory; and

WHEREAS, the Board of Directors of West Valley Sanitation District has reviewed Sphere of Influence Amendment and Annexation 2022-01 and the accompanying staff report; and

NOW, THEREFORE, the WEST VALLEY SANITATION DISTRICT OF SANTA CLARA COUNTY hereby finds as follows:

1. The physical constraints of the territory designated as "West Valley Sanitation District Annexation 2022-01 (19131 Linda Vista Avenue), APN 510-34-022", as described herein has resulted in the territory's inability to permanently resolve the public nuisance and imminent health hazard as declared by County of Santa Clara Department of Environmental Health based on the failing septic system thereon; and

2. The Territory is adjacent to West Valley Sanitation District's existing service area and an existing District sewer main with sufficient capacity is located approximately 540 feet to the west of 19131 Linda Vista Avenue.

NOW, BE IT RESOLVED, that based on the findings set forth herein, the Board of Directors of West Valley Sanitation District supports the proposed Sphere of Influence Amendment and Annexation designated "West Valley Sanitation District Annexation 2022-01 (19131 Linda Vista Avenue), APN 510-34-022".

PASSED AND ADOPTED by the Board of Directors of West Valley Sanitation District of Santa Clara County at its regular meeting held on the 9th of November 2022, by the following vote:

| | | |
|---|---|---|
| AYES | Directors | Resnikoff, Ristow, Turner, Wasserman, Zhao |
| NOES: | Directors | |
| ABSENT: | Directors | |
| ABSTAIN: | Directors | |

Chairperson of the Board

Attest:

Secretary

# EXHIBIT "A"

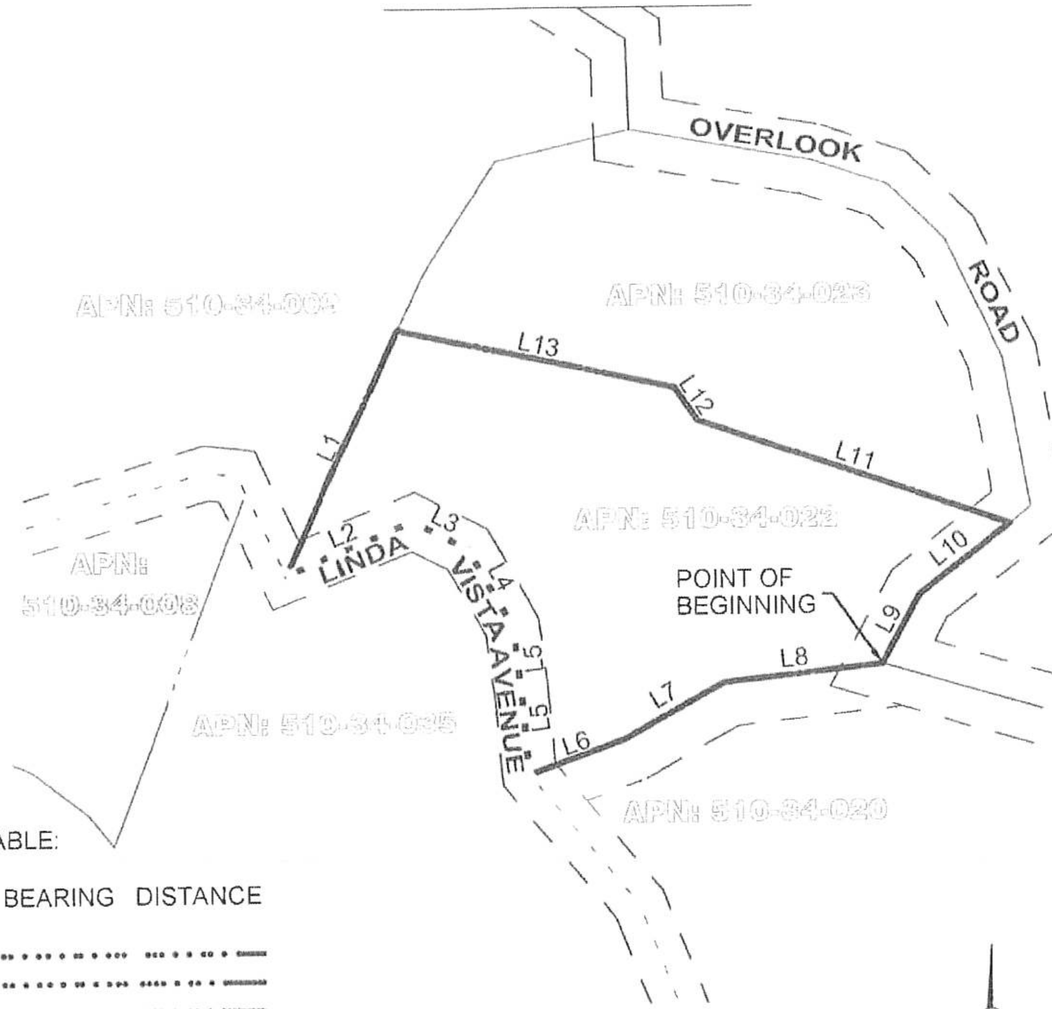
## ANNEXATION No.
## ANNEXATION TO WEST VALLEY SANITATION DISTRICT
## GEOGRAPHIC DESCRIPTION

**BEGINNING** at a 4x4 inch redwood post sunk in the roadway leading from the so-called "overlook farm", or Beckwith ranch house, to Los Gatos, said post standing at the most southerly corner of the 10.46 acre tract conveyed by Nathan E. Beckwith to Laura M. Tupper by deed dated June 11, 1885 and recorded in book 79 of deeds, page 453, Records of Santa Clara county, from which point a live oak 18 inches in diameter stands south 82° east at 24 1/2 links, said post being also the center line of a small ravine or gulch (gulch no. 3) and in the line as stated in said Tupper deed of a proposed road now being built, in use, and known as the Beckwith Road; thence along the center line of said road and Tupper boundary, north 29° 10' east 44 feet, north 53°5' east 64.20 feet; thence leaving said center line north 71° 19' 23" west 185.18 feet; thence north 34° 27' 45" west 22.11 feet; thence north 77° 58' 27" west 159.16 feet to a point in the center line of a small gulch (gulch no. 4); thence running along the center line of said gulch upstream, south 25° 13' 50" west 149.05 feet to the center of a proposed road called Linda Vista Avenue; thence along the center line of said avenue, north 68° 01' 35" east 77.27 feet, south 62° 56' 00" east 34.09 feet, south 29° 29' 30" east 50.32 feet, south 7° 05' 00" east 35.68 feet, and south 4° 44' 00" east 46.38 feet to a point in the center line of said gulch no. 3; thence along said line downstream, north 70° 31' 00" east 58.30 feet, north 61° 10' 00" east 63.50 feet, and north 84° 08' 20" east 89. 24 feet to the place of beginning. Being a portion of lot 11 in the survey and subdivision of lands of said Sarah Alice Beckwith in the northeast 1/4 of the northeast 1/4 of section 19 of township 8 south of range 1 west, M.D.M. made by N. E. Beckwith in October 1904. Variation 17° east, all stations in said survey being marked by 4x4 inch Redwood posts. The course along said Beckwith road and Tupper boundary coinciding with those given with variation 16° 15' east.

Containing 1.099 acres, more or less.

As shown on **"EXHIBIT B"** attached hereto and by this reference made a part hereof.

# EXHIBIT B




LINE TABLE:

| LINE | BEARING | DISTANCE |
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| [illegible] | [illegible] | [illegible] |
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| [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] |
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| [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] |
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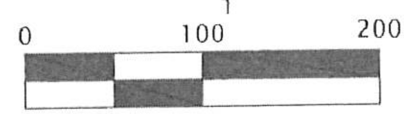
| [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] |

1.099 ACRES

DISCLAIMER:
"FOR ASSESSMENT PURPOSES ONLY. THIS DESCRIPTION OF LAND IS NOT A LEGAL PROPERTY DESCRIPTION AS DEFINED IN THE SUBDIVISION MAP ACT AND MAY NOT BE USED AS THE BASIS FOR AN OFFER FOR SALE OF THE LAND DESCRIBED"




Scale 1" = 100ft

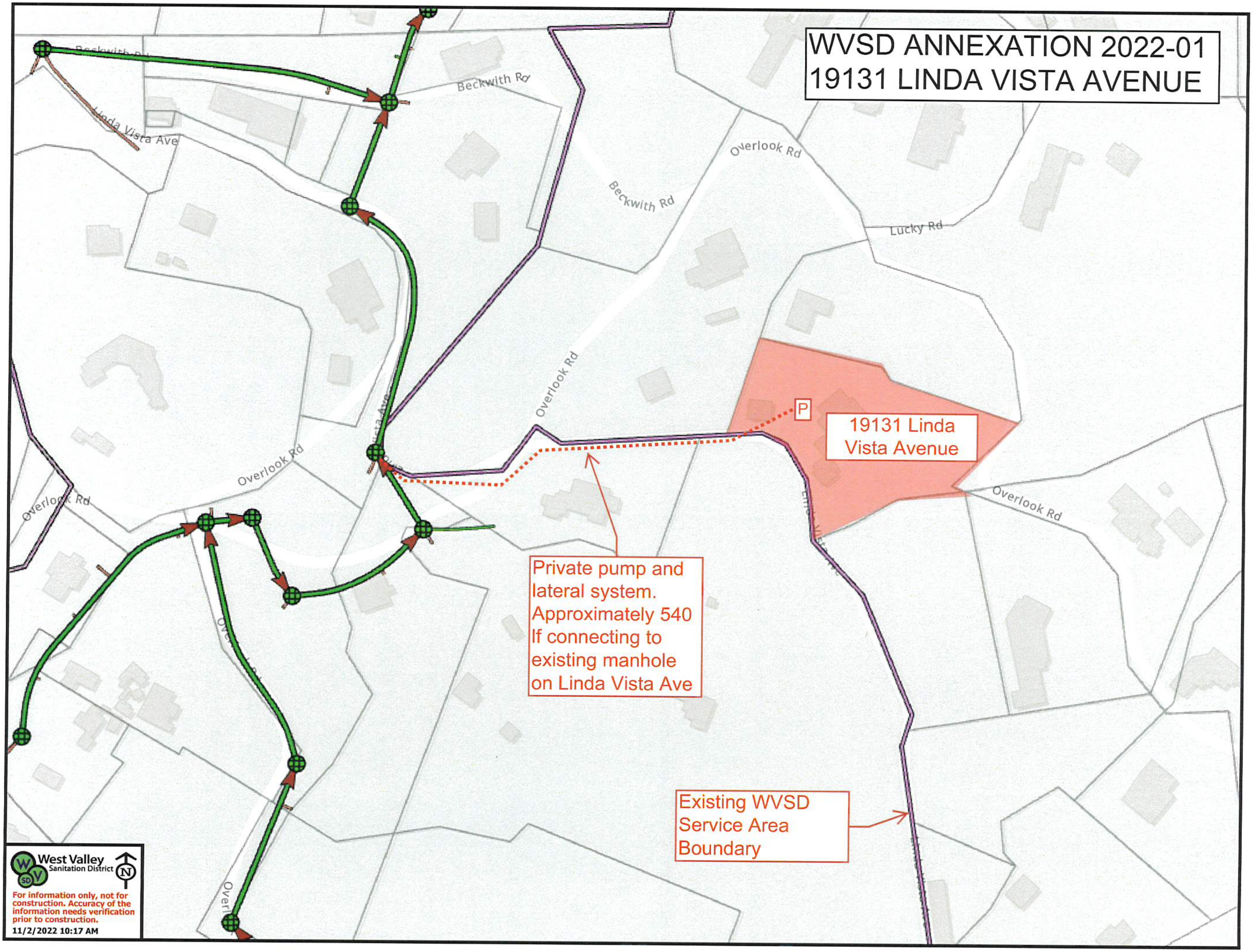
## LEGEND

EXISTING WEST VALLEY SANITATION DISTRICT BOUNDARY

PROPOSED WEST VALLEY SANITATION DISTRICT BOUNDARY

GKM Engineering
CIVIL ENGINEERING • SURVEYING • LAND PLANNING
16185 Los Gatos Blvd. Suite #205
Los Gatos, CA 95032
(408) 656 5917
GKMengineering.com

| PROJECT: | DATE : | SHEET |
|---|---|---|
| 19131 LINDA VISTA | 10/6/2022 | 1 of 1 |
| JOB NO.: | SCALE: | |
| A220926 | 1" = 100' | |


WVSD ANNEXATION 2022-01
19131 LINDA VISTA AVENUE
19131 Linda Vista Avenue
P
Private pump and lateral system. Approximately 540 If connecting to existing manhole on Linda Vista Ave
Existing WVSD Service Area Boundary
Beckwith Rd
Linda Vista Ave
Overlook Rd
Lucky Rd
West Valley Sanitation District
N
For information only, not for construction. Accuracy of the information needs verification prior to construction.
11/2/2022 10:17 AM

# SUPPLEMENTAL INFORMATION No. 1
## December 7, 2022 LAFCO Meeting Agenda

The following supplemental information has been added to Agenda Item #7:

- Revised Staff Report
- Revised Annual Financial Audit Report (Attachment A)

These revised documents correct errors on page 6 of the Annual Financial Audit Report and corresponding errors in the staff report. There are no changes to Attachments B and C.

**SUPPLEMENTAL INFORMATION No. 1**
**Agenda Item # 7 (Revised)**

SANTA CLARA LAFCO

**Local Agency Formation Commission of Santa Clara County**
777 North First Street
Suite 410
San Jose, CA 95112
**SantaClaraLAFCO.org**



| | |
|---|---|
| **LAFCO MEETING:** | **December 7, 2022** |
| **TO:** | **LAFCO** |
| **FROM:** | **Neelima Palacherla, Executive Officer**<br>**Dunia Noel, Asst. Executive Officer**<br>**Emmanuel Abello, Associate Analyst** |
| **SUBJECT:** | **ANNUAL FINANCIAL AUDIT REPORT** |

## STAFF RECOMMENDATION

1. Receive a presentation from Chavan & Associates, LLP on LAFCO's Annual Financial Audit Report.
2. Receive and file the Annual Financial Audit Report (June 30, 2022) prepared for Santa Clara LAFCO by Chavan & Associates, LLP.

## BACKGROUND

The independent auditing firm of Chavan & Associates, LLP has prepared the LAFCO financial audit for FY 2022, ending on June 30, 2022 (**Attachment A**).

The audit was conducted in accordance with the generally accepted auditing standards as specified in the report. The auditors found LAFCO's financial statements present fairly, in all material aspects, the financial position of LAFCO, as of June 30, 2022.

Key financial highlights from the audit for the Fiscal Year ending June 30, 2022 are as follows:

- Total assets increased by $323,090, a 50% increase from the prior year that included an increase of $251,234 in right of use assets from office space lease. Right of use assets are new assets required by GASB 87 which redefined accounting for leases and was implemented during the year.
- The net OPEB liability decreased by $71,164, a 33% decrease from the prior year. This decrease was mostly from investment returns having been more than estimated in the actuarial studies.
- Total net pension liabilities decreased by $322,976, a 34% decrease from the prior year. This decrease was mostly from investment returns having been more than estimated in the actuarial studies.

- Current liabilities increased by $80,220, a 93% increase from the prior year. This increase was mostly due to the implementation of GASB 87, which required LAFCO to record a current portion lease payable of $56,040.
- Noncurrent liabilities decreased by $199,713, a 15% decrease from the prior year. This decrease was mostly due to the decreases in the net pension liability, $322,976, and the net OPEB liability, $71,164, offset by the increase in the office space lease liability as required by newly implemented GASB 87, $250,557.
- Deferred outflows of resources decreased by $59,194, a 33% decrease from the prior year.

The audit did not identify any internal control deficiencies or material weaknesses in the presentation of LAFCO's financial information.

Provided for the Commission's information are additional documents, entitled the Management Letter and the Commission Letter dated October 15, 2022 (see **Attachments B** and **C**), which provide information relating to the audit, according to auditor's professional standards, on the auditor's responsibilities with regard to the audit of Santa Clara LAFCO.

In August 2018, LAFCO retained Chavan & Associates, LLP through an RFP process to audit LAFCO's financial statements and prepare its General Purpose Financial Statements for Fiscal Years ending 2018, 2019, 2020 and 2021 at a cost of $40,000. LAFCO, at its December 2021 meeting, extended the agreement to January 1, 2024, to include audits for Fiscal Years ending 2022 and 2023, and included an additional $25,500 in the contract, for a total contract amount not to exceed $65,500.

The financial audit for FY 2018, ending on June 30, 2018, was the first year that LAFCO issued its separate audited financial statements. In prior years, LAFCO was reported as a special revenue fund, together with other funds, in the County of Santa Clara's Comprehensive Annual Financial Report.

## ATTACHMENTS

| | |
|---|---|
| Attachment A: | Annual Financial Audit Report (June 30, 2022) |
| Attachment B: | Management Letter dated October 15, 2022 |
| Attachment C: | Commission Letter dated October 15, 2022 |

ITEM # 7
Attachment A (Revised)

# Local Agency Formation Commission
# of
# Santa Clara County

Annual Financial Audit Report

June 30, 2022


**Chavan & Associates, LLP**
Certified Public Accountants
15105 Concord Circle, Suite 130
Morgan Hill, CA 95037

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# Local Agency Formation Commission of Santa Clara County

Table of Contents

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# FINANCIAL SECTION

Chavan and Associates, llp
Certified Public Accountants

# INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Local Agency Formation Commission of Santa Clara County
San Jose, California

**Report on the Audit of the Financial Statements**

**Opinions**

We have audited the accompanying financial statements of the Local Agency Formation Commission of Santa Clara County (LAFCO), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental-type activities of the Local Agency Formation Commission of Santa Clara County, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of LAFCO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Emphasis of a Matter**

During the year, LAFCO implemented GASB Statement No. 87, *Leases.* As a result, the District recorded a right to use asset and lease liability of $259,897 for its office space lease. See note 4 for additional information. Our opinion was not modified for this matter.

**Responsibilities of Management for the Financial Statements**

LAFCO management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LAFCO's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.


15105 Concord Circle, Ste. 130, Morgan Hill, CA 95037
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAGAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LAFCO's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LAFCO's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of pension contributions, schedule of changes in net pension liability, schedule of OPEB contributions, and schedule of changes in net OPEB liability as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express


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an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2022 on our consideration of LAFCO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAFCO's internal control over financial reporting and compliance.

C & A LLP

October 15, 2022
Morgan Hill, California


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***Management's Discussion and Analysis***

## INTRODUCTION

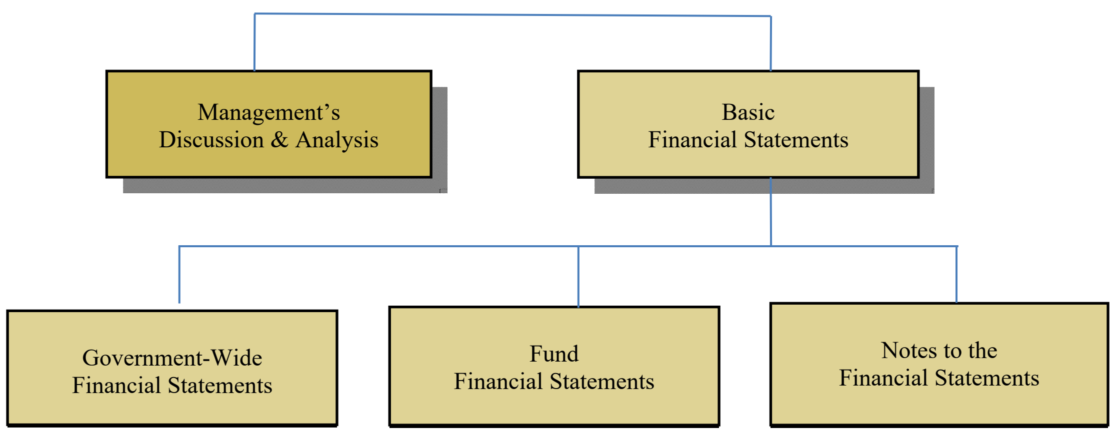
The Management's Discussion and Analysis (MD&A) is a required section of LAFCO's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of LAFCO's financial performance during the fiscal year that ended on June 30, 2022. This report will (1) focus on significant financial issues, (2) provide an overview of LAFCO's financial activity, (3) identify changes in LAFCO's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of LAFCO's operations and financial standing.

## USING THE ANNUAL REPORT

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole organization, presenting both an aggregate view of LAFCO's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

**Required Components of the Annual Financial Report**




The view of LAFCO as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2021 - 2022?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report LAFCO's net position and changes in net position. This change in net position is important because it tells the reader that, for LAFCO as a whole, the financial position of LAFCO has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include changing laws in California restricting revenue growth, facility conditions and other factors.

In the Statement of Net Position and the Statement of Activities, LAFCO reports governmental activities. Governmental activities are the activities where LAFCO's programs and services are reported. LAFCO does not have any business type activities.

## FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2022 were as follows:

- Total assets increased by $323,090, a 50% increase from the prior year that included an increase of $251,234 in right of use assets from office space lease. Right of use assets are new assets required by GASB 87 which redefined accounting for leases and was implemented during the year.

- The net OPEB liability decreased by $71,164, a 33% decrease from the prior year. This decrease was mostly from investment returns having been more than estimated in the actuarial studies.

- Total net pension liabilities decreased by $322,976, a 34% decrease from the prior year. This decrease was mostly from investment returns having been more than estimated in the actuarial studies.

- Current liabilities increased by $80,220, a 93% increase from the prior year. This increase was mostly due to the implementation of GASB 87, which required LAFCO to record a current portion lease payable of $56,040.

- Noncurrent liabilities decreased by $199,713, a 15% decrease from the prior year. This decrease was mostly due to the decreases in the net pension liability, $322,976, and the net OPEB liability, $71,164, offset by the increase in the office space lease liability as required by newly implemented GASB 87, $250,557.

- Deferred outflows of resources decreased by $59,194, a 33% decrease from the prior year.

## REPORTING LAFCO'S MOST SIGNIFICANT FUNDS

### Fund Financial Statements

The analysis of LAFCO's fund financial statements begins with the balance sheet. Fund financial reports provide detailed information about LAFCO's major funds. LAFCO uses one operating fund, the General Fund, to account for a multitude of financial transactions.

### Governmental Funds

The General Fund is a governmental fund type and is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of LAFCO's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

## LAFCO AS A WHOLE

Recall that the Statement of Net Position provides the perspective of LAFCO as a whole. Table 1 provides a summary of LAFCO's net position as of June 30, 2022 as compared to June 30, 2021:

**Table 1 - Summary of Statement of Net Position**

| Description | 2022 | 2021 | Change | Percentage Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets | $ 720,192 | $ 648,336 | $ 71,856 | 11.08% |
| Right of Use Assets - Net | 251,234 | - | 251,234 | 100.00% |
| Total Assets | $ 971,426 | $ 648,336 | $ 323,090 | 49.83% |
| **Deferred Outflows** | $ 122,465 | $ 181,659 | $ (59,194) | -32.59% |
| **Liabilities** | | | | |
| Current Liabilities | $ 166,205 | $ 85,985 | $ 80,220 | 93.30% |
| Noncurrent Liabilities | 1,144,385 | 1,344,098 | (199,713) | -14.86% |
| Total Liabilities | $ 1,310,590 | $ 1,430,083 | $ (119,493) | -8.36% |
| **Deferred Inflows** | $ 324,158 | $ 92,055 | $ 232,103 | 252.14% |
| **Net Position** | | | | |
| Unrestricted | $ (792,091) | $ (692,143) | $ (99,948) | -12.62% |

The increase to current assets was an increase to cash resulting from an operating surplus in the funds of $47,676 for the year. Current liabilities increased by $80,220 mostly because of increases to the current portions of lease liabilities related to GASB 87. Noncurrent liabilities reflect a net decrease of $199,713 mostly because of decreases in LAFCO's net pension liability and net OPEB liability which was attributed actual investment income having been higher than estimated in the actuarial studies. The increases and decreases to deferred outflows and inflows can be directly attributed to changes in assumptions and benefit plan changes and higher than expected investment returns.

Table 2 shows the changes in net position for fiscal year 2022 as compared to 2021.

**Table 2 - Summary of Changes in Net Position**

| Description | 2022 | 2021 | Change | Percentage Change |
|---|---|---|---|---|
| **Revenues** | | | | |
| Program revenues: | | | | |
| Operating grants and contributions | $ 901,364 | $ 983,785 | $ (82,421) | -8.38% |
| Charges for services | 26,811 | 34,627 | (7,816) | -22.57% |
| General revenues: | | | | |
| Investment income | 7,832 | 10,489 | (2,657) | -25.33% |
| **Total Revenues** | 936,007 | 1,028,901 | (92,894) | -9.03% |
| | | | | |
| **Program Expenses** | | | | |
| General government | 783,432 | 1,031,771 | (248,339) | -24.07% |
| Interest expense | 1,289 | - | 1,289 | 100.00% |
| **Total Expenses** | 784,721 | 1,031,771 | (247,050) | -23.94% |
| | | | | |
| **Change in Net Position** | 151,286 | (2,870) | 154,156 | 101.90% |
| **Beginning Net Position** | (692,143) | (689,273) | (2,870) | 0.41% |
| **Ending Net Position** | $ (540,857) | $ (692,143) | $ 151,286 | -27.97% |

Program revenues decreased due a decreased share of operating costs charged back to member agencies during the year. Program expenses decreased due to a decrease to employee costs and professional services. See Note 4 and Note 5 for information related to LAFCO's benefit plans.

**LAFCO'S FUND BALANCE**

Table 3 provides an analysis of LAFCO's fund balances and the total change in fund balances from the prior year.

**Table 3 - Summary of Fund Balance**

| Description | 2022 | 2021 | Change | Percentage Change |
|---|---|---|---|---|
| General Fund | $ 610,027 | $ 562,351 | $ 47,676 | 8.48% |

## LAFCO'S NONCURRENT LIABILITIES

Table 4 summarizes LAFCO's noncurrent liabilities as of June 30, 2022 as compared to the prior fiscal year.

**Table 4 - Summary of Noncurrent Liabilities**

| Description | 2022 | 2021 | Change | Percentage Change |
|---|---|---|---|---|
| Net OPEB Liability | $ 142,989 | $ 214,153 | $ (71,164) | -33.23% |
| Net Pension Liability | 635,863 | 958,839 | (322,976) | -33.68% |
| Office Lease | 250,557 | - | 250,557 | 100.00% |
| Compensated Absences | 171,016 | 171,106 | (90) | -0.05% |
| Total Noncurrent Liabilities | $ 1,200,425 | $ 1,344,098 | $ (143,673) | -10.69% |

## GENERAL FUND BUDGETING HIGHLIGHTS

LAFCO's budget is prepared according to California law and in the modified accrual basis of accounting.

Changes from LAFCO's General Fund 2021/2022 original budget to the final budget are detailed in the required supplementary information section along with a comparison to actual activity for the year ended. The original and final budgeted revenue was $922,329. The original and final budgeted expenditures and other uses of funds were $1,260,990.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Commission adopted its FY 2023 Budget at the June 1, 2022 LAFCO meeting. The budget includes appropriations totaling $1,222,980 which is similar to that of FY 2022. The budget assumes a roll-over of $201,006 in fund balance from the previous fiscal year and anticipates no change in application fees from the previous year.

## CONTACTING LAFCO'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of LAFCO's finances and to show LAFCO's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact the Executive Officer, LAFCO of Santa Clara County, 777 North First Street, Suite 410, San Jose, CA 95112.

*Basic Financial Statements*

## Local Agency Formation Commission of Santa Clara County

Statement of Net Position

June 30, 2022

| | | Governmental Activities |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and investments | $ | 718,297 |
| Interest receivable | | 1,895 |
| Total current assets | | 720,192 |
| Noncurrent assets: | | |
| Right of use assets: | | |
| Office space lease | | 259,897 |
| Accumulated amortization | | (8,663) |
| Total right of use assets, net | | 251,234 |
| Total Assets | $ | 971,426 |
| | | |
| **Deferred Outflows of Resources** | | |
| OPEB adjustments | $ | 19,206 |
| Pension adjustments | | 103,259 |
| Total Deferred Outflows of Resources | $ | 122,465 |
| | | |
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable | $ | 12,288 |
| Accrued liabilities | | 33,582 |
| Unearned revenue | | 64,295 |
| Current portion of lease payable, office space | | 56,040 |
| Total current liabilities | | 166,205 |
| Noncurrent liabilities: | | |
| Net OPEB liability | | 142,989 |
| Net pension liability | | 635,863 |
| Lease payable, office space | | 194,517 |
| Compensated absences | | 171,016 |
| Total noncurrent liabilities | | 1,144,385 |
| Total Liabilities | $ | 1,310,590 |
| | | |
| **Deferred Inflows of Resources** | | |
| OPEB adjustments | $ | 130,306 |
| Pension adjustments | | 193,852 |
| Total Deferred Inflows of Resources | $ | 324,158 |
| | | |
| **Net Position** | | |
| Unrestricted | $ | (540,857) |
| Total Net Position | $ | (540,857) |

*The notes to basic financial statements are an integral part of this statement*

**Local Agency Formation Commission of Santa Clara County**
Statement of Activities
For the Fiscal Year Ended June 30, 2022

| | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|
| Governmental activities: | | | | |
| General government | $ 783,432 | $ 26,811 | $ 901,364 | $ 144,743 |
| Interest expense | 1,289 | - | - | (1,289) |
| Total governmental activities | $ 784,721 | $ 26,811 | $ 901,364 | 143,454 |
| General revenues: | | | | |
| Investment income | | | | 7,832 |
| Change in net position | | | | 151,286 |
| Net position July 1, 2021 | | | | (692,143) |
| Net position ending June 30, 2022 | | | | $ (540,857) |

*The notes to basic financial statements are an integral part of this statement*

## Local Agency Formation Commission of Santa Clara County

Balance Sheet
Governmental Funds
June 30, 2022

| | | General Fund |
|---|---|---|
| **ASSETS** | | |
| Cash and investments | $ | 718,297 |
| Interest receivable | | 1,895 |
| Total Assets | $ | 720,192 |
| **LIABILITIES** | | |
| Accounts payable | $ | 12,288 |
| Accrued liabilities | | 33,582 |
| Unearned revenue | | 64,295 |
| Total Liabilities | | 110,165 |
| **FUND BALANCE** | | |
| Unassigned | | 610,027 |
| Total Fund Balance | | 610,027 |
| Total Liabilities and Fund Balance | $ | 720,192 |

*The notes to basic financial statements are an integral part of this statement*

## Local Agency Formation Commission of Santa Clara County

Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2022

| | | | | |
|---|---|---|---|---|
| Total fund balance - governmental funds | | | $ | 610,027 |
| Amounts reported in the Statement of Net Position are different because: | | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. | | | | |
| Right of use assets | $ | 259,897 | | |
| Accumulated amortization | | (8,663) | | 251,234 |
| The differences between projected and actual amounts in pension and OPEB plans are not included in the plans actuarial study until the next fiscal year and are reported as deferred outflows or inflows of resources in the statement of net position as follows: | | | | |
| OPEB adjustments: | | | | |
| Difference between actual and expected experience | | | | (86,253) |
| Difference between actual and expected earnings | | | | (39,723) |
| Change in assumptions | | | | (4,330) |
| Contribution subsequent to measurement date | | | | 19,206 |
| Pension adjustments: | | | | |
| Difference between actual and expected experience | | | | 20,102 |
| Difference between actual and expected earnings | | | | (191,214) |
| Change in assumptions | | | | (1,407) |
| Contribution subsequent to measurement date | | | | 81,926 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term (noncurrent) liabilities at year-end consists of: | | | | |
| Net OPEB liability | $ | 142,989 | | |
| Net pension liability | | 635,863 | | |
| Leases payable | | 250,557 | | |
| Compensated absences | | 171,016 | | (1,200,425) |
| Total net position - governmental activities | | | $ | (540,857) |

*The notes to basic financial statements are an integral part of this statement*

**Local Agency Formation Commission of Santa Clara County**

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds

For the Fiscal Year Ended June 30, 2022

| | General Fund |
|---|---|
| Revenues: | |
| Intergovernmental | $ 901,364 |
| Charges for services | 26,811 |
| Investment income | 7,832 |
| Total revenues | 936,007 |
| Expenditures: | |
| Current: | |
| Employee services | 639,100 |
| Professional services | 169,669 |
| Commission fees | 4,200 |
| Facilities | 47,903 |
| Insurance | 8,590 |
| Supplies | 2,838 |
| Memberships | 12,316 |
| Miscellaneous | 3,715 |
| Capital outlay, office space lease | 259,897 |
| Total expenditures | 1,148,228 |
| Excess (deficiency) of revenues over (under) expenditures | (212,221) |
| Other financing sources (uses): | |
| Office space lease | 259,897 |
| Total other financing sources (uses) | 259,897 |
| Net change in fund balance | 47,676 |
| Fund balance - July 01, 2021 | 562,351 |
| Fund balance - June 30, 2022 | $ 610,027 |

*The notes to basic financial statements are an integral part of this statement*

**Local Agency Formation Commission of Santa Clara County**
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities
For the Fiscal Year Ended June 30, 2022

| | | | |
|---|---|---|---|
| Total net change in fund balance - governmental funds | | | $ 47,676 |
| Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation or amortization expense. | | | |
| Additions to right of use assets | $ 259,897 | | |
| Amortization expense | (8,663) | | 251,234 |
| In governmental funds, actual contributions to pension and OPEB plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension OPEB expense as noted in the plan's valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources. | | | 102,843 |
| The governmental funds report leases issued as an other financing source, while repayment of the lease principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of leases and related items is as follows: | | | |
| Principal lease payments | | $ 9,340 | |
| Lease issuances | | (259,897) | (250,557) |
| In the Statement of Activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year, vacation earned exceeded the amounts used. | | | 90 |
| Change in net position of governmental activities | | | $ 151,286 |

*The notes to basic financial statements are an integral part of this statement*

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. General

The Local Agency Formation Commission of Santa Clara County (the "Commission" or "LAFCO") was established in 1963 to administer a complex series of statutory laws and enabling acts that serve to encourage the orderly development and reorganization of Local Government Agencies, essential to the social, fiscal and economic wellbeing of the State. The Commission operates under the authority of Government Code Section 56000 and the Cortese-Knox Hertzberg Local Government Reorganization Act of 2000.

The Commission is composed of seven members who include two county supervisors, two city council representatives, two special district representatives and one member representing the public at large. Commission members serve a four-year term.

B. Reporting Entity

LAFCO's combined financial statements include the accounts of all its operations. LAFCO evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2022, LAFCO does not have any component units but is a blended component unit of the County of Santa Clara.

C. Accounting Principles

The accounting policies of LAFCO conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

D. Basis of Presentation

**Government-wide Financial Statements:**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of LAFCO. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of LAFCO's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. LAFCO does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of LAFCO, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of LAFCO.

**Fund Financial Statements:**

Fund financial statements report detailed information about LAFCO. The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. LAFCO has only one operating fund.

E. Basis of Accounting

**Government-Wide Financial Statements:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments and service charges are recognized as revenues in the year for which they are levied. Expenses are recorded when liabilities are incurred.

**Governmental Fund Financial Statement:**

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the LAFCO, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the LAFCO receives value without directly giving equal value in return, include assessments and interest income. Under the accrual basis, revenue from assessments is recognized in the fiscal year for which the assessments are levied. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Deferred Outflows/Deferred Inflows of Resources:

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to benefit plans. In addition, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unavailable resources.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

F. Fund Accounting

The accounts of LAFCO are organized into one operating fund, the General Fund which has separate set of self-balancing accounts that comprise of LAFCO's assets, deferred outflows, liabilities, deferred inflows, fund balance, revenues, and expenditures.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the Commission must adopt a final budget no later than June 15th. A public hearing must be conducted to receive comments prior to adoption. The Commissioners' satisfied these requirements.

H. Cash and Equivalents

For purposes of the statement of net position, the Commission considers all short-term highly liquid investments, including restricted assets, amounts held with fiscal agent and amounts held in the County's investment pool, to be cash and cash equivalents. Amounts held in the County's investment pool are available on demand to the Commission.

I. Cash and Investments

As described in Note 2, LAFCO's cash and investments are held with the Santa Clara County Treasury, as part of the cash and investment pool with other County Funds. In accordance with GASB Statement No. 31, investments are stated at fair value. However, the value of the pool shares in the County Treasurer's investment pool that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of LAFCO's position in the pool. The County Treasurer's investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by Section 27134 of the California Government Code. Statutes authorize the County to invest in the following:

1. Obligations of the County or any local agency and instrumentality in or of the State of California;
2. Obligations of the U.S. Treasury, agencies and instrumentalities;
3. Bankers' acceptances eligible for purchase by Federal Reserve System;
4. Commercial paper;
5. Repurchase agreements or reverse repurchase agreements;
6. Medium-term notes with a five-year maximum maturity of corporations operating within the United States and rated in the top three rating categories;
7. Guaranteed investment contracts

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.

- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

J. Prepaid Expenditures

LAFCO has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. LAFCO has chosen to report the expenditure during the benefiting period.

K. Capital Assets

Capital assets, which may include land, buildings, improvements other than buildings, furnishings and equipment, construction/development in progress, infrastructure, intangible lease assets (right of use assets), and all other tangible or intangible assets, that are used in operations and that have initial useful lives extending beyond a single reporting period, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than $5,000. Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Right of use assets are recorded at the present value payments expected to be made during the lease term. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of a capital asset are also capitalized.

Depreciation/Amortization of all exhaustible capital assets is recorded as an expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Position. Accumulated depreciation/amortization is reported on the Statement of Net Position

The purpose of depreciation and amortization is to spread the cost of capital assets equitably among all users over the life of these assets. The useful life of right of use assets is typically determined by the associated lease term of those assets. The amount charged to depreciation and amortization expense each year represents that year's pro rata share of the cost of capital assets. The LAFCO depreciates using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated or amortized.

L. Compensated Absences

Accumulated unpaid vacation and sick leave are recorded as a liability when future payments for such compensated absences have been earned by employees based on pay and salary rates in effect at year end. This liability is recorded in the government-wide statement of net position to reflect LAFCO's obligation to fund such costs from future operations. LAFCO includes its share of Social Security and Medicare payments made on behalf of the employees in its accrual for compensated absences. Unused vacation and sick leave are paid out upon separation from LAFCO based on the terms stated in the Memorandum of Understanding between the employees' bargaining units and LAFCO. LAFCO does not accrue for compensated absences in its governmental fund statements and recognizes liabilities for compensated absences only if they are due and payable in an event such as termination.

M. Noncurrent Liabilities

In the government-wide financial statements, liabilities such as leases payable, net pension liabilities and net OPEB liabilities are reported as noncurrent liabilities in the Statement of Net Position, net of current portions.

N. Leases (Lessee)

LAFCO is a lessee for a noncancellable lease of $250,557. LAFCO recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

At the commencement of a lease, LAFCO initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how LAFCO determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- LAFCO uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, LAFCO generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that LAFCO is reasonably certain to exercise.

LAFCO monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported separately as right of use assets and lease liabilities are reported with noncurrent liabilities in the statement of net position.

O. Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Fund Balance Classifications

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, LAFCO classifies governmental fund balances as follows:

*Nonspendable* fund balance includes amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

*Restricted* fund balance includes amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

*Committed* fund balances includes amounts constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. Committed fund balances are imposed by LAFCO's commission.

*Assigned* fund balance includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the General Manager.

*Unassigned* fund balance includes positive amounts within the general fund which have not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

LAFCO uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, LAFCO would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Q. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by LAFCO or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. LAFCO applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Unrestricted net position reflects amounts that are not subject to any donor-imposed restrictions. This class also includes restricted contributions whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

R. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Agency's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB Statement No. 68) requires that the reported results pertain to liability and asset information within certain defined timeframes. Liabilities are based on the results of actuarial calculations performed as of June 30, 2018. For this report, the following timeframes are used for LAFCO's pension plans:

Valuation Date (VD).......................................June 30, 2020
Measurement Date (MD)................................June 30, 2021
Measurement Period (MP)..............................June 30, 2020 to June 30, 2021

S. Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the LAFCO's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

T. Implemented Accounting and Reporting Changes

**GASB issued Statement No. 87, *Leases***

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

As of June 30, 2022, LAFCO recognized one contract as a lease and implemented the applicable accounting and reporting requirements of a lessee under GASB 87. As a result, LAFCO recorded a right to use asset of $259,897 for the lease of office space over five years. The calculated annual lease payment was $56,040. See Note 4 for additional information.

**GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans***

The statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

Management does not believe this statement will have a significant impact on LAFCO's financial statements.

The requirements of this Statement are effective as follows:

- The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately
- The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021
- All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021

LAFCO did not report any significant accounting changes from the implementation of this Statement during the year ended June 30, 2022.

U. Upcoming Accounting and Reporting Changes

**GASB Statement No. 91, *Conduit Debt Obligations***

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2020 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. Management does not believe this statement will have a significant impact on LAFCO's financial statements.

**GASB Statement No. 94, *Public-Private Partnerships and Public-Public Partnerships and Availability Payment Arrangements***

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are to be effective for financial statements for periods beginning after June 15, 2022. Earlier application is encouraged. Management does not believe this statement will have a significant impact on LAFCO's financial statements.

**GASB Statement No. 96, *Subscription-Based Information Technology Arrangements***

GASB 96 provides guidance on accounting for Subscription-Based Information Technology Arrangements (SBITA) where the government contracts for the right to use another party's software. The standards for SBITAs are based on the standards established in GASB Statement No. 87, *Leases. GASB 96 is effective for fiscal years beginning after June 15, 2022.* Management does not believe this statement will have a significant impact on LAFCO's financial statements.

**GASB Statement No. 99, *Omnibus 2022***

Omnibus statements are issued by GASB to address practice issues identified after other standards have been approved for implementation. Omnibus statements "clear up the loose ends" for recent prior statements GASB has issued. This Omnibus addresses recent pronouncements, including GASB 87 – Leases, GASB 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and GASB 96 – *Subscription-Based Information Technology Arrangements*.

Effective Date: The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged and is permitted by topic. Management does not believe this statement will have a significant impact on LAFCO's financial statements.

**GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62***

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This Statement also prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections in previously issued financial statements.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. Management does not believe this statement will have a significant impact on LAFCO's financial statements.

### GASB Statement No. 101, *Compensated Absences*

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management is in the process of evaluating the impact this standard will have on LAFCO’s financial statements.

## NOTE 2 - CASH AND INVESTMENTS

### Summary of Cash and Investments

LAFCO maintained cash with the Santa Clara County Treasurer’s commingled pool totaling $718,297 as of June 30, 2022.

### Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

Investments in the County Treasury Investment Pool are not measured using the input levels above because LAFCO's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

**Cash in Santa Clara County Treasury**

The fair value of LAFCO's investment in the county pool is reported at amounts based on LAFCO's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. Santa Clara County investment pool funds were available for withdrawal on demand and had an average weighted maturity of 738 days. All cash and investments are stated at fair value. Pooled investment earnings are allocated monthly based on the average cash and investment balances of the various funds of the County.

**Risk Disclosures**

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

**a) Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. LAFCO manages its exposure to interest rate risk by investing in the Santa Clara County investment pool, which had a fair value of approximately $8.6 billion as of June 30, 2022.

**b) Credit Risk**

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the County's investment pool is governed by the County's general investment policy. The County's investments included U.S. government securities, medium-term corporate notes, commercial paper, certificates of deposit or obligations explicitly guaranteed by the U.S. government that are not considered to have credit risk exposure. The County's two other investment types, LAIF and money market mutual funds, are not rated. The money pooled with the County of Santa Clara Investment Pool is not subject to a credit rating.

**c) Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, LAFCO's deposits may not be returned to it. LAFCO does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the money invested by LAFCO in the County of Santa Clara Investment Pool).

**d) Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer. LAFCO's investment in the County's commingled pool is diversified by the County Treasurer by limiting the percentage of the portfolio that can be invested in any one issuer's name. Investments in U.S. Treasuries, U.S. Agency securities explicitly backed by the U.S., and mutual and pooled funds are not subject to this limitation. More than 5% of the County's commingled pooled investments are invested with the Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank.

## NOTE 3 - NONCURRENT LIABILITIES

The following summarized LAFCO's noncurrent liabilities as of June 30, 2022:

| Description | Balance July 01, 2021 | Additions | Adjustments & Deletions | Balance June 30, 2022 | Due Within One Year |
|---|---|---|---|---|---|
| Net Pension Liability | $ 958,839 | $ 137,341 | $ 460,317 | $ 635,863 | - |
| Net OPEB Liability | 214,153 | 114,063 | 185,227 | 142,989 | - |
| Office Lease | - | 259,897 | 9,340 | 250,557 | 56,040 |
| Compensated Absences | 171,106 | 71,878 | 71,968 | 171,016 | - |
| Total Noncurrent Liabilities | $ 1,344,098 | $ 583,179 | $ 726,852 | $ 1,200,425 | $ 56,040 |

## NOTE 4 - LEASES AND RIGHT OF USE ASSETS

LAFCO has a five-year lease agreement for building space at 777 North First Street, San Jose, California, that commenced on May 1, 2022. The base rent ranges from $3,674 to $4,963 which includes a 3% increase on the first of April every year. The net present value of the lease liability, at a rate of 3% over the five years, was $259,897 as of June 30, 2022. The calculated annual principal and interest payments totaled $56,040. The calculated principal and interest for the fiscal year was $8,051 and $1,289, respectively. The District recorded an associated right of use asset of $259,897. After netting the accumulated amortization of $8,663, the net book value of the office space lease right of use asset was $251,234. The following summarizes the principal and interest requirements to maturity:

| Year Ending June 30 | Principal Payments | Interest Payments | Total |
|---|---|---|---|
| 2023 | $ 49,157 | $ 6,883 | $ 56,040 |
| 2024 | 50,652 | 5,388 | 56,040 |
| 2025 | 52,193 | 3,847 | 56,040 |
| 2026 | 53,780 | 2,260 | 56,040 |
| 2027 | 46,064 | 636 | 46,700 |
| | $ 251,846 | $ 19,014 | $ 270,860 |

Total rent expense for the year ended June 30, 2022 was $47,903.

## NOTE 5 - DEFINED BENEFIT PENSION PLAN

### Plan Description

All qualified permanent and probationary employees are eligible to participate in LAFCO's Miscellaneous Employee Pension Plan (the Plan), an agent multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Authority resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

### Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are equal to the product of a benefit multiplier, the employee's retirement age and final compensation. The cost of living adjustments for the CalPERS plans are applied as specified by the Public Employees' Retirement Law. The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. As such members who established CalPERS membership on or after January 1, 2013 are known as "PEPRA" members.

The Plans' provisions and benefits in effect at June 30, 2022, are summarized as follows:

| | Miscellaneous | |
|---|---|---|
| | Classic | PEPRA |
| Benefit formula | 2% @ 55<br>2.5% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 Years | 5 Years |
| Benefit payments | Monthly for Life | Monthly for Life |
| Retirement age | 55-60 | 62 |
| Monthly benefits as a % of eligible compensation | 2.0% to 2.5% | 2% |
| Required employee contribution rates | 7.44% | 6.75% |
| Required employer contribution rates | 9.74% | 9.74% |

### Employees Covered

As of June 30, 2022, there were four active employees covered by the plan.

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Public Employees Retirement Fund (PERF) is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

For the year ended June 30, 2022, the contributions were as follows:

| | | |
|---|---|---|
| Contributions - employer | $ | 81,926 |
| Contributions - employee | | 19,206 |
| Total | $ | 101,132 |

**Pension Liabilities**

As of June 30, 2022, LAFCO reported a net pension liability of $635,863. LAFCO's net pension liability for the Plan is measured at a .020% proportionate share of the County of Santa Clara's miscellaneous pension plan's net pension liability, based on contributions made during the fiscal year. The net pension liability of the Plan is measured as of June 30, 2021, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. LAFCO's proportion of the net pension liability was based on a projection of LAFCO's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. LAFCO's net pension liability for its agent multiple employer plan is measured as the total pension liability less the fiduciary net position for each plan. The change in the net pension liability for the plan is as follows:

| | Total Pension Liability | Plan Fiduciary Net Position | Net pension liability |
|---|---|---|---|
| Balance at June 30, 2019 | $ 3,293,649 | $ 2,334,810 | $ 958,839 |
| Service cost | 70,813 | - | 70,813 |
| Interest | 204,051 | - | 204,051 |
| Differences between expected and actual experience | (1,869) | - | (1,869) |
| Benefit payments | (135,654) | - | (135,654) |
| Employer contributions | - | 104,817 | (104,817) |
| Employee contributions | - | 33,537 | (33,537) |
| Net investment income | - | 459,658 | (459,658) |
| Benefit payments | - | (135,654) | 135,654 |
| Administrative expense | - | (2,041) | 2,041 |
| Net change | 137,341 | 460,317 | (322,976) |
| Balance at June 30, 2020 | $ 3,430,990 | $ 2,795,127 | $ 635,863 |

**Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended June 30, 2022, LAFCO recognized pension expense of $6,124. As of June 30, 2022, LAFCO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes of Assumptions | $ - | $ 1,407 |
| Differences between Expected and Actual Experience | 21,333 | 1,231 |
| Differences between Projected and Actual Investment Earnings | - | 191,214 |
| Pension Contributions Made Subsequent to Measurement Date | 81,926 | - |
| | $ 103,259 | $ 193,852 |

LAFCO reported $81,926 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| **Fiscal Year Ending June 30** | **Miscellaneous** |
|---|---|
| 2021 | $ (38,005) |
| 2022 | (37,738) |
| 2023 | (43,755) |
| 2024 | (53,021) |
| | $ (172,519) |

## Actuarial Assumptions

The total pension liabilities in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation Date | June 30, 2020 |
| Measurement Date | June 30, 2021 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.150% |
| Inflation | 2.500% |
| Payroll Growth | 2.750% |
| Projected Salary Increase | (1) |
| Investment Rate of Return | 7.00% (2) |
| Mortality | (3) |

(1) Varies by entry age and service
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all funds

## Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10 (a) | Real Return Years 11+ (b) |
|---|---|---|---|
| Global Equity | 50.00% | 4.80% | 5.98% |
| Fixed Income | 8.00% | 1.00% | 2.62% |
| Inflation Sensitive | 28.00% | 0.77% | 1.81% |
| Private Equity | 1.00% | 6.30% | 7.23% |
| Real Estate | 13.00% | 3.75% | 4.93% |
| Liquidity | 0.00% | 0.00% | -0.92% |
| Total | 100.00% | | |

(a) An expected inflation of 2% used for this period.
(b) An expected inflation of 2.92% used for this period.

**Sensitivity of the Net Pension Liability to Changes in the Discount**

The following presents LAFCO's net pension liability, calculated using the discount rate, as well as what LAFCO's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | Miscellaneous |
|---|---|
| 1% Decrease | 6.15% |
| Net Pension Liability | $ 777,475 |
| 1% Decrease | 7.15% |
| Net Pension Liability | $ 635,863 |
| 1% Increase | 8.15% |
| Net Pension Liability | $ 159,890 |

**Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

## NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

### Plan Description

LAFCO participates in a Santa Clara County (the County) maintained cost-sharing multiple-employer defined benefit postemployment healthcare plan (the OPEB plan). The County's OPEB Plan provides healthcare benefits to eligible County, or LAFCO, employees and their dependents.

The County participates in the California Employers' Retiree Benefit Trust Fund Program (CERBT), an agent multiple-employer postemployment health plan, to fund other postemployment benefits through CalPERS. The CERBT plan's audited financial statements are available at https://www.calpers.ca.gov/do cs/forms-publications/gasb-75-schedule-changes-fiduciary-net-position-2020.pdf.

### Benefits Provided

All County Employees hired prior to August 12, 1996 are eligible for health benefits upon attaining age 50 with 5 years of service. Employees hired on or after August 12, 1996 and before June 19, 2006 are eligible for health benefits upon attaining age 50 with 8 years of service. Employees hired on or after June 19, 2006 are eligible for health benefits upon attaining age 50 with 10 years of service. All Miscellaneous and Safety employees and Judges have the opportunity, upon attaining plan eligibility, of participating in the plan in retirement.

The County has established a 15-year (up from 10-year) retiree health benefit service requirement that applies to most employees hired on or after September 30, 2013.

Retirees retired prior to December 5, 1983 have their full premium cost subsidized by the County. In addition, the County subsidizes the Part B premium cost for the retirees in Medicare status who are not receiving Health-in-Lieu benefits.

For most of the retirees retired after December 4, 1983, the County contribution is limited to the cost of Kaiser under age 65 retiree only rate (different for Medicare and non-Medicare) over the plan year in question. Retirees pay the difference between the County contribution and the premium rate required by their enrolled plan.

Post-1983 retirees do not receive full Medicare Part B premium reimbursement, but only up to maximum monthly subsidies when combined with the medical premium.. The County does not cover premium cost associated with dependents.

### Employees Covered by Benefit Terms

As of June 30, 2022, the benefit terms covered 4 active employees:

### Contributions

LAFCO makes contributions based on an actuarially determined rate and are approved by the authority of LAFCO's Commission through the annual budget adoption. Total contributions during the year were $19,206. Total contributions included in the measurement period were $22,766. The actuarially determined contribution was $23,723. LAFCO's contributions were 5.19% of covered employee payroll during the year.

### Actuarial Assumptions

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

| | |
|---|---|
| **Valuation Date:** | June 30, 2020 |
| **Measurement Date:** | June 30, 2021 |
| **Actuarial Cost Method:** | Entry-Age Actuarial Cost Method |
| **Amortization Method:** | 30-Year Closed Amortization, Level Percent of Payroll |
| **Amortization Period:** | 30 years |
| **Asset Valuation Method:** | Market Value |
| **Actuarial Assumptions:** | |
| Discount Rate | 7.00% |
| Inflation | 2.50% |
| Wage Inflation | 2.75% |
| Salary Increases | Miscellaneous: 9.75% to 3.25%, vary by service, including wage inflation.<br>Safety: 15.95% to 4.25%, vary by service, including wage inflation. |
| Investment Rate of Return | 7%, Net of investment expenses |
| **Medical Cost Trend Rates:** | |
| Non-Medicare medical plan | 6.75% graded down to an ultimate of 4.50% over 10 years |
| Medicare medical plan | 6.25% graded down to an ultimate of 4.50% over 8 years |
| Medicare Part B | 4.5% |

### Discount Rate

The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability (TOL) as of June 30, 2021, the measurement date, for the fiscal year ended June 30, 2022.

### Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Percentage of Portfolio | Long-Term Expected Rate of Return |
|---|---|---|
| International Equity | 59.00% | 7.790% |
| Fixed Income | 25.00% | 0.890% |
| Real Estate | 8.00% | 4.140% |
| Treasury Inflation Protected Securities (TIPS) | 5.00% | 0.890% |
| All Commodities | 3.00% | 4.090% |
| **Total** | 100.00% | |

**Net OPEB Liability**

LAFCO's net OPEB liability was measured as of June 30, 2021 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 (valuation date) for the fiscal year ended June 30, 2022. The following summarizes the changes in the net OPEB liability during the year ended June 30, 2022, for the measurement date of June 30, 2021:

| Fiscal Year Ended June 30, 2022 (Measurement Date June 30, 2021) | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability (Asset) |
|---|---|---|---|
| **Balance at June 30,2021** | $ 456,527 | $ 242,374 | $ 214,153 |
| Service cost | 11,037 | - | 11,037 |
| Interest in Total OPEB Liability | 26,639 | - | 26,639 |
| Employer contributions | - | 18,824 | (18,824) |
| Employee contributions | - | 1,505 | (1,505) |
| Difference between actual and exp experience | 4,409 | - | 4,409 |
| Proportionate share changes | (79,049) | (41,968) | (37,081) |
| Changes in assumptions | 4,479 | - | 4,479 |
| Difference between actual and exp earnings | - | 56,099 | (56,099) |
| Administrative expenses | - | (655) | 655 |
| Benefit payments | (15,912) | (15,912) | - |
| Implicit subsidy fullfilled | - | 4,874 | (4,874) |
| **Net changes** | (48,398) | 22,766 | (71,163) |
| **Balance at June 30, 2022** | $ 408,130 | $ 265,140 | $ 142,989 |

| | |
|---|---|
| Covered Employee Payroll | $ 369,855 |
| Total OPEB Liability as a % of Covered Employee Payroll | 110.35% |
| Plan Fid. Net Position as a % of Total OPEB Liability | 64.96% |
| Service Cost as a % of Covered Employee Payroll | 2.98% |
| Net OPEB Liability as a % of Covered Employee Payroll | 38.66% |

### Deferred Inflows and Outflows of Resources

At June 30, 2022, LAFCO reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between actual and expected experience | $ - | $ 86,253 |
| Difference between actual and expected earnings | - | 39,723 |
| Change in assumptions | - | 4,330 |
| OPEB contribution subsequent to measurement date | 19,206 | - |
| **Totals** | $ 19,206 | $ 130,306 |

Of the total amount reported as deferred outflows of resources related to OPEB, $19,206 resulting from LAFCO contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ended June 30, | |
|---|---|
| 2023 | $ (31,929) |
| 2024 | (27,742) |
| 2025 | (24,381) |
| 2026 | (26,010) |
| 2027 | (11,982) |
| Thereafter | (8,262) |
| **Total** | $ (130,306) |

### OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2022:

| | |
|---|---|
| Service cost | $ 11,037 |
| Interest in TOL | 26,639 |
| Other | (4,874) |
| Employee contributions | (1,505) |
| Difference between actual and expected experience | (20,867) |
| Difference between actual and expected earnings | (10,608) |
| Change in assumptions | (1,499) |
| Administrative expenses | 655 |
| **OPEB Expense** | **$ (1,022)** |

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2022:

| | | |
|---|---|---|
| Net OPEB liability ending | $ | 142,989 |
| Net OPEB liability begining | | (214,153) |
| Change in net OPEB liability | | (71,164) |
| Changes in deferred outflows | | 9,329 |
| Changes in deferred inflows | | 45,549 |
| Employer specific changes in proportionate share | | (8,434) |
| Employer contributions and implict subsidy | | 23,698 |
| **OPEB Expense** | **$** | **(1,022)** |

**Sensitivity to Changes in the Discount Rate**

The net OPEB liability of LAFCO, as well as what LAFCO's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

| | Discount Rate | | |
|---|---|---|---|
| | **(1% Decrease )** | **7%** | **(1% Increase )** |
| Net OPEB Liability (Asset) | $ 201,009 | $ 142,989 | $ 95,374 |

**Sensitivity to Changes in the Healthcare Cost Trend Rates**

The net OPEB liability of LAFCO, as well as what LAFCO's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows

| | Trend Rate | | |
|---|---|---|---|
| | **(1% Decrease )** | **(Current Rate)** | **(1% Increase )** |
| Net OPEB Liability (Asset) | $ 90,911 | $ 142,989 | $ 207,691 |

## NOTE 7 - COMMITMENTS AND CONTINGENCIES

### Litigation

LAFCO may be exposed to various claims and litigation during the normal course of business. However, management believes there were no matters that would have a material adverse effect on LAFCO's financial position or results of operations as of June 30, 2022.

## NOTE 8 - RISK MANAGEMENT

LAFCO is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. LAFCO is a member of the Special District Risk Management Authority (SDRMA). During the fiscal year ended June 30, 2022, LAFCO had the following coverages subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage from SDRMA:

| | | **Limits** |
|---|---|---|
| Property | | |
| Property | $ | 1,000,000,000 |
| Boiler and Machinery | $ | 100,000,000 |
| Pollution | $ | 2,000,000 |
| Cyber | | Limits on File |
| General Liability | | |
| Bodily Injury | $ | 2,500,000 |
| Property Damage | $ | 2,500,000 |
| Public Officials Personal | $ | 500,000 |
| Employment Benefits | $ | 2,500,000 |
| Employee/Public Officials E&O | $ | 2,500,000 |
| Employment Practices Liability | $ | 2,500,000 |
| Employee/Public Officials Dishonesty | $ | 1,000,000 |
| Auto Liability | | |
| Auto Bodily Injury | $ | 2,500,000 |
| Auto Property Damage | $ | 2,500,000 |
| Uninsured Motorist | | Limits on File |
| Workers' Compensation | | |
| Employers Liability | $ | 5,000,000 |
| Workers' Compensation | | Statutory |

Workers' compensation coverage as noted above is for Commissioners while employees are covered by Santa Clara County. There have not been any claims in any of the last three fiscal years and there were no reductions in LAFCO's insurance coverage during the current year. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage.

## NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated all subsequent events from the statement of financial position date of June 30, 2022, through the date the financial statements were available to be issued, October 15, 2022. Beginning in March 2020, the United States economy began suffering adverse effects from the COVID 19 Virus Crisis ("CV19 Crisis"). As of the date of issuance of the financial statements, LAFCO had not suffered a material adverse impact from the CV19 Crisis. However, the future impact of the CV19 Crisis cannot be reasonably estimated.

# REQUIRED SUPPLEMENTARY INFORMATION

**Local Agency Formation Commission of Santa Clara County**
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2022

| | Budgeted Amounts | | | Variance with Final Budget |
|---|---|---|---|---|
| | Original | Final | Actual (GAAP Basis) | Positive - (Negative) |
| Revenues: | | | | |
| Intergovernmental | $ 886,329 | $ 886,329 | $ 901,364 | $ 15,035 |
| Charges for services | 30,000 | 30,000 | 26,811 | (3,189) |
| Investment income | 6,000 | 6,000 | 7,832 | 1,832 |
| Total revenues | 922,329 | 922,329 | 936,007 | 13,678 |
| Expenditures: | | | | |
| Current: | | | | |
| Employee services | 844,239 | 844,239 | 639,100 | 205,139 |
| Professional services | 307,117 | 307,117 | 169,669 | 137,448 |
| Commission fees | 10,000 | 10,000 | 4,200 | 5,800 |
| Facilities | 47,784 | 47,784 | 47,903 | (119) |
| Insurance | 8,500 | 8,500 | 8,590 | (90) |
| Supplies | 15,500 | 15,500 | 2,838 | 12,662 |
| Memberships | 12,500 | 12,500 | 12,316 | 184 |
| Travel | 12,350 | 12,350 | - | 12,350 |
| Miscellaneous | 3,000 | 3,000 | 3,715 | (715) |
| Capital outlay, office space lease | - | - | 259,897 | (259,897) |
| Total expenditures | 1,260,990 | 1,260,990 | 1,148,228 | 112,762 |
| Excess (deficiency) of revenues over (under) expenditures | (338,661) | (338,661) | (212,221) | 126,440 |
| Other financing sources (uses): | | | | |
| Office space lease | - | - | 259,897 | 259,897 |
| Total other financing sources (uses) | - | - | 259,897 | 259,897 |
| Net change in fund balance | (338,661) | (338,661) | 47,676 | 386,337 |
| Fund balance beginning | 562,351 | 562,351 | 562,351 | - |
| Fund balance ending | $ 223,690 | $ 223,690 | $ 610,027 | $ 386,337 |

LAFCO employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

# Local Agency Formation Commission of Santa Clara County

Schedule of Contributions for Pension Plans
For the Fiscal Year Ended June 30, 2022

| Fiscal Year Ended | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|
| Actuarially Determined Cont. (ADC) | $ 50,865 | $ 56,192 | $ 64,817 | $ 72,514 | $ 77,923 | $ 84,621 | $ 90,788 | $ 88,226 |
| Contributions in Relation to ADC | 50,865 | 56,192 | 64,817 | 72,514 | 77,923 | 84,621 | 90,788 | 81,926 |
| **Contribution Deficiency (Excess)** | - | - | - | - | - | - | - | 6,300 |
| **Covered Payroll** | **$ 322,075** | **$ 335,288** | **$ 356,470** | **$ 381,587** | **$ 421,278** | **$ 390,298** | **$ 414,272** | **$ 364,104** |
| **Cont. as % of Covered Payroll** | **15.79%** | **16.76%** | **18.18%** | **19.00%** | **18.50%** | **21.68%** | **21.92%** | **22.50%** |

**Notes to Schedule:**

Valuation Date: June 30, 2021

Assumptions Used: Entry Age Normal

Inflation Assumed at 2.625%.

Investment Rate of Returns set at 7.25%.

The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.

Asset valuation methis is Market Value of Assets.

Payroll growth 2.75%.

The probabilities of Retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.

Fiscal year 2015 was the first year of implementation, therefore only eight years are shown.

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.

The CalPERS mortality assumptions were adjusted in fiscal year 2020.

# Local Agency Formation Commission of Santa Clara County

Schedule of Changes in Net Pension Liability

For the Fiscal Year Ended June 30, 2022

| Fiscal Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|
| **Total pension liability** | | | | | | | | |
| Service cost | $ 54,769 | $ 54,109 | $ 56,283 | $ 66,427 | $ 72,114 | $ 66,827 | $ 68,852 | $ 70,813 |
| Interest | 162,515 | 171,403 | 180,987 | 189,609 | 206,148 | 198,109 | 194,627 | 204,051 |
| Changes of assumptions | - | (42,028) | - | 158,690 | (28,601) | - | - | - |
| Diff. expected and actual experience | - | (3,558) | 3,559 | (2,638) | 19,945 | 39,404 | 22,186 | (1,869) |
| Benefit payments | (94,224) | (101,138) | (108,619) | (116,090) | (130,376) | (126,340) | (125,902) | (135,654) |
| Net change in Total Pension Liability | 123,060 | 78,787 | 132,210 | 295,998 | 139,230 | 178,000 | 159,763 | 137,341 |
| Total pension liability - beginning | 2,186,600 | 2,309,660 | 2,388,448 | 2,520,658 | 2,816,656 | 2,955,886 | 3,133,886 | 3,293,649 |
| Total pension liability - ending | $ 2,309,660 | $ 2,388,448 | $ 2,520,658 | $ 2,816,656 | $ 2,955,886 | $ 3,133,886 | $ 3,293,649 | $ 3,430,990 |
| **Plan fiduciary net position** | | | | | | | | |
| Employer contributions | $ 50,865 | $ 56,192 | $ 64,817 | $ 72,514 | $ 77,923 | $ 84,621 | $ 90,788 | $ 104,817 |
| Employee contributions | 27,292 | 26,336 | 28,002 | 29,734 | 31,795 | 31,754 | 32,010 | 33,537 |
| Net investment income | 266,077 | 39,872 | 9,509 | 199,967 | 174,067 | 130,885 | 97,705 | 459,658 |
| Benefit payments | (94,224) | (101,138) | (108,619) | (116,090) | (130,376) | (126,340) | (125,902) | (135,654) |
| Net plan to resource movement | - | (156) | 47 | (28) | 3 | (8) | 33 | - |
| Administrative expense | - | (2,032) | (1,099) | (2,651) | (3,199) | (1,414) | (2,750) | (2,041) |
| Other | - | - | - | - | (6,074) | 5 | - | - |
| Net change in plan fiduciary net position | 250,011 | 19,074 | (7,342) | 183,446 | 144,139 | 119,503 | 91,884 | 460,317 |
| Plan fiduciary net position - beginning | 1,534,095 | 1,784,106 | 1,803,180 | 1,795,838 | 1,979,284 | 2,123,423 | 2,242,926 | 2,334,810 |
| Plan fiduciary net position - ending | $ 1,784,106 | $ 1,803,180 | $ 1,795,838 | $ 1,979,284 | $ 2,123,423 | $ 2,242,926 | $ 2,334,810 | $ 2,795,127 |
| Net pension liability | $ 525,555 | $ 585,268 | $ 724,820 | $ 837,372 | $ 832,463 | $ 890,960 | $ 958,839 | $ 635,863 |
| Plan fiduciary net position as % of the total pension liability | 77.25% | 75.50% | 71.24% | 70.27% | 71.84% | 71.57% | 70.89% | 81.47% |
| Covered payroll | 312,413 | 322,075 | 335,288 | 356,470 | 381,587 | 421,278 | 390,298 | 414,272 |
| NPL as a % of covered payroll | 168.22% | 181.72% | 216.18% | 234.91% | 218.16% | 211.49% | 245.67% | 153.49% |
| TPL as a % of covered payroll | 739.30% | 741.58% | 751.79% | 790.15% | 774.63% | 743.90% | 843.88% | 828.20% |

Fiscal year 2015 was the first year of implementation, therefore only eight years are shown.

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.

The CalPERS mortality assumptions were adjusted in fiscal year 2020.

# Local Agency Formation Commission of Santa Clara County

Schedule of Contributions for OPEB Plans

For the Fiscal Year Ended June 30, 2022

| **Fiscal Year Ended** | **2018** | **2019** | **2020** | **2021** | **2022** |
|---|---|---|---|---|---|
| Actuarially determined contribution (ADC) | $ 29,697 | $ 29,697 | $ 30,704 | $ 27,601 | $ 23,723 |
| Less: actual contribution in relation to ADC | (34,427) | (24,639) | (25,852) | (22,766) | (19,206) |
| Contribution deficiency (excess) | $ (4,730) | $ 5,058 | $ 4,852 | $ 4,835 | $ 4,517 |
| | | | | | |
| Covered employee payroll | $ 349,612 | $ 397,559 | $ 402,829 | $ 399,011 | $ 369,855 |
| Contrib. as a % of covered employee payroll | 9.85% | 6.20% | 6.42% | 5.71% | 5.19% |

**Notes to Schedule:**

*Assumptions and Methods*

| | |
|---|---|
| **Valuation Date:** | June 30, 2020 |
| **Measurement Date:** | June 30, 2021 |
| **Actuarial Cost Method:** | Entry-Age Actuarial Cost Method |
| **Amortization Method:** | 30-Year Closed Amortization, Level Percent of |
| **Amortization Period:** | 30 years |
| **Asset Valuation Method:** | Market Value |
| **Actuarial Assumptions:** | |
| Discount Rate | 7.00% |
| Inflation | 2.50% |
| Wage Inflation | 2.75% |
| Salary Increases | Miscellaneous: 9.75% to 3.25%, vary by service, including wage inflation.<br>Safety: 15.95% to 4.25%, vary by service, including wage inflation. |
| Investment Rate of Return | 7%, Net of investment expenses |
| **Medical Cost Trend Rates:** | |
| Non-Medicare medical plan | 6.75% graded down to an ultimate of 4.50% over |
| Medicare medical plan | 6.25% graded down to an ultimate of 4.50% over 8 |
| Medicare Part B | 4.5% |

*Other Notes*

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

There were no changes in benefit terms.

There were no changes in discount rates, inflation, or wage inflation.

# Local Agency Formation Commission of Santa Clara County

Schedule of Changes in Net OPEB Liability

For the Fiscal Year Ended June 30, 2022

| Fiscal Year Ended | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **Total OPEB liability** | | | | | |
| Service cost | $ 14,472 | $ 13,122 | $ 14,930 | $ 14,091 | $ 11,037 |
| Interest | 34,597 | 20,649 | 35,501 | 32,617 | 26,639 |
| Differences between expected and actual experience | (40,235) | (3,650) | (30,126) | (19,223) | 4,409 |
| Changes of assumptions | (9,061) | 3,835 | 4,159 | (13,776) | 4,479 |
| Benefit payments | (16,867) | (8,877) | (19,358) | (18,090) | (15,912) |
| Proportionate share changes | - | 21,414 | (2,209) | (46,108) | (79,049) |
| Other | - | (13,486) | - | - | - |
| Net change in Total OPEB Liability | (17,095) | 33,007 | 2,897 | (50,489) | (48,397) |
| Total OPEB Liability - beginning | 488,207 | 471,112 | 504,119 | 507,016 | 456,527 |
| Total OPEB Liability - ending | $ 471,112 | $ 504,119 | $ 507,016 | $ 456,527 | $ 408,130 |
| **Plan fiduciary net position** | | | | | |
| Employer contributions | $ 28,891 | $ 44,336 | $ 23,466 | $ 23,598 | $ 18,824 |
| Proportionate share changes | - | 8,578 | (9,847) | (22,638) | - |
| Employee contributions | 1,325 | - | 1,453 | 1,520 | 1,505 |
| Net investment income | 16,679 | 1,156 | 14,662 | 8,058 | 56,099 |
| Difference between estimated and actual earnings | - | - | - | - | (41,968) |
| Benefit payments | (16,867) | (8,877) | (19,358) | (18,090) | (15,912) |
| Implicit subsidy fullfilled | - | - | 5,503 | 1,538 | 4,874 |
| Other | - | (126) | (733) | - | - |
| Administrative expense | (563) | - | - | (546) | (655) |
| Adjustments | 3,999 | - | - | - | - |
| Net change in plan fiduciary net position | 33,464 | 45,067 | 15,146 | (6,559) | 22,767 |
| Plan fiduciary net position - beginning | 155,257 | 188,721 | 233,788 | 248,934 | 242,374 |
| Plan fiduciary net position - ending | $ 188,721 | $ 233,788 | $ 248,934 | $ 242,374 | $ 265,141 |
| Net OPEB liability (asset) | $ 282,391 | $ 270,331 | 258,082 | 214,153 | 142,989 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 40.06% | 46.38% | 49.10% | 53.09% | 64.96% |
| Covered Employee Payroll | $ 339,998 | $ 349,612 | $ 397,559 | $ 402,829 | $ 399,011 |
| Net OPEB liab. as a % of cov. Emp. payroll | 83.06% | 77.32% | 64.92% | 53.16% | 35.84% |
| Total OPEB liab. as a % of cov. Emp. payroll | 138.56% | 144.19% | 127.53% | 113.33% | 102.29% |

*Other Notes*

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

There were no changes in benefit terms.

There were no changes in discount rates, inflation, or wage inflation.

# OTHER INDEPENDENT AUDITOR’S REPORTS

Chavan and Associates, llp
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Commissioners
Local Agency Formation Commission of Santa Clara County
San Jose, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of LAFCO as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements, and have issued our report thereon dated October 15, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered LAFCO's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LAFCO's internal control. Accordingly, we do not express an opinion on the effectiveness of LAFCO's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether LAFCO's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant a20greements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not

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express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

October 15, 2022
Morgan Hill, California

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ITEM # 7

SANTA CLARA LAFCO

**Local Agency Formation Commission of Santa Clara County**
777 North First Street
Suite 410
San Jose, CA 95112
**SantaClaraLAFCO.org**



**LAFCO MEETING:** **December 7, 2022**

**TO:** **LAFCO**

**FROM:** **Neelima Palacherla, Executive Officer**
**Dunia Noel, Asst. Executive Officer**
**Emmanuel Abello, Associate Analyst**

**SUBJECT:** **ANNUAL FINANCIAL AUDIT REPORT**

## STAFF RECOMMENDATION

1. Receive a presentation from Chavan & Associates, LLP on LAFCO's Annual Financial Audit Report.
2. Receive and file the Annual Financial Audit Report (June 30, 2022) prepared for Santa Clara LAFCO by Chavan & Associates, LLP.

## BACKGROUND

The independent auditing firm of Chavan & Associates, LLP has prepared the LAFCO financial audit for FY 2022, ending on June 30, 2022 (**Attachment A**).

The audit was conducted in accordance with the generally accepted auditing standards as specified in the report. The auditors found LAFCO's financial statements present fairly, in all material aspects, the financial position of LAFCO, as of June 30, 2022.

Key financial highlights from the audit for the Fiscal Year ending June 30, 2022 are as follows:

- Total assets increased by $323,090, a 50% increase from the prior year that included an increase of $251,234 in right of use assets from office space lease. Right of use assets are new assets required by GASB 87 which redefined accounting for leases and was implemented during the year.
- The net OPEB liability decreased by $71,164, a 33% decrease from the prior year. This decrease was mostly from investment returns having been more than estimated in the actuarial studies.
- Total net pension liabilities increased by $322,976, a 34% decrease from the prior year. This decrease was mostly from investment returns having been more than estimated in the actuarial studies.

- Current liabilities increased by $80,220, a 93% increase from the prior year. This increase was mostly due to the implementation of GASB 87, which required LAFCO to record a current portion lease payable of $56,040.
- Noncurrent liabilities decreased by $199,713, a 15% decrease from the prior year. This decrease was mostly due to the decreases in the net pension liability, $322,976, and the net OPEB liability, $71,164, offset by the increase in the office space lease liability as required by newly implemented GASB 87, $250,557.
- Deferred outflows of resources increased by $15,211, a 20% decrease from the prior year.

The audit did not identify any internal control deficiencies or material weaknesses in the presentation of LAFCO's financial information.

Provided for the Commission's information are additional documents, entitled the Management Letter and the Commission Letter dated October 15, 2022 (see **Attachments B** and **C**), which provide information relating to the audit, according to auditor's professional standards, on the auditor's responsibilities with regard to the audit of Santa Clara LAFCO.

In August 2018, LAFCO retained Chavan & Associates, LLP through an RFP process to audit LAFCO's financial statements and prepare its General Purpose Financial Statements for Fiscal Years ending 2018, 2019, 2020 and 2021 at a cost of $40,000. LAFCO, at its December 2021 meeting, extended the agreement to January 1, 2024, to include audits for Fiscal Years ending 2022 and 2023, and included an additional $25,500 in the contract, for a total contract amount not to exceed $65,500.

The financial audit for FY 2018, ending on June 30, 2018, was the first year that LAFCO issued its separate audited financial statements. In prior years, LAFCO was reported as a special revenue fund, together with other funds, in the County of Santa Clara's Comprehensive Annual Financial Report.

## ATTACHMENTS

| | |
|---|---|
| Attachment A: | Annual Financial Audit Report (June 30, 2022) |
| Attachment B: | Management Letter dated October 15, 2022 |
| Attachment C: | Commission Letter dated October 15, 2022 |

ITEM # 7
Attachment A

# Local Agency Formation Commission
# of
# Santa Clara County

Annual Financial Audit Report

June 30, 2022


**Chavan & Associates, LLP**
Certified Public Accountants
15105 Concord Circle, Suite 130
Morgan Hill, CA 95037

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# Local Agency Formation Commission of Santa Clara County

Table of Contents

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# FINANCIAL SECTION

Chavan and Associates, llp
Certified Public Accountants

# INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Local Agency Formation Commission of Santa Clara County
San Jose, California

**Report on the Audit of the Financial Statements**

**Opinions**

We have audited the accompanying financial statements of the Local Agency Formation Commission of Santa Clara County (LAFCO), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental-type activities of the Local Agency Formation Commission of Santa Clara County, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of LAFCO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Emphasis of a Matter**

During the year, LAFCO implemented GASB Statement No. 87, *Leases.* As a result, the District recorded a right to use asset and lease liability of $259,897 for its office space lease. See note 4 for additional information. Our opinion was not modified for this matter.

**Responsibilities of Management for the Financial Statements**

LAFCO management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LAFCO's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.


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**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAGAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LAFCO's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LAFCO's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of pension contributions, schedule of changes in net pension liability, schedule of OPEB contributions, and schedule of changes in net OPEB liability as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express


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an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2022 on our consideration of LAFCO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAFCO's internal control over financial reporting and compliance.

C & A LLP

October 15, 2022
Morgan Hill, California


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***Management's Discussion and Analysis***

## INTRODUCTION

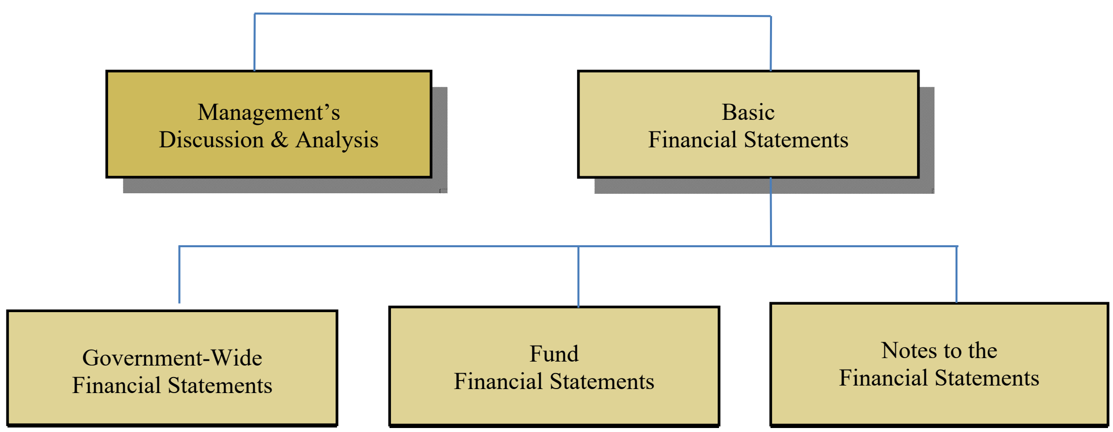
The Management's Discussion and Analysis (MD&A) is a required section of LAFCO's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of LAFCO's financial performance during the fiscal year that ended on June 30, 2022. This report will (1) focus on significant financial issues, (2) provide an overview of LAFCO's financial activity, (3) identify changes in LAFCO's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of LAFCO's operations and financial standing.

## USING THE ANNUAL REPORT

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole organization, presenting both an aggregate view of LAFCO's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

**Required Components of the Annual Financial Report**




The view of LAFCO as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2021 - 2022?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report LAFCO's net position and changes in net position. This change in net position is important because it tells the reader that, for LAFCO as a whole, the financial position of LAFCO has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include changing laws in California restricting revenue growth, facility conditions and other factors.

In the Statement of Net Position and the Statement of Activities, LAFCO reports governmental activities. Governmental activities are the activities where LAFCO's programs and services are reported. LAFCO does not have any business type activities.

## FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2022 were as follows:

- Total assets increased by $323,090, a 50% increase from the prior year that included an increase of $251,234 in right of use assets from office space lease. Right of use assets are new assets required by GASB 87 which redefined accounting for leases and was implemented during the year.

- The net OPEB liability decreased by $71,164, a 33% decrease from the prior year. This decrease was mostly from investment returns having been more than estimated in the actuarial studies.

- Total net pension liabilities increased by $322,976, a 34% decrease from the prior year. This decrease was mostly from investment returns having been more than estimated in the actuarial studies.

- Current liabilities increased by $80,220, a 93% increase from the prior year. This increase was mostly due to the implementation of GASB 87, which required LAFCO to record a current portion lease payable of $56,040.

- Noncurrent liabilities decreased by $199,713, a 15% decrease from the prior year. This decrease was mostly due to the decreases in the net pension liability, $322,976, and the net OPEB liability, $71,164, offset by the increase in the office space lease liability as required by newly implemented GASB 87, $250,557.

- Deferred outflows of resources increased by $15,211, a 20% decrease from the prior year.

## REPORTING LAFCO'S MOST SIGNIFICANT FUNDS

### Fund Financial Statements

The analysis of LAFCO's fund financial statements begins with the balance sheet. Fund financial reports provide detailed information about LAFCO's major funds. LAFCO uses one operating fund, the General Fund, to account for a multitude of financial transactions.

### Governmental Funds

The General Fund is a governmental fund type and is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of LAFCO's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

## LAFCO AS A WHOLE

Recall that the Statement of Net Position provides the perspective of LAFCO as a whole. Table 1 provides a summary of LAFCO's net position as of June 30, 2022 as compared to June 30, 2021:

**Table 1 - Summary of Statement of Net Position**

| Description | 2022 | 2021 | Change | Percentage Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets | $ 720,192 | $ 648,336 | $ 71,856 | 11.08% |
| Right of Use Assets - Net | 251,234 | - | 251,234 | 100.00% |
| Total Assets | $ 971,426 | $ 648,336 | $ 323,090 | 49.83% |
| **Deferred Outflows** | $ 122,465 | $ 181,659 | $ (59,194) | -32.59% |
| **Liabilities** | | | | |
| Current Liabilities | $ 166,205 | $ 85,985 | $ 80,220 | 93.30% |
| Noncurrent Liabilities | 1,144,385 | 1,344,098 | (199,713) | -14.86% |
| Total Liabilities | $ 1,310,590 | $ 1,430,083 | $ (119,493) | -8.36% |
| **Deferred Inflows** | $ 324,158 | $ 92,055 | $ 232,103 | 252.14% |
| **Net Position** | | | | |
| Unrestricted | $ (792,091) | $ (692,143) | $ (99,948) | -12.62% |

The increase to current assets was an increase to cash resulting from an operating surplus in the funds of $47,676 for the year. Current liabilities increased by $80,220 mostly because of increases to the current portions of lease liabilities related to GASB 87. Noncurrent liabilities reflect a net decrease of $199,713 mostly because of decreases in LAFCO's net pension liability and net OPEB liability which was attributed actual investment income having been higher than estimated in the actuarial studies. The increases and decreases to deferred outflows and inflows can be directly attributed to changes in assumptions and benefit plan changes and higher than expected investment returns.

Table 2 shows the changes in net position for fiscal year 2022 as compared to 2021.

**Table 2 - Summary of Changes in Net Position**

| Description | 2022 | 2021 | Change | Percentage Change |
|---|---|---|---|---|
| **Revenues** | | | | |
| Program revenues: | | | | |
| Operating grants and contributions | $ 901,364 | $ 983,785 | $ (82,421) | -8.38% |
| Charges for services | 26,811 | 34,627 | (7,816) | -22.57% |
| General revenues: | | | | |
| Investment income | 7,832 | 10,489 | (2,657) | -25.33% |
| **Total Revenues** | 936,007 | 1,028,901 | (92,894) | -9.03% |
| | | | | |
| **Program Expenses** | | | | |
| General government | 783,432 | 1,031,771 | (248,339) | -24.07% |
| Interest expense | 1,289 | - | 1,289 | 100.00% |
| **Total Expenses** | 784,721 | 1,031,771 | (247,050) | -23.94% |
| | | | | |
| **Change in Net Position** | 151,286 | (2,870) | 154,156 | 101.90% |
| **Beginning Net Position** | (692,143) | (689,273) | (2,870) | 0.41% |
| **Ending Net Position** | $ (540,857) | $ (692,143) | $ 151,286 | -27.97% |

Program revenues decreased due a decreased share of operating costs charged back to member agencies during the year. Program expenses decreased due to a decrease to employee costs and professional services. See Note 4 and Note 5 for information related to LAFCO's benefit plans.

## LAFCO'S FUND BALANCE

Table 3 provides an analysis of LAFCO's fund balances and the total change in fund balances from the prior year.

**Table 3 - Summary of Fund Balance**

| Description | 2022 | 2021 | Change | Percentage Change |
|---|---|---|---|---|
| General Fund | $ 610,027 | $ 562,351 | $ 47,676 | 8.48% |

## LAFCO'S NONCURRENT LIABILITIES

Table 4 summarizes LAFCO's noncurrent liabilities as of June 30, 2022 as compared to the prior fiscal year.

**Table 4 - Summary of Noncurrent Liabilities**

| Description | 2022 | 2021 | Change | Percentage Change |
|---|---|---|---|---|
| Net OPEB Liability | $ 142,989 | $ 214,153 | $ (71,164) | -33.23% |
| Net Pension Liability | 635,863 | 958,839 | (322,976) | -33.68% |
| Office Lease | 250,557 | - | 250,557 | 100.00% |
| Compensated Absences | 171,016 | 171,106 | (90) | -0.05% |
| Total Noncurrent Liabilities | $ 1,200,425 | $ 1,344,098 | $ (143,673) | -10.69% |

## GENERAL FUND BUDGETING HIGHLIGHTS

LAFCO's budget is prepared according to California law and in the modified accrual basis of accounting.

Changes from LAFCO's General Fund 2021/2022 original budget to the final budget are detailed in the required supplementary information section along with a comparison to actual activity for the year ended. The original and final budgeted revenue was $922,329. The original and final budgeted expenditures and other uses of funds were $1,260,990.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Commission adopted its FY 2023 Budget at the June 1, 2022 LAFCO meeting. The budget includes appropriations totaling $1,222,980 which is similar to that of FY 2022. The budget assumes a roll-over of $201,006 in fund balance from the previous fiscal year and anticipates no change in application fees from the previous year.

## CONTACTING LAFCO'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of LAFCO's finances and to show LAFCO's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact the Executive Officer, LAFCO of Santa Clara County, 777 North First Street, Suite 410, San Jose, CA 95112.

***Basic Financial Statements***

# Local Agency Formation Commission of Santa Clara County

Statement of Net Position

June 30, 2022

| | | Governmental Activities |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and investments | $ | 718,297 |
| Interest receivable | | 1,895 |
| Total current assets | | 720,192 |
| Noncurrent assets: | | |
| Right of use assets: | | |
| Office space lease | | 259,897 |
| Accumulated amortization | | (8,663) |
| Total right of use assets, net | | 251,234 |
| Total Assets | $ | 971,426 |
| | | |
| **Deferred Outflows of Resources** | | |
| OPEB adjustments | $ | 19,206 |
| Pension adjustments | | 103,259 |
| Total Deferred Outflows of Resources | $ | 122,465 |
| | | |
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable | $ | 12,288 |
| Accrued liabilities | | 33,582 |
| Unearned revenue | | 64,295 |
| Current portion of lease payable, office space | | 56,040 |
| Total current liabilities | | 166,205 |
| Noncurrent liabilities: | | |
| Net OPEB liability | | 142,989 |
| Net pension liability | | 635,863 |
| Lease payable, office space | | 194,517 |
| Compensated absences | | 171,016 |
| Total noncurrent liabilities | | 1,144,385 |
| Total Liabilities | $ | 1,310,590 |
| | | |
| **Deferred Inflows of Resources** | | |
| OPEB adjustments | $ | 130,306 |
| Pension adjustments | | 193,852 |
| Total Deferred Inflows of Resources | $ | 324,158 |
| | | |
| **Net Position** | | |
| Unrestricted | $ | (540,857) |
| Total Net Position | $ | (540,857) |

*The notes to basic financial statements are an integral part of this statement*

**Local Agency Formation Commission of Santa Clara County**

Statement of Activities

For the Fiscal Year Ended June 30, 2022

| | | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | |
| Governmental activities: | | | | |
| General government | $ 783,432 | $ 26,811 | $ 901,364 | $ 144,743 |
| Interest expense | 1,289 | - | - | (1,289) |
| Total governmental activities | $ 784,721 | $ 26,811 | $ 901,364 | 143,454 |
| General revenues: | | | | |
| Investment income | | | | 7,832 |
| Change in net position | | | | 151,286 |
| Net position July 1, 2021 | | | | (692,143) |
| Net position ending June 30, 2022 | | | | $ (540,857) |

*The notes to basic financial statements are an integral part of this statement*

**Local Agency Formation Commission of Santa Clara County**
Balance Sheet
Governmental Funds
June 30, 2022

| | | General Fund |
|---|---|---|
| **ASSETS** | | |
| Cash and investments | $ | 718,297 |
| Interest receivable | | 1,895 |
| Total Assets | $ | 720,192 |
| **LIABILITIES** | | |
| Accounts payable | $ | 12,288 |
| Accrued liabilities | | 33,582 |
| Unearned revenue | | 64,295 |
| Total Liabilities | | 110,165 |
| **FUND BALANCE** | | |
| Unassigned | | 610,027 |
| Total Fund Balance | | 610,027 |
| Total Liabilities and Fund Balance | $ | 720,192 |

*The notes to basic financial statements are an integral part of this statement*

## Local Agency Formation Commission of Santa Clara County

Reconciliation of the Governmental Funds

Balance Sheet to the Statement of Net Position

June 30, 2022

| | | |
|---|---|---|
| Total fund balance - governmental funds | | $ 610,027 |
| Amounts reported in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. | | |
| Right of use assets | $ 259,897 | |
| Accumulated amortization | (8,663) | 251,234 |
| The differences between projected and actual amounts in pension and OPEB plans are not included in the plans actuarial study until the next fiscal year and are reported as deferred outflows or inflows of resources in the statement of net position as follows: | | |
| OPEB adjustments: | | |
| Difference between actual and expected experience | | (86,253) |
| Difference between actual and expected earnings | | (39,723) |
| Change in assumptions | | (4,330) |
| Contribution subsequent to measurement date | | 19,206 |
| Pension adjustments: | | |
| Difference between actual and expected experience | | 20,102 |
| Difference between actual and expected earnings | | (191,214) |
| Change in assumptions | | (1,407) |
| Contribution subsequent to measurement date | | 81,926 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term (noncurrent) liabilities at year-end consists of: | | |
| Net OPEB liability | $ 142,989 | |
| Net pension liability | 635,863 | |
| Leases payable | 250,557 | |
| Compensated absences | 171,016 | (1,200,425) |
| Total net position - governmental activities | | $ (540,857) |

*The notes to basic financial statements are an integral part of this statement*

**Local Agency Formation Commission of Santa Clara County**
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2022

| | General Fund |
|---|---|
| Revenues: | |
| Intergovernmental | $ 901,364 |
| Charges for services | 26,811 |
| Investment income | 7,832 |
| Total revenues | 936,007 |
| Expenditures: | |
| Current: | |
| Employee services | 639,100 |
| Professional services | 169,669 |
| Commission fees | 4,200 |
| Facilities | 47,903 |
| Insurance | 8,590 |
| Supplies | 2,838 |
| Memberships | 12,316 |
| Miscellaneous | 3,715 |
| Capital outlay, office space lease | 259,897 |
| Total expenditures | 1,148,228 |
| Excess (deficiency) of revenues over (under) expenditures | (212,221) |
| Other financing sources (uses): | |
| Office space lease | 259,897 |
| Total other financing sources (uses) | 259,897 |
| Net change in fund balance | 47,676 |
| Fund balance - July 01, 2021 | 562,351 |
| Fund balance - June 30, 2022 | $ 610,027 |

*The notes to basic financial statements are an integral part of this statement*

**Local Agency Formation Commission of Santa Clara County**
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities
For the Fiscal Year Ended June 30, 2022

| | | | |
|---|---|---|---|
| Total net change in fund balance - governmental funds | | | $ 47,676 |
| Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation or amortization expense. | | | |
| Additions to right of use assets | $ 259,897 | | |
| Amortization expense | (8,663) | | 251,234 |
| In governmental funds, actual contributions to pension and OPEB plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension OPEB expense as noted in the plan's valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources. | | | 102,843 |
| The governmental funds report leases issued as an other financing source, while repayment of the lease principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of leases and related items is as follows: | | | |
| Principal lease payments | | $ 9,340 | |
| Lease issuances | | (259,897) | (250,557) |
| In the Statement of Activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year, vacation earned exceeded the amounts used. | | | 90 |
| Change in net position of governmental activities | | | $ 151,286 |

*The notes to basic financial statements are an integral part of this statement*

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. General

The Local Agency Formation Commission of Santa Clara County (the "Commission" or "LAFCO") was established in 1963 to administer a complex series of statutory laws and enabling acts that serve to encourage the orderly development and reorganization of Local Government Agencies, essential to the social, fiscal and economic wellbeing of the State. The Commission operates under the authority of Government Code Section 56000 and the Cortese-Knox Hertzberg Local Government Reorganization Act of 2000.

The Commission is composed of seven members who include two county supervisors, two city council representatives, two special district representatives and one member representing the public at large. Commission members serve a four-year term.

B. Reporting Entity

LAFCO's combined financial statements include the accounts of all its operations. LAFCO evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2022, LAFCO does not have any component units but is a blended component unit of the County of Santa Clara.

C. Accounting Principles

The accounting policies of LAFCO conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

D. Basis of Presentation

**Government-wide Financial Statements:**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of LAFCO. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of LAFCO's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. LAFCO does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of LAFCO, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of LAFCO.

**Fund Financial Statements:**

Fund financial statements report detailed information about LAFCO. The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. LAFCO has only one operating fund.

E. Basis of Accounting

**Government-Wide Financial Statements:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments and service charges are recognized as revenues in the year for which they are levied. Expenses are recorded when liabilities are incurred.

**Governmental Fund Financial Statement:**

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the LAFCO, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the LAFCO receives value without directly giving equal value in return, include assessments and interest income. Under the accrual basis, revenue from assessments is recognized in the fiscal year for which the assessments are levied. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Deferred Outflows/Deferred Inflows of Resources:

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to benefit plans. In addition, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unavailable resources.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

F. Fund Accounting

The accounts of LAFCO are organized into one operating fund, the General Fund which has separate set of self-balancing accounts that comprise of LAFCO's assets, deferred outflows, liabilities, deferred inflows, fund balance, revenues, and expenditures.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the Commission must adopt a final budget no later than June 15th. A public hearing must be conducted to receive comments prior to adoption. The Commissioners' satisfied these requirements.

H. Cash and Equivalents

For purposes of the statement of net position, the Commission considers all short-term highly liquid investments, including restricted assets, amounts held with fiscal agent and amounts held in the County's investment pool, to be cash and cash equivalents. Amounts held in the County's investment pool are available on demand to the Commission.

I. Cash and Investments

As described in Note 2, LAFCO's cash and investments are held with the Santa Clara County Treasury, as part of the cash and investment pool with other County Funds. In accordance with GASB Statement No. 31, investments are stated at fair value. However, the value of the pool shares in the County Treasurer's investment pool that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of LAFCO's position in the pool. The County Treasurer's investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by Section 27134 of the California Government Code. Statutes authorize the County to invest in the following:

1. Obligations of the County or any local agency and instrumentality in or of the State of California;
2. Obligations of the U.S. Treasury, agencies and instrumentalities;
3. Bankers' acceptances eligible for purchase by Federal Reserve System;
4. Commercial paper;
5. Repurchase agreements or reverse repurchase agreements;
6. Medium-term notes with a five-year maximum maturity of corporations operating within the United States and rated in the top three rating categories;
7. Guaranteed investment contracts

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

J. Prepaid Expenditures

LAFCO has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. LAFCO has chosen to report the expenditure during the benefiting period.

K. Capital Assets

Capital assets, which may include land, buildings, improvements other than buildings, furnishings and equipment, construction/development in progress, infrastructure, intangible lease assets (right of use assets), and all other tangible or intangible assets, that are used in operations and that have initial useful lives extending beyond a single reporting period, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than $5,000. Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Right of use assets are recorded at the present value payments expected to be made during the lease term. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of a capital asset are also capitalized.

Depreciation/Amortization of all exhaustible capital assets is recorded as an expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Position. Accumulated depreciation/amortization is reported on the Statement of Net Position

The purpose of depreciation and amortization is to spread the cost of capital assets equitably among all users over the life of these assets. The useful life of right of use assets is typically determined by the associated lease term of those assets. The amount charged to depreciation and amortization expense each year represents that year's pro rata share of the cost of capital assets. The LAFCO depreciates using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated or amortized.

L. Compensated Absences

Accumulated unpaid vacation and sick leave are recorded as a liability when future payments for such compensated absences have been earned by employees based on pay and salary rates in effect at year end. This liability is recorded in the government-wide statement of net position to reflect LAFCO's obligation to fund such costs from future operations. LAFCO includes its share of Social Security and Medicare payments made on behalf of the employees in its accrual for compensated absences. Unused vacation and sick leave are paid out upon separation from LAFCO based on the terms stated in the Memorandum of Understanding between the employees' bargaining units and LAFCO. LAFCO does not accrue for compensated absences in its governmental fund statements and recognizes liabilities for compensated absences only if they are due and payable in an event such as termination.

M. Noncurrent Liabilities

In the government-wide financial statements, liabilities such as leases payable, net pension liabilities and net OPEB liabilities are reported as noncurrent liabilities in the Statement of Net Position, net of current portions.

N. Leases (Lessee)

LAFCO is a lessee for a noncancellable lease of $250,557. LAFCO recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

At the commencement of a lease, LAFCO initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how LAFCO determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- LAFCO uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, LAFCO generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that LAFCO is reasonably certain to exercise.

LAFCO monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported separately as right of use assets and lease liabilities are reported with noncurrent liabilities in the statement of net position.

O. Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Fund Balance Classifications

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, LAFCO classifies governmental fund balances as follows:

*Nonspendable* fund balance includes amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

*Restricted* fund balance includes amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

*Committed* fund balances includes amounts constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. Committed fund balances are imposed by LAFCO's commission.

*Assigned* fund balance includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the General Manager.

*Unassigned* fund balance includes positive amounts within the general fund which have not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

LAFCO uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, LAFCO would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Q. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by LAFCO or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. LAFCO applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Unrestricted net position reflects amounts that are not subject to any donor-imposed restrictions. This class also includes restricted contributions whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

R. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Agency's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB Statement No. 68) requires that the reported results pertain to liability and asset information within certain defined timeframes. Liabilities are based on the results of actuarial calculations performed as of June 30, 2018. For this report, the following timeframes are used for LAFCO's pension plans:

Valuation Date (VD)...................................... June 30, 2020
Measurement Date (MD)................................ June 30, 2021
Measurement Period (MP).............................. June 30, 2020 to June 30, 2021

S. Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the LAFCO's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

T. Implemented Accounting and Reporting Changes

**GASB issued Statement No. 87, *Leases***

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

As of June 30, 2022, LAFCO recognized one contract as a lease and implemented the applicable accounting and reporting requirements of a lessee under GASB 87. As a result, LAFCO recorded a right to use asset of $259,897 for the lease of office space over five years. The calculated annual lease payment was $56,040. See Note 4 for additional information.

**GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans***

The statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

Management does not believe this statement will have a significant impact on LAFCO's financial statements.

The requirements of this Statement are effective as follows:

- The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately
- The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021
- All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021

LAFCO did not report any significant accounting changes from the implementation of this Statement during the year ended June 30, 2022.

U. Upcoming Accounting and Reporting Changes

**GASB Statement No. 91, *Conduit Debt Obligations***

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2020 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. Management does not believe this statement will have a significant impact on LAFCO's financial statements.

**GASB Statement No. 94, *Public-Private Partnerships and Public-Public Partnerships and Availability Payment Arrangements***

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are to be effective for financial statements for periods beginning after June 15, 2022. Earlier application is encouraged. Management does not believe this statement will have a significant impact on LAFCO's financial statements.

**GASB Statement No. 96, *Subscription-Based Information Technology Arrangements***

GASB 96 provides guidance on accounting for Subscription-Based Information Technology Arrangements (SBITA) where the government contracts for the right to use another party's software. The standards for SBITAs are based on the standards established in GASB Statement No. 87, *Leases. GASB 96 is effective for fiscal years beginning after June 15, 2022.* Management does not believe this statement will have a significant impact on LAFCO's financial statements.

**GASB Statement No. 99, *Omnibus 2022***

Omnibus statements are issued by GASB to address practice issues identified after other standards have been approved for implementation. Omnibus statements "clear up the loose ends" for recent prior statements GASB has issued. This Omnibus addresses recent pronouncements, including GASB 87 – Leases, GASB 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and GASB 96 – *Subscription-Based Information Technology Arrangements*.

Effective Date: The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged and is permitted by topic. Management does not believe this statement will have a significant impact on LAFCO's financial statements.

**GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62***

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This Statement also prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections in previously issued financial statements.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. Management does not believe this statement will have a significant impact on LAFCO's financial statements.

### GASB Statement No. 101, *Compensated Absences*

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management is in the process of evaluating the impact this standard will have on LAFCO’s financial statements.

## NOTE 2 - CASH AND INVESTMENTS

### Summary of Cash and Investments

LAFCO maintained cash with the Santa Clara County Treasurer’s commingled pool totaling $718,297 as of June 30, 2022.

### Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

Investments in the County Treasury Investment Pool are not measured using the input levels above because LAFCO's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

**Cash in Santa Clara County Treasury**

The fair value of LAFCO's investment in the county pool is reported at amounts based on LAFCO's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. Santa Clara County investment pool funds were available for withdrawal on demand and had an average weighted maturity of 738 days. All cash and investments are stated at fair value. Pooled investment earnings are allocated monthly based on the average cash and investment balances of the various funds of the County.

**Risk Disclosures**

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

**a) Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. LAFCO manages its exposure to interest rate risk by investing in the Santa Clara County investment pool, which had a fair value of approximately $8.6 billion as of June 30, 2022.

**b) Credit Risk**

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the County's investment pool is governed by the County's general investment policy. The County's investments included U.S. government securities, medium-term corporate notes, commercial paper, certificates of deposit or obligations explicitly guaranteed by the U.S. government that are not considered to have credit risk exposure. The County's two other investment types, LAIF and money market mutual funds, are not rated. The money pooled with the County of Santa Clara Investment Pool is not subject to a credit rating.

**c) Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, LAFCO's deposits may not be returned to it. LAFCO does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the money invested by LAFCO in the County of Santa Clara Investment Pool).

**d) Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer. LAFCO's investment in the County's commingled pool is diversified by the County Treasurer by limiting the percentage of the portfolio that can be invested in any one issuer's name. Investments in U.S. Treasuries, U.S. Agency securities explicitly backed by the U.S., and mutual and pooled funds are not subject to this limitation. More than 5% of the County's commingled pooled investments are invested with the Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank.

## NOTE 3 - NONCURRENT LIABILITIES

The following summarized LAFCO's noncurrent liabilities as of June 30, 2022:

| Description | Balance July 01, 2021 | Additions | Adjustments & Deletions | Balance June 30, 2022 | Due Within One Year |
|---|---|---|---|---|---|
| Net Pension Liability | $ 958,839 | $ 137,341 | $ 460,317 | $ 635,863 | - |
| Net OPEB Liability | 214,153 | 114,063 | 185,227 | 142,989 | - |
| Office Lease | - | 259,897 | 9,340 | 250,557 | 56,040 |
| Compensated Absences | 171,106 | 71,878 | 71,968 | 171,016 | - |
| Total Noncurrent Liabilities | $ 1,344,098 | $ 583,179 | $ 726,852 | $ 1,200,425 | $ 56,040 |

## NOTE 4 - LEASES AND RIGHT OF USE ASSETS

LAFCO has a five-year lease agreement for building space at 777 North First Street, San Jose, California, that commenced on May 1, 2022. The base rent ranges from $3,674 to $4,963 which includes a 3% increase on the first of April every year. The net present value of the lease liability, at a rate of 3% over the five years, was $259,897 as of June 30, 2022. The calculated annual principal and interest payments totaled $56,040. The calculated principal and interest for the fiscal year was $8,051 and $1,289, respectively. The District recorded an associated right of use asset of $259,897. After netting the accumulated amortization of $8,663, the net book value of the office space lease right of use asset was $251,234. The following summarizes the principal and interest requirements to maturity:

| Year Ending June 30 | Principal Payments | Interest Payments | Total |
|---|---|---|---|
| 2023 | $ 49,157 | $ 6,883 | $ 56,040 |
| 2024 | 50,652 | 5,388 | 56,040 |
| 2025 | 52,193 | 3,847 | 56,040 |
| 2026 | 53,780 | 2,260 | 56,040 |
| 2027 | 46,064 | 636 | 46,700 |
| | $ 251,846 | $ 19,014 | $ 270,860 |

Total rent expense for the year ended June 30, 2022 was $47,903.

## NOTE 5 - DEFINED BENEFIT PENSION PLAN

### Plan Description

All qualified permanent and probationary employees are eligible to participate in LAFCO's Miscellaneous Employee Pension Plan (the Plan), an agent multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Authority resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

### Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are equal to the product of a benefit multiplier, the employee's retirement age and final compensation. The cost of living adjustments for the CalPERS plans are applied as specified by the Public Employees' Retirement Law. The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. As such members who established CalPERS membership on or after January 1, 2013 are known as "PEPRA" members.

The Plans' provisions and benefits in effect at June 30, 2022, are summarized as follows:

| | Miscellaneous | |
|---|---|---|
| | Classic | PEPRA |
| Benefit formula | 2% @ 55<br>2.5% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 Years | 5 Years |
| Benefit payments | Monthly for Life | Monthly for Life |
| Retirement age | 55-60 | 62 |
| Monthly benefits as a % of eligible compensation | 2.0% to 2.5% | 2% |
| Required employee contribution rates | 7.44% | 6.75% |
| Required employer contribution rates | 9.74% | 9.74% |

### Employees Covered

As of June 30, 2022, there were four active employees covered by the plan.

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Public Employees Retirement Fund (PERF) is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

For the year ended June 30, 2022, the contributions were as follows:

| | | |
|---|---|---|
| Contributions - employer | $ | 81,926 |
| Contributions - employee | | 19,206 |
| Total | $ | 101,132 |

**Pension Liabilities**

As of June 30, 2022, LAFCO reported a net pension liability of $635,863. LAFCO's net pension liability for the Plan is measured at a .020% proportionate share of the County of Santa Clara's miscellaneous pension plan's net pension liability, based on contributions made during the fiscal year. The net pension liability of the Plan is measured as of June 30, 2021, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. LAFCO's proportion of the net pension liability was based on a projection of LAFCO's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. LAFCO's net pension liability for its agent multiple employer plan is measured as the total pension liability less the fiduciary net position for each plan. The change in the net pension liability for the plan is as follows:

| | Total Pension Liability | Plan Fiduciary Net Position | Net pension liability |
|---|---|---|---|
| Balance at June 30, 2019 | $ 3,293,649 | $ 2,334,810 | $ 958,839 |
| Service cost | 70,813 | - | 70,813 |
| Interest | 204,051 | - | 204,051 |
| Differences between expected and actual experience | (1,869) | - | (1,869) |
| Benefit payments | (135,654) | - | (135,654) |
| Employer contributions | - | 104,817 | (104,817) |
| Employee contributions | - | 33,537 | (33,537) |
| Net investment income | - | 459,658 | (459,658) |
| Benefit payments | - | (135,654) | 135,654 |
| Administrative expense | - | (2,041) | 2,041 |
| Net change | 137,341 | 460,317 | (322,976) |
| Balance at June 30, 2020 | $ 3,430,990 | $ 2,795,127 | $ 635,863 |

**Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended June 30, 2022, LAFCO recognized pension expense of $6,124. As of June 30, 2022, LAFCO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes of Assumptions | $ - | $ 1,407 |
| Differences between Expected and Actual Experience | 21,333 | 1,231 |
| Differences between Projected and Actual Investment Earnings | - | 191,214 |
| Pension Contributions Made Subsequent to Measurement Date | 81,926 | - |
| | $ 103,259 | $ 193,852 |

LAFCO reported $81,926 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Fiscal Year Ending June 30 | | Miscellaneous |
|---|---|---|
| 2021 | $ | (38,005) |
| 2022 | | (37,738) |
| 2023 | | (43,755) |
| 2024 | | (53,021) |
| | $ | (172,519) |

## Actuarial Assumptions

The total pension liabilities in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation Date | June 30, 2020 |
| Measurement Date | June 30, 2021 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.150% |
| Inflation | 2.500% |
| Payroll Growth | 2.750% |
| Projected Salary Increase | (1) |
| Investment Rate of Return | 7.00% (2) |
| Mortality | (3) |

(1) Varies by entry age and service
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all funds

## Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10 (a) | Real Return Years 11+ (b) |
|---|---|---|---|
| Global Equity | 50.00% | 4.80% | 5.98% |
| Fixed Income | 8.00% | 1.00% | 2.62% |
| Inflation Sensitive | 28.00% | 0.77% | 1.81% |
| Private Equity | 1.00% | 6.30% | 7.23% |
| Real Estate | 13.00% | 3.75% | 4.93% |
| Liquidity | 0.00% | 0.00% | -0.92% |
| Total | 100.00% | | |

(a) An expected inflation of 2% used for this period.
(b) An expected inflation of 2.92% used for this period.

**Sensitivity of the Net Pension Liability to Changes in the Discount**

The following presents LAFCO's net pension liability, calculated using the discount rate, as well as what LAFCO's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | Miscellaneous |
|---|---|
| 1% Decrease | 6.15% |
| Net Pension Liability | $ 777,475 |
| 1% Decrease | 7.15% |
| Net Pension Liability | $ 635,863 |
| 1% Increase | 8.15% |
| Net Pension Liability | $ 159,890 |

**Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

## NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

### Plan Description

LAFCO participates in a Santa Clara County (the County) maintained cost-sharing multiple-employer defined benefit postemployment healthcare plan (the OPEB plan). The County's OPEB Plan provides healthcare benefits to eligible County, or LAFCO, employees and their dependents.

The County participates in the California Employers' Retiree Benefit Trust Fund Program (CERBT), an agent multiple-employer postemployment health plan, to fund other postemployment benefits through CalPERS. The CERBT plan's audited financial statements are available at https://www.calpers.ca.gov/docs/forms-publications/gasb-75-schedule-changes-fiduciary-net-position-2020.pdf.

### Benefits Provided

All County Employees hired prior to August 12, 1996 are eligible for health benefits upon attaining age 50 with 5 years of service. Employees hired on or after August 12, 1996 and before June 19, 2006 are eligible for health benefits upon attaining age 50 with 8 years of service. Employees hired on or after June 19, 2006 are eligible for health benefits upon attaining age 50 with 10 years of service. All Miscellaneous and Safety employees and Judges have the opportunity, upon attaining plan eligibility, of participating in the plan in retirement.

The County has established a 15-year (up from 10-year) retiree health benefit service requirement that applies to most employees hired on or after September 30, 2013.

Retirees retired prior to December 5, 1983 have their full premium cost subsidized by the County. In addition, the County subsidizes the Part B premium cost for the retirees in Medicare status who are not receiving Health-in-Lieu benefits.

For most of the retirees retired after December 4, 1983, the County contribution is limited to the cost of Kaiser under age 65 retiree only rate (different for Medicare and non-Medicare) over the plan year in question. Retirees pay the difference between the County contribution and the premium rate required by their enrolled plan.

Post-1983 retirees do not receive full Medicare Part B premium reimbursement, but only up to maximum monthly subsidies when combined with the medical premium.. The County does not cover premium cost associated with dependents.

### Employees Covered by Benefit Terms

As of June 30, 2022, the benefit terms covered 4 active employees:

### Contributions

LAFCO makes contributions based on an actuarially determined rate and are approved by the authority of LAFCO's Commission through the annual budget adoption. Total contributions during the year were $19,206. Total contributions included in the measurement period were $22,766. The actuarially determined contribution was $23,723. LAFCO's contributions were 5.19% of covered employee payroll during the year.

### Actuarial Assumptions

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

| | |
|---|---|
| **Valuation Date:** | June 30, 2020 |
| **Measurement Date:** | June 30, 2021 |
| **Actuarial Cost Method:** | Entry-Age Actuarial Cost Method |
| **Amortization Method:** | 30-Year Closed Amortization, Level Percent of Payroll |
| **Amortization Period:** | 30 years |
| **Asset Valuation Method:** | Market Value |
| **Actuarial Assumptions:** | |
| Discount Rate | 7.00% |
| Inflation | 2.50% |
| Wage Inflation | 2.75% |
| Salary Increases | Miscellaneous: 9.75% to 3.25%, vary by service, including wage inflation.<br>Safety: 15.95% to 4.25%, vary by service, including wage inflation. |
| Investment Rate of Return | 7%, Net of investment expenses |
| **Medical Cost Trend Rates:** | |
| Non-Medicare medical plan | 6.75% graded down to an ultimate of 4.50% over 10 years |
| Medicare medical plan | 6.25% graded down to an ultimate of 4.50% over 8 years |
| Medicare Part B | 4.5% |

### Discount Rate

The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability (TOL) as of June 30, 2021, the measurement date, for the fiscal year ended June 30, 2022.

### Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Percentage of Portfolio | Long-Term Expected Rate of Return |
|---|---|---|
| International Equity | 59.00% | 7.790% |
| Fixed Income | 25.00% | 0.890% |
| Real Estate | 8.00% | 4.140% |
| Treasury Inflation Protected Securities (TIPS) | 5.00% | 0.890% |
| All Commodities | 3.00% | 4.090% |
| **Total** | 100.00% | |

**Net OPEB Liability**

LAFCO's net OPEB liability was measured as of June 30, 2021 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 (valuation date) for the fiscal year ended June 30, 2022. The following summarizes the changes in the net OPEB liability during the year ended June 30, 2022, for the measurement date of June 30, 2021:

| Fiscal Year Ended June 30, 2022 (Measurement Date June 30, 2021) | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability (Asset) |
|---|---|---|---|
| **Balance at June 30,2021** | $ 456,527 | $ 242,374 | $ 214,153 |
| Service cost | 11,037 | - | 11,037 |
| Interest in Total OPEB Liability | 26,639 | - | 26,639 |
| Employer contributions | - | 18,824 | (18,824) |
| Employee contributions | - | 1,505 | (1,505) |
| Difference between actual and exp experience | 4,409 | - | 4,409 |
| Proportionate share changes | (79,049) | (41,968) | (37,081) |
| Changes in assumptions | 4,479 | - | 4,479 |
| Difference between actual and exp earnings | - | 56,099 | (56,099) |
| Administrative expenses | - | (655) | 655 |
| Benefit payments | (15,912) | (15,912) | - |
| Implicit subsidy fullfilled | - | 4,874 | (4,874) |
| **Net changes** | (48,398) | 22,766 | (71,163) |
| **Balance at June 30, 2022** | $ 408,130 | $ 265,140 | $ 142,989 |

| | |
|---|---|
| Covered Employee Payroll | $ 369,855 |
| Total OPEB Liability as a % of Covered Employee Payroll | 110.35% |
| Plan Fid. Net Position as a % of Total OPEB Liability | 64.96% |
| Service Cost as a % of Covered Employee Payroll | 2.98% |
| Net OPEB Liability as a % of Covered Employee Payroll | 38.66% |

### Deferred Inflows and Outflows of Resources

At June 30, 2022, LAFCO reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between actual and expected experience | $ - | $ 86,253 |
| Difference between actual and expected earnings | - | 39,723 |
| Change in assumptions | - | 4,330 |
| OPEB contribution subsequent to measurement date | 19,206 | - |
| **Totals** | $ 19,206 | $ 130,306 |

Of the total amount reported as deferred outflows of resources related to OPEB, $19,206 resulting from LAFCO contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ended June 30, | |
|---|---|
| 2023 | $ (31,929) |
| 2024 | (27,742) |
| 2025 | (24,381) |
| 2026 | (26,010) |
| 2027 | (11,982) |
| Thereafter | (8,262) |
| **Total** | $ (130,306) |

### OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2022:

| | |
|---|---|
| Service cost | $ 11,037 |
| Interest in TOL | 26,639 |
| Other | (4,874) |
| Employee contributions | (1,505) |
| Difference between actual and expected experience | (20,867) |
| Difference between actual and expected earnings | (10,608) |
| Change in assumptions | (1,499) |
| Administrative expenses | 655 |
| **OPEB Expense** | **$ (1,022)** |

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2022:

| | | |
|---|---|---|
| Net OPEB liability ending | $ | 142,989 |
| Net OPEB liability begining | | (214,153) |
| Change in net OPEB liability | | (71,164) |
| Changes in deferred outflows | | 9,329 |
| Changes in deferred inflows | | 45,549 |
| Employer specific changes in proportionate share | | (8,434) |
| Employer contributions and implict subsidy | | 23,698 |
| **OPEB Expense** | **$** | **(1,022)** |

### Sensitivity to Changes in the Discount Rate

The net OPEB liability of LAFCO, as well as what LAFCO's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

| | Discount Rate | | |
|---|---|---|---|
| | **(1% Decrease )** | **7%** | **(1% Increase )** |
| Net OPEB Liability (Asset) | $ 201,009 | $ 142,989 | $ 95,374 |

### Sensitivity to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of LAFCO, as well as what LAFCO's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows

| | Trend Rate | | |
|---|---|---|---|
| | **(1% Decrease )** | **(Current Rate)** | **(1% Increase )** |
| Net OPEB Liability (Asset) | $ 90,911 | $ 142,989 | $ 207,691 |

## NOTE 7 - COMMITMENTS AND CONTINGENCIES

### Litigation

LAFCO may be exposed to various claims and litigation during the normal course of business. However, management believes there were no matters that would have a material adverse effect on LAFCO’s financial position or results of operations as of June 30, 2022.

## NOTE 8 - RISK MANAGEMENT

LAFCO is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. LAFCO is a member of the Special District Risk Management Authority (SDRMA). During the fiscal year ended June 30, 2022, LAFCO had the following coverages subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage from SDRMA:

| | | Limits |
|---|---|---|
| Property | | |
| Property | $ | 1,000,000,000 |
| Boiler and Machinery | $ | 100,000,000 |
| Pollution | $ | 2,000,000 |
| Cyber | | Limits on File |
| General Liability | | |
| Bodily Injury | $ | 2,500,000 |
| Property Damage | $ | 2,500,000 |
| Public Officials Personal | $ | 500,000 |
| Employment Benefits | $ | 2,500,000 |
| Employee/Public Officials E&O | $ | 2,500,000 |
| Employment Practices Liability | $ | 2,500,000 |
| Employee/Public Officials Dishonesty | $ | 1,000,000 |
| Auto Liability | | |
| Auto Bodily Injury | $ | 2,500,000 |
| Auto Property Damage | $ | 2,500,000 |
| Uninsured Motorist | | Limits on File |
| Workers' Compensation | | |
| Employers Liability | $ | 5,000,000 |
| Workers' Compensation | | Statutory |

Workers' compensation coverage as noted above is for Commissioners while employees are covered by Santa Clara County. There have not been any claims in any of the last three fiscal years and there were no reductions in LAFCO's insurance coverage during the current year. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage.

## NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated all subsequent events from the statement of financial position date of June 30, 2022, through the date the financial statements were available to be issued, October 15, 2022. Beginning in March 2020, the United States economy began suffering adverse effects from the COVID 19 Virus Crisis ("CV19 Crisis"). As of the date of issuance of the financial statements, LAFCO had not suffered a material adverse impact from the CV19 Crisis. However, the future impact of the CV19 Crisis cannot be reasonably estimated.

# REQUIRED SUPPLEMENTARY INFORMATION

**Local Agency Formation Commission of Santa Clara County**
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2022

| | Budgeted Amounts | | | Variance with Final Budget Positive - (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual (GAAP Basis) | |
| Revenues: | | | | |
| Intergovernmental | $ 886,329 | $ 886,329 | $ 901,364 | $ 15,035 |
| Charges for services | 30,000 | 30,000 | 26,811 | (3,189) |
| Investment income | 6,000 | 6,000 | 7,832 | 1,832 |
| Total revenues | 922,329 | 922,329 | 936,007 | 13,678 |
| Expenditures: | | | | |
| Current: | | | | |
| Employee services | 844,239 | 844,239 | 639,100 | 205,139 |
| Professional services | 307,117 | 307,117 | 169,669 | 137,448 |
| Commission fees | 10,000 | 10,000 | 4,200 | 5,800 |
| Facilities | 47,784 | 47,784 | 47,903 | (119) |
| Insurance | 8,500 | 8,500 | 8,590 | (90) |
| Supplies | 15,500 | 15,500 | 2,838 | 12,662 |
| Memberships | 12,500 | 12,500 | 12,316 | 184 |
| Travel | 12,350 | 12,350 | - | 12,350 |
| Miscellaneous | 3,000 | 3,000 | 3,715 | (715) |
| Capital outlay, office space lease | - | - | 259,897 | (259,897) |
| Total expenditures | 1,260,990 | 1,260,990 | 1,148,228 | 112,762 |
| Excess (deficiency) of revenues over (under) expenditures | (338,661) | (338,661) | (212,221) | 126,440 |
| Other financing sources (uses): | | | | |
| Office space lease | - | - | 259,897 | 259,897 |
| Total other financing sources (uses) | - | - | 259,897 | 259,897 |
| Net change in fund balance | (338,661) | (338,661) | 47,676 | 386,337 |
| Fund balance beginning | 562,351 | 562,351 | 562,351 | - |
| Fund balance ending | $ 223,690 | $ 223,690 | $ 610,027 | $ 386,337 |

LAFCO employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

# Local Agency Formation Commission of Santa Clara County

Schedule of Contributions for Pension Plans

For the Fiscal Year Ended June 30, 2022

| Fiscal Year Ended | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|
| Actuarially Determined Cont. (ADC) | $ 50,865 | $ 56,192 | $ 64,817 | $ 72,514 | $ 77,923 | $ 84,621 | $ 90,788 | $ 88,226 |
| Contributions in Relation to ADC | 50,865 | 56,192 | 64,817 | 72,514 | 77,923 | 84,621 | 90,788 | 81,926 |
| **Contribution Deficiency (Excess)** | - | - | - | - | - | - | - | 6,300 |
| **Covered Payroll** | **$ 322,075** | **$ 335,288** | **$ 356,470** | **$ 381,587** | **$ 421,278** | **$ 390,298** | **$ 414,272** | **$ 364,104** |
| **Cont. as % of Covered Payroll** | **15.79%** | **16.76%** | **18.18%** | **19.00%** | **18.50%** | **21.68%** | **21.92%** | **22.50%** |

**Notes to Schedule:**

| | |
|---|---|
| Valuation Date: | June 30, 2021 |
| Assumptions Used: | Entry Age Normal |
| | Inflation Assumed at 2.625%. |
| | Investment Rate of Returns set at 7.25%. |
| | The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. |
| | Asset valuation methis is Market Value of Assets. |
| | Payroll growth 2.75%. |
| | The probabilities of Retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. |

Fiscal year 2015 was the first year of implementation, therefore only eight years are shown.

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.

The CalPERS mortality assumptions were adjusted in fiscal year 2020.

# Local Agency Formation Commission of Santa Clara County

Schedule of Changes in Net Pension Liability
For the Fiscal Year Ended June 30, 2022

| Fiscal Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|
| **Total pension liability** | | | | | | | | |
| Service cost | $ 54,769 | $ 54,109 | $ 56,283 | $ 66,427 | $ 72,114 | $ 66,827 | $ 68,852 | $ 70,813 |
| Interest | 162,515 | 171,403 | 180,987 | 189,609 | 206,148 | 198,109 | 194,627 | 204,051 |
| Changes of assumptions | - | (42,028) | - | 158,690 | (28,601) | - | - | - |
| Diff. expected and actual experience | - | (3,558) | 3,559 | (2,638) | 19,945 | 39,404 | 22,186 | (1,869) |
| Benefit payments | (94,224) | (101,138) | (108,619) | (116,090) | (130,376) | (126,340) | (125,902) | (135,654) |
| Net change in Total Pension Liability | 123,060 | 78,787 | 132,210 | 295,998 | 139,230 | 178,000 | 159,763 | 137,341 |
| Total pension liability - beginning | 2,186,600 | 2,309,660 | 2,388,448 | 2,520,658 | 2,816,656 | 2,955,886 | 3,133,886 | 3,293,649 |
| Total pension liability - ending | $ 2,309,660 | $ 2,388,448 | $ 2,520,658 | $ 2,816,656 | $ 2,955,886 | $ 3,133,886 | $ 3,293,649 | $ 3,430,990 |
| **Plan fiduciary net position** | | | | | | | | |
| Employer contributions | $ 50,865 | $ 56,192 | $ 64,817 | $ 72,514 | $ 77,923 | $ 84,621 | $ 90,788 | $ 104,817 |
| Employee contributions | 27,292 | 26,336 | 28,002 | 29,734 | 31,795 | 31,754 | 32,010 | 33,537 |
| Net investment income | 266,077 | 39,872 | 9,509 | 199,967 | 174,067 | 130,885 | 97,705 | 459,658 |
| Benefit payments | (94,224) | (101,138) | (108,619) | (116,090) | (130,376) | (126,340) | (125,902) | (135,654) |
| Net plan to resource movement | - | (156) | 47 | (28) | 3 | (8) | 33 | - |
| Administrative expense | - | (2,032) | (1,099) | (2,651) | (3,199) | (1,414) | (2,750) | (2,041) |
| Other | - | - | - | - | (6,074) | 5 | - | - |
| Net change in plan fiduciary net position | 250,011 | 19,074 | (7,342) | 183,446 | 144,139 | 119,503 | 91,884 | 460,317 |
| Plan fiduciary net position - beginning | 1,534,095 | 1,784,106 | 1,803,180 | 1,795,838 | 1,979,284 | 2,123,423 | 2,242,926 | 2,334,810 |
| Plan fiduciary net position - ending | $ 1,784,106 | $ 1,803,180 | $ 1,795,838 | $ 1,979,284 | $ 2,123,423 | $ 2,242,926 | $ 2,334,810 | $ 2,795,127 |
| Net pension liability | $ 525,555 | $ 585,268 | $ 724,820 | $ 837,372 | $ 832,463 | $ 890,960 | $ 958,839 | $ 635,863 |
| Plan fiduciary net position as % of the total pension liability | 77.25% | 75.50% | 71.24% | 70.27% | 71.84% | 71.57% | 70.89% | 81.47% |
| Covered payroll | 312,413 | 322,075 | 335,288 | 356,470 | 381,587 | 421,278 | 390,298 | 414,272 |
| NPL as a % of covered payroll | 168.22% | 181.72% | 216.18% | 234.91% | 218.16% | 211.49% | 245.67% | 153.49% |
| TPL as a % of covered payroll | 739.30% | 741.58% | 751.79% | 790.15% | 774.63% | 743.90% | 843.88% | 828.20% |

Fiscal year 2015 was the first year of implementation, therefore only eight years are shown.
The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.
The CalPERS mortality assumptions were adjusted in fiscal year 2020.

# Local Agency Formation Commission of Santa Clara County

Schedule of Contributions for OPEB Plans
For the Fiscal Year Ended June 30, 2022

| **Fiscal Year Ended** | **2018** | **2019** | **2020** | **2021** | **2022** |
|---|---|---|---|---|---|
| Actuarially determined contribution (ADC) | $ 29,697 | $ 29,697 | $ 30,704 | $ 27,601 | $ 23,723 |
| Less: actual contribution in relation to ADC | (34,427) | (24,639) | (25,852) | (22,766) | (19,206) |
| Contribution deficiency (excess) | $ (4,730) | $ 5,058 | $ 4,852 | $ 4,835 | $ 4,517 |
| | | | | | |
| Covered employee payroll | $ 349,612 | $ 397,559 | $ 402,829 | $ 399,011 | $ 369,855 |
| Contrib. as a % of covered employee payroll | 9.85% | 6.20% | 6.42% | 5.71% | 5.19% |

**Notes to Schedule:**

*Assumptions and Methods*

| | |
|---|---|
| **Valuation Date:** | June 30, 2020 |
| **Measurement Date:** | June 30, 2021 |
| **Actuarial Cost Method:** | Entry-Age Actuarial Cost Method |
| **Amortization Method:** | 30-Year Closed Amortization, Level Percent of |
| **Amortization Period:** | 30 years |
| **Asset Valuation Method:** | Market Value |
| **Actuarial Assumptions:** | |
| Discount Rate | 7.00% |
| Inflation | 2.50% |
| Wage Inflation | 2.75% |
| Salary Increases | Miscellaneous: 9.75% to 3.25%, vary by service, including wage inflation.<br>Safety: 15.95% to 4.25%, vary by service, including wage inflation. |
| Investment Rate of Return | 7%, Net of investment expenses |
| **Medical Cost Trend Rates:** | |
| Non-Medicare medical plan | 6.75% graded down to an ultimate of 4.50% over |
| Medicare medical plan | 6.25% graded down to an ultimate of 4.50% over 8 |
| Medicare Part B | 4.5% |

*Other Notes*

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

There were no changes in benefit terms.

There were no changes in discount rates, inflation, or wage inflation.

# Local Agency Formation Commission of Santa Clara County

Schedule of Changes in Net OPEB Liability

For the Fiscal Year Ended June 30, 2022

| Fiscal Year Ended | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **Total OPEB liability** | | | | | |
| Service cost | $ 14,472 | $ 13,122 | $ 14,930 | $ 14,091 | $ 11,037 |
| Interest | 34,597 | 20,649 | 35,501 | 32,617 | 26,639 |
| Differences between expected and actual experience | (40,235) | (3,650) | (30,126) | (19,223) | 4,409 |
| Changes of assumptions | (9,061) | 3,835 | 4,159 | (13,776) | 4,479 |
| Benefit payments | (16,867) | (8,877) | (19,358) | (18,090) | (15,912) |
| Proportionate share changes | - | 21,414 | (2,209) | (46,108) | (79,049) |
| Other | - | (13,486) | - | - | - |
| Net change in Total OPEB Liability | (17,095) | 33,007 | 2,897 | (50,489) | (48,397) |
| Total OPEB Liability - beginning | 488,207 | 471,112 | 504,119 | 507,016 | 456,527 |
| Total OPEB Liability - ending | $ 471,112 | $ 504,119 | $ 507,016 | $ 456,527 | $ 408,130 |
| **Plan fiduciary net position** | | | | | |
| Employer contributions | $ 28,891 | $ 44,336 | $ 23,466 | $ 23,598 | $ 18,824 |
| Proportionate share changes | - | 8,578 | (9,847) | (22,638) | - |
| Employee contributions | 1,325 | - | 1,453 | 1,520 | 1,505 |
| Net investment income | 16,679 | 1,156 | 14,662 | 8,058 | 56,099 |
| Difference between estimated and actual earnings | - | - | - | - | (41,968) |
| Benefit payments | (16,867) | (8,877) | (19,358) | (18,090) | (15,912) |
| Implicit subsidy fullfilled | - | - | 5,503 | 1,538 | 4,874 |
| Other | - | (126) | (733) | - | - |
| Administrative expense | (563) | - | - | (546) | (655) |
| Adjustments | 3,999 | - | - | - | - |
| Net change in plan fiduciary net position | 33,464 | 45,067 | 15,146 | (6,559) | 22,767 |
| Plan fiduciary net position - beginning | 155,257 | 188,721 | 233,788 | 248,934 | 242,374 |
| Plan fiduciary net position - ending | $ 188,721 | $ 233,788 | $ 248,934 | $ 242,374 | $ 265,141 |
| Net OPEB liability (asset) | $ 282,391 | $ 270,331 | 258,082 | 214,153 | 142,989 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 40.06% | 46.38% | 49.10% | 53.09% | 64.96% |
| Covered Employee Payroll | $ 339,998 | $ 349,612 | $ 397,559 | $ 402,829 | $ 399,011 |
| Net OPEB liab. as a % of cov. Emp. payroll | 83.06% | 77.32% | 64.92% | 53.16% | 35.84% |
| Total OPEB liab. as a % of cov. Emp. payroll | 138.56% | 144.19% | 127.53% | 113.33% | 102.29% |

*Other Notes*

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

There were no changes in benefit terms.

There were no changes in discount rates, inflation, or wage inflation.

# OTHER INDEPENDENT AUDITOR'S REPORTS

Chavan and Associates, llp
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Commissioners
Local Agency Formation Commission of Santa Clara County
San Jose, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of LAFCO as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements, and have issued our report thereon dated October 15, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered LAFCO's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LAFCO's internal control. Accordingly, we do not express an opinion on the effectiveness of LAFCO's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether LAFCO's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant a20greements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not

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express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

October 15, 2022
Morgan Hill, California



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Certified Public Accountants

Local Agency Formation Commission of Santa Clara County
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**Introduction and Internal Controls**

In planning and performing our audit of the basic financial statements of the Local Agency Formation Commission of Santa Clara County, as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered Local Agency Formation Commission of Santa Clara County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Local Agency Formation Commission of Santa Clara County's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the LAFCO's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Purpose of Communication**

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing, and communicate additional information that may be relevant to future Organization decision making. Accordingly, this communication is not intended to be and should not be used for any other purpose.

C & A LLP

October 15, 2022
Morgan Hill, California


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Chavan and Associates, llp
Certified Public Accountants

To the Commission
Local Agency Formation Commission of Santa Clara County

We have audited the basic financial statements of the Local Agency Formation Commission of Santa Clara County as of and for the year ended June 30, 2022, and have issued our report thereon dated October 15, 2022. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility under Generally Accepted Auditing Standards and *Government Auditing Standards***

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Local Agency Formation Commission of Santa Clara County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

**Other Information in Documents Containing Audited Financial Statements**

Pursuant to professional standards, our responsibility as auditors for other information in documents containing Local Agency Formation Commission of Santa Clara County's audited financial statements doesn't extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.


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**Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to management.

**Qualitative Aspects of the Entity's Significant Accounting Practices**

*Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Local Agency Formation Commission of Santa Clara County is included in Note 1 to the financial statements. During the year, LAFCO implemented GASB Statement No. 87, *Leases.* As a result, the LAFCO recorded a right to use asset and lease liability of $259,897 for its office space lease. See note 4 for additional information. There have been no initial selection of accounting policies and no other changes in significant accounting policies or their application during June 30, 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

*Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements include accumulated depreciation related to capital assets and unfunded liabilities and expenses based on assumptions in actuarial studies performed on defined benefit pension plans and other postemployment benefit plans (GASB 68 and GASB 75).

We evaluated the key factors and assumptions used to develop the identified estimates and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

*Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Local Agency Formation Commission of Santa Clara County's financial statements relate to: cash and investments, long-term obligations, defined benefit pension plans and other postemployment benefit plans.


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**Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

**Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

In addition, professional standards require us to communicate to you all material, corrected and uncorrected amisstatements that were brought to the attention of management as a result of our audit procedures. There were no material, corrected or uncorrected misstatements noted during the audit.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Local Agency Formation Commission of Santa Clara County's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

**Representations Requested from Management**

We have requested certain written representations from management, which are included in a separate letter dated October 15, 2022.

**Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Findings or Issues**

In the normal course of our professional association with the Local Agency Formation Commission of Santa Clara County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Local Agency Formation Commission of Santa Clara County's auditors.


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This report is intended solely for the information and use of the Board and management of the Local Agency Formation Commission of Santa Clara County and is not intended to be and should not be used by anyone other than these specified parties.

C & A LLP

October 15, 2022
Morgan Hill, California



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**ITEM # 8**

SANTA CLARA LAFCO

**Local Agency Formation Commission of Santa Clara County**
777 North First Street
Suite 410
San Jose, CA 95112
**SantaClaraLAFCO.org**



| | |
|---|---|
| **LAFCO MEETING:** | **December 7, 2022** |
| **TO:** | **LAFCO** |
| **FROM:** | **Neelima Palacherla, Executive Officer**<br>**Dunia Noel, Asst. Executive Officer** |
| **SUBJECT:** | **UPDATE ON COUNTYWIDE FIRE SERVICE REVIEW** |

## STAFF RECOMMENDATION

Accept report and provide direction, as necessary.

## COUNTYWIDE FIRE SERVICE REVIEW

The report provides a summary of the service review related work that has been completed since the August 3, 2022 LAFCO meeting and the anticipated next steps.

## KICK-OFF MEETINGS WITH TAC & COUNTY FIRE CHIEFS ASSOCIATION

On August 1, 2022, LAFCO staff and AP Triton held a project kick-off meeting with the Technical Advisory Committee (TAC) to introduce the new consultant team, review key steps and timeline, discuss the data collection process, review required service review determinations, discuss and finalize the proposed evaluation criteria for service review determinations, and receive feedback and answer questions. Affected agencies and stakeholders were invited to and attended the TAC meeting.

On August 3, 2022, LAFCO staff and AP Triton attended the Santa Clara County Fire Chiefs' Association meeting and discussed the data request for the service review and provided an overview of the data submittal process to the Fire Chiefs.

## DATA COLLECTION NEARING COMPLETION AND AGENCY DATA VERIFICATION BEGINNING

In early August 2022, AP Triton began their data collection process which will result in the creation of a service provider validated profile for each agency. AP Triton set up a custom data portal for each agency and followed up with each agency to answer any questions and offer their assistance. However, it has taken affected agencies longer than expected to provide the requested data. A key part of the data collection process is collecting and collating data from each fire agency's CAD system in order to analyze demand for service and other metrics.

This process has also taken longer than expected due to number of separate and unique CAD systems that exist in the county. These delays have affected the overall project schedule, as discussed further in the section below.

Although the data collection process has involved a lot of staff time for the fire agencies, AP Triton has received positive feedback on the process, with one Fire Chief noting that the “formats were awesome and made the work much easier than previous consultants”.

## PROJECT DELAYS AND NECESSARY REVISION OF PROJECT SCHEDULE

As discussed above, the data collection process and collating of CAD data has taken substantially longer than anticipated. Additionally, many of the AP Triton team have fallen sick and are still recovering from the current wave of winter viruses. This has resulted in an overall need to push the project schedule back by several weeks and to sync the revised schedule with the regular LAFCO meetings held on the first Wednesday of even months. LAFCO staff and AP Triton have jointly agreed on a revised schedule that includes the following key steps and timeline:

- Consultant collects data from service providers: August – Nov. 2022
- Consultant prepares findings and presents them to LAFCO staff and TAC: December 2022 – February 2023
- Consultant prepares Draft Service Review Report: February – April 2023
- LAFCO releases Draft Report for public review and comment: May 2023
- Community workshops on Draft Report: May – June 2023
- LAFCO public hearing on Draft Report: Early August 2023
- LAFCO releases Revised Draft Report for public review and comment: late August 2023
- LAFCO public hearing to adopt Final Report: Early October 2023
- Publication of Adopted Final Report: October 2023

## NEXT STEPS

With data collection nearing completion, AP Triton has begun preparing draft profiles for affected agencies that have complete data sets. LAFCO staff has reviewed and provided initial comments on a draft profile for a city which will serve as a template for other profiles. LAFCO staff will review and provide comments to AP Triton on the remaining draft profiles as they become available. After which, AP Triton will send each affected agency their draft profile for final verification. AP Triton will use the verified profiles to conduct their analysis and prepare preliminary findings for LAFCO staff’s review. AP Triton will then present their preliminary findings to the TAC at a meeting anticipated to be held in February 2023, before preparing the Draft Report. Staff will continue to provide the Commission with updates on this project as it progresses.

**ITEM # 9**

SANTA CLARA LAFCO

**Local Agency Formation Commission of Santa Clara County**

777 North First Street
Suite 410
San Jose, CA 95112

**SantaClaraLAFCO.org**



| | |
|---|---|
| **LAFCO MEETING:** | **December 7, 2022** |
| **TO:** | **LAFCO** |
| **FROM:** | **Neelima Palacherla, Executive Officer**<br>**Mala Subramanian, LAFCO Counsel** |
| **SUBJECT:** | **ADOPTION OF AMENDED CONFLICT OF INTEREST CODE** |

## STAFF RECOMMENDATION

Approve and adopt Resolution No. 2022-11 adopting LAFCO's amended Conflict of Interest Code.

## BACKGROUND

Pursuant to Section 87306.5 of the Political Reform Act (the "Act") the Board of Supervisors, LAFCO'S code-reviewing body, directed LAFCO to conduct a review of its Conflict of Interest Code to determine if a change in the Code was necessitated, file a statement of review with the County no later than October 3, 2022, reflecting the results of that review, and, if necessary, amend LAFCO's Conflict of Interest Code based upon such review and submit it to the Board of Supervisors for approval in accordance with Government Code section 87303.

Staff conducted the biennial review of LAFCO's Conflict of Interest Code as required under Government Code § 87306.5 and as directed by the Board of Supervisors, LAFCO's code-reviewing body. A Conflict of Interest Code designates those employees, members, officers and consultants who make or participate in the making of decisions which may affect financial interests and who must disclose those interests in financial disclosure statements. An amendment is being done to include a modification to a position title.

## ATTACHMENTS

| | |
|---|---|
| Attachment A: | Amended Conflict of Interest Code |
| Attachment B: | Legislative (Redline) Version of Amended Code Showing Changes Made |
| Attachment C: | Resolution of Adoption of Amendment and Clean Version of Amended Code |

ITEM # 9
~~ITEM # 8~~
Attachment A

# CONFLICT OF INTEREST CODE OF THE LOCAL AGENCY FORMATION COMMISSION OF SANTA CLARA COUNTY

The Political Reform Act, California Government Code sections 81000, et seq. (the “Act”), requires each state and local government agency to adopt and promulgate a conflict of interest code. The Fair Political Practices Commission has adopted a regulation (2 California Code of Regulations section 18730), that contains the terms of a standard conflict of interest code, which can be incorporated by reference into an agency’s code. After public notice and hearing Regulation 18730 may be amended by the Fair Political Practices Commission to conform to amendments to the Political Reform Act. Therefore, the terms of 2 California Code of Regulations section 18730 and any amendments to it duly adopted by the Fair Political Practices Commission are hereby incorporated by reference. This incorporation page, Regulation 18730, and the attached Appendix designating positions and establishing disclosure categories, shall collectively constitute the Conflict of Interest Code (the “Code”) of the **Local Agency Formation Commission of Santa Clara County (“LAFCO”)**.

All officials and designated positions shall file their statements of economic interests with the **LAFCO Clerk**, as LAFCO’s Filing Official. If a statement is received in signed paper format, the **LAFCO Clerk** shall make and retain a copy and forward the original of this statement to the filing officer, the County of Santa Clara Clerk of the Board of Supervisors. If a statement is electronically filed using the County of Santa Clara’s Form 700 e-filing system, both the **LAFCO Clerk** and the County of Santa Clara Clerk of the Board of Supervisors will receive access to the e-filed statement simultaneously. The **LAFCO Clerk** will make all retained statements available for public inspection and reproduction during regular business hours. (Gov. Code section 81008.)

Amended per County Counsel Notice dated ____________________, 2022.

Approved by the County of Santa Clara Board of Supervisors Date:________________________

# APPENDIX

## CONFLICT OF INTEREST CODE

## OF THE

## LOCAL AGENCY FORMATION COMMISSION

## OF SANTA CLARA COUNTY

## EXHIBIT 'A'

### OFFICIALS WHO MANAGE PUBLIC INVESTMENTS

LAFCO Officials who manage public investments, as defined by 2 California Code of Regulations section 18700.3, are NOT subject to LAFCO's Code, but must file disclosure statements under Government Code section 87200, et seq. (2 California Code Regulations. §18730(b)(3).) These positions are listed here for informational purposes only.

It has been determined that LAFCO currently has no officials who manage public investments.

# DESIGNATED POSITIONS

# GOVERNED BY THE CONFLICT OF INTEREST CODE

| DESIGNATED POSITIONS' TITLE OR FUNCTION | DISCLOSURE CATEGORY ASSIGNED |
|---|---|
| Commissioner | 1 |
| Alternate Commissioner | 1 |
| Executive Officer | 1 |
| Assistant Executive Officer/Senior LAFCO Analyst | 1 |
| LAFCO Analyst | 1 |
| Consultant | 2 |
| Newly Created Position | * |

***Newly Created Positions**

A newly created position that makes or participates in the making of decisions that may foreseeably have a material effect on any financial interest of the position-holder, and which specific position title is not yet listed in an agency's conflict of interest code is included in the list of designated positions and shall disclose pursuant to the broadest disclosure category in the code, subject to the following limitation: The Executive Officer may determine in writing that a particular newly created position, although a "designated position," is hired to perform a range of duties that are limited in scope and thus is not required to fully comply with the broadest disclosure requirements, but instead must comply with more tailored disclosure requirements specific to that newly created position. Such written determination shall include a description of the newly created position's duties and, based upon that description, a statement of the extent of disclosure requirements. The Executive Officer's determination is a public record and shall be retained for public inspection in the same manner and location as this conflict of interest code. (Gov. Code Section 81008.)

As soon as the Commission has a newly created position that must file statements of economic interests, the Commission shall contact the County of Santa Clara Clerk of the Board of Supervisors Form 700 division to notify it of the new position title to be added in the County's electronic Form 700 record management system, known as eDisclosure. Upon this notification, the Clerk's office shall enter the actual position title of the newly created position into eDisclosure and the Commission shall ensure that the name of any individual(s) holding the newly created position is entered under that position title in eDisclosure.

Additionally, within 90 days of the creation of a newly created position that must file statements of economic interests, the Commission shall update this conflict-of-interest code to add the actual position title in its list of designated positions, and submit the amended conflict of interest code to the County of Santa Clara Office of the County Counsel for code-reviewing body approval by the County Board of Supervisors.  (Gov. Code Sec. 87306.)

# EXHIBIT 'B'

## DISCLOSURE CATEGORIES

The disclosure categories listed below identify the types of economic interests that the designated position must disclose for each disclosure category to which he or she is assigned.

**Disclosure Category 1:** (a) All investments and business positions in business entities, and sources of income, including gifts, loans and travel payments, that are located in, that do business in, or own real property within the jurisdiction of LAFCO; and (b) All interests in real property which is located in whole or in part within, or not more than two miles outside, the jurisdiction of LAFCO, or of any land owned or used by LAFCO.

**Disclosure Category 2:** Individuals serving as a consultant as defined in FPPC Reg 18700.3 must file under the broadest disclosure set forth in this Code subject to the following limitation:

The Executive Officer may determine that, due to the range of duties or contractual obligations, it is more appropriate to designate a limited disclosure requirement. A clear explanation of the duties and a statement of the extent of the disclosure requirements must be in a written document. The Executive Officer's determination is a public record and shall be retained for public inspection in the same manner and location as this Conflict of Interest Code.

ITEM # 9
~~ITEM # 8~~
Attachment B

**CONFLICT OF INTEREST CODE OF THE LOCAL AGENCY FORMATION COMMISSION OF SANTA CLARA COUNTY**

The Political Reform Act, California Government Code sections 81000, et seq. (the "Act"), requires each state and local government agency to adopt and promulgate a conflict of interest code. The Fair Political Practices Commission has adopted a regulation (2 California Code of Regulations section 18730), that contains the terms of a standard conflict of interest code, which can be incorporated by reference into an agency's code. After public notice and hearing Regulation 18730 may be amended by the Fair Political Practices Commission to conform to amendments to the Political Reform Act. Therefore, the terms of 2 California Code of Regulations section 18730 and any amendments to it duly adopted by the Fair Political Practices Commission are hereby incorporated by reference. This incorporation page, Regulation 18730, and the attached Appendix designating positions and establishing disclosure categories, shall collectively constitute the Conflict of Interest Code (the "Code") of the **Local Agency Formation Commission of Santa Clara County ("LAFCO")**.

All officials and designated positions shall file their statements of economic interests with the **LAFCO Clerk**, as LAFCO's Filing Official. If a statement is received in signed paper format, the **LAFCO Clerk** shall make and retain a copy and forward the original of this statement to the filing officer, the County of Santa Clara Clerk of the Board of Supervisors. If a statement is electronically filed using the County of Santa Clara's Form 700 e-filing system, both the **LAFCO Clerk** and the County of Santa Clara Clerk of the Board of Supervisors will receive access to the e-filed statement simultaneously. The **LAFCO Clerk** will make all retained statements available for public inspection and reproduction during regular business hours. (Gov. Code section 81008.)

Amended per County Counsel Notice dated ____________________, 2022.

**Deleted:** 2020

Approved by the County of Santa Clara Board of Supervisors Date:________________________

# APPENDIX

## CONFLICT OF INTEREST CODE

## OF THE

## LOCAL AGENCY FORMATION COMMISSION

## OF SANTA CLARA COUNTY

## EXHIBIT 'A'

### OFFICIALS WHO MANAGE PUBLIC INVESTMENTS

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It has been determined that LAFCO currently has no officials who manage public investments.

## DESIGNATED POSITIONS

## GOVERNED BY THE CONFLICT OF INTEREST CODE

| DESIGNATED POSITIONS' TITLE OR FUNCTION | DISCLOSURE CATEGORY ASSIGNED |
|---|---|
| Commissioner | 1 |
| Alternate Commissioner | 1 |
| Executive Officer | 1 |
| Assistant Executive Officer/Senior LAFCO Analyst | 1 |
| LAFCO Analyst | 1 |
| Consultant | 2 |
| Newly Created Position | * |

***Newly Created Positions**

A newly created position that makes or participates in the making of decisions that may foreseeably have a material effect on any financial interest of the position-holder, and which specific position title is not yet listed in an agency's conflict of interest code is included in the list of designated positions and shall disclose pursuant to the broadest disclosure category in the code, subject to the following limitation: The Executive Officer may determine in writing that a particular newly created position, although a "designated position," is hired to perform a range of duties that are limited in scope and thus is not required to fully comply with the broadest disclosure requirements, but instead must comply with more tailored disclosure requirements specific to that newly created position. Such written determination shall include a description of the newly created position's duties and, based upon that description, a statement of the extent of disclosure requirements. The Executive Officer's determination is a public record and shall be retained for public inspection in the same manner and location as this conflict of interest code. (Gov. Code Section 81008.)

As soon as the Commission has a newly created position that must file statements of economic interests, the Commission shall contact the County of Santa Clara Clerk of the Board of Supervisors Form 700 division to notify it of the new position title to be added in the County's electronic Form 700 record management system, known as eDisclosure. Upon this notification, the Clerk's office shall enter the actual position title of the newly created position into eDisclosure and the Commission shall ensure that the name of any individual(s) holding the newly created position is entered under that position title in eDisclosure.

Additionally, within 90 days of the creation of a newly created position that must file statements of economic interests, the Commission shall update this conflict-of-interest code to add the actual position title in its list of designated positions, and submit the amended conflict of interest code to the County of Santa Clara Office of the County Counsel for code-reviewing body approval by the County Board of Supervisors. (Gov. Code Sec. 87306.)

# EXHIBIT 'B'

## DISCLOSURE CATEGORIES

The disclosure categories listed below identify the types of economic interests that the designated position must disclose for each disclosure category to which he or she is assigned.

**Disclosure Category 1:** (a) All investments and business positions in business entities, and sources of income, including gifts, loans and travel payments, that are located in, that do business in, or own real property within the jurisdiction of LAFCO; and (b) All interests in real property which is located in whole or in part within, or not more than two miles outside, the jurisdiction of LAFCO, or of any land owned or used by LAFCO.

**Disclosure Category 2:** Individuals serving as a consultant as defined in FPPC Reg 18700.3 must file under the broadest disclosure set forth in this Code subject to the following limitation:

The Executive Officer may determine that, due to the range of duties or contractual obligations, it is more appropriate to designate a limited disclosure requirement. A clear explanation of the duties and a statement of the extent of the disclosure requirements must be in a written document. The Executive Officer's determination is a public record and shall be retained for public inspection in the same manner and location as this Conflict of Interest Code.

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**ITEM # 9**
**~~ITEM # 8~~**
**Attachment C**

# RESOLUTION NO. 2022-11

## RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION OF SANTA CLARA COUNTY AMENDING ITS CONFLICT OF INTEREST CODE PURSUANT TO THE POLITICAL REFORM ACT OF 1974

WHEREAS, the State of California enacted the Political Reform Act of 1974, Government Code Section 81000 et seq. (the "Act"), which contains provisions relating to conflicts of interest which potentially affect all officers, employees and consultants of the Local Agency Formation Commission of Santa Clara County ("LAFCO"), and requires all public agencies to adopt and promulgate a Conflict of Interest Code; and,

WHEREAS, LAFCO adopted a Conflict of Interest Code ("Code") which was amended on February 3, 2021, in compliance with Government Code Section 81000 et seq.; and,

WHEREAS, the biennial review of LAFCO's Code was conducted as required under Government Code section 87306.5; and,

WHEREAS, notice of the time and place of a public meeting on, and of consideration by the Commission of, the proposed amended Code was publicly posted for review at the offices of LAFCO; and,

WHEREAS, a public meeting was held upon the proposed amended Code at a regular meeting of the Commission on December 7, 2022, at which all present were given an opportunity to be heard on the proposed amended Conflict of Interest Code.

NOW, THEREFORE, BE IT RESOLVED by the Local Agency Formation Commission of Santa Clara County that the Commission does hereby adopt the proposed amended Conflict of Interest Code, a copy of which is attached hereto and shall be on file with the LAFCO Clerk and available for inspection to the public during regular business hours; and,

BE IT FURTHER RESOLVED that the said amended Conflict of Interest Code shall be submitted to the Board of Supervisors of the County of Santa Clara for approval and said amendment shall become effective immediately upon approval by the Board of Supervisors.

APPROVED AND ADOPTED this 7th day of December, 2022.

________________________________

Chairperson
Local Agency Formation Commission
of Santa Clara County

ATTEST:

________________________________

Clerk to the Commission
Local Agency Formation Commission
of Santa Clara County

# CONFLICT OF INTEREST CODE OF THE LOCAL AGENCY FORMATION COMMISSION OF SANTA CLARA COUNTY

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Amended per County Counsel Notice dated ____________________, 2022.

Approved by the County of Santa Clara Board of Supervisors Date:________________________

# APPENDIX

## CONFLICT OF INTEREST CODE

## OF THE

## LOCAL AGENCY FORMATION COMMISSION

## OF SANTA CLARA COUNTY

## EXHIBIT 'A'

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LAFCO Officials who manage public investments, as defined by 2 California Code of Regulations section 18700.3, are NOT subject to LAFCO's Code, but must file disclosure statements under Government Code section 87200, et seq. (2 California Code Regulations. §18730(b)(3).) These positions are listed here for informational purposes only.

It has been determined that LAFCO currently has no officials who manage public investments.

# DESIGNATED POSITIONS

# GOVERNED BY THE CONFLICT OF INTEREST CODE

| DESIGNATED POSITIONS' TITLE OR FUNCTION | DISCLOSURE CATEGORY ASSIGNED |
|---|---|
| Commissioner | 1 |
| Alternate Commissioner | 1 |
| Executive Officer | 1 |
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| LAFCO Analyst | 1 |
| Consultant | 2 |
| Newly Created Position | * |

***Newly Created Positions**

A newly created position that makes or participates in the making of decisions that may foreseeably have a material effect on any financial interest of the position-holder, and which specific position title is not yet listed in an agency's conflict of interest code is included in the list of designated positions and shall disclose pursuant to the broadest disclosure category in the code, subject to the following limitation: The Executive Officer may determine in writing that a particular newly created position, although a "designated position," is hired to perform a range of duties that are limited in scope and thus is not required to fully comply with the broadest disclosure requirements, but instead must comply with more tailored disclosure requirements specific to that newly created position. Such written determination shall include a description of the newly created position's duties and, based upon that description, a statement of the extent of disclosure requirements. The Executive Officer's determination is a public record and shall be retained for public inspection in the same manner and location as this conflict of interest code. (Gov. Code Section 81008.)

As soon as the Commission has a newly created position that must file statements of economic interests, the Commission shall contact the County of Santa Clara Clerk of the Board of Supervisors Form 700 division to notify it of the new position title to be added in the County's electronic Form 700 record management system, known as eDisclosure. Upon this notification, the Clerk's office shall enter the actual position title of the newly created position into eDisclosure and the Commission shall ensure that the name of any individual(s) holding the newly created position is entered under that position title in eDisclosure.

Additionally, within 90 days of the creation of a newly created position that must file statements of economic interests, the Commission shall update this conflict-of-interest code to add the actual position title in its list of designated positions, and submit the amended conflict of interest code to the County of Santa Clara Office of the County Counsel for code-reviewing body approval by the County Board of Supervisors. (Gov. Code Sec. 87306.)

# EXHIBIT 'B'

## DISCLOSURE CATEGORIES

The disclosure categories listed below identify the types of economic interests that the designated position must disclose for each disclosure category to which he or she is assigned.

**Disclosure Category 1:** (a) All investments and business positions in business entities, and sources of income, including gifts, loans and travel payments, that are located in, that do business in, or own real property within the jurisdiction of LAFCO; and (b) All interests in real property which is located in whole or in part within, or not more than two miles outside, the jurisdiction of LAFCO, or of any land owned or used by LAFCO.

**Disclosure Category 2:** Individuals serving as a consultant as defined in FPPC Reg 18700.3 must file under the broadest disclosure set forth in this Code subject to the following limitation:

The Executive Officer may determine that, due to the range of duties or contractual obligations, it is more appropriate to designate a limited disclosure requirement. A clear explanation of the duties and a statement of the extent of the disclosure requirements must be in a written document. The Executive Officer's determination is a public record and shall be retained for public inspection in the same manner and location as this Conflict of Interest Code.

ITEM # 10

## 2023 SCHEDULE OF LAFCO MEETINGS AND APPLICATION FILING DEADLINES

| LAFCO MEETING | DEADLINE TO FILE APPLICATION |
|---|---|
| February 1, 2023 | December 8, 2022 |
| April 5, 2023 | February 2, 2023 |
| June 7, 2023 | April 6, 2023 |
| August 2, 2023 | June 8, 2023 |
| October 4, 2023 | August 3, 2023 |
| December 6, 2023 | October 5, 2023 |

| | |
|---|---|
| TIME OF MEETINGS | 1:15 PM |
| LOCATION OF MEETINGS | Board of Supervisors' Chambers<br>70 West Hedding Street<br>San Jose, CA 95110 |
| APPLICATION MAILING ADDRESS | LAFCO Office<br>777 North First Street, Suite 410<br>San Jose, CA 95112<br>(408) 993-4705 |

**ITEM # 11**

SANTA CLARA **LAFCO**

**Local Agency Formation Commission of Santa Clara County**

777 North First Street
Suite 410
San Jose, CA 95112

**SantaClaraLAFCO.org**



**LAFCO MEETING:** **December 7, 2022**

**TO:** **LAFCO**

**FROM:** **Neelima Palacherla, Executive Officer**
**Dunia Noel, Asst. Executive Officer**

**SUBJECT:** **EXECUTIVE OFFICER'S REPORT**

## STAFF RECOMMENDATION

Accept reports and provide direction, as necessary.

## 11.1 UPDATE ON LAFCO CLERK RECRUITMENT

At the August 3, 2022 LAFCO Meeting, LAFCO directed staff to work with the County to recruit for and fill the vacant LAFCO Clerk position. As staff reported, the recruitment process was anticipated to take up to 3 months to complete, as there are many steps involved in the process, particularly since this is the first time that a recruitment will be held for this unique classification.

In late August 2022, LAFCO staff met with the County staff that assists in the recruitment process in order to coordinate the recruitment process for a LAFCO Clerk and to discuss next steps. Following that meeting, County staff informed LAFCO staff that the LAFCO Clerk position was deleted as part of the implementation of the recommendations of the County's Classification Study. It is unclear why and how this occurred, as the deletion was not requested by LAFCO and not recommended in the County's Classification Study.

LAFCO staff has requested that the County find a way to resolve this issue as soon as possible, so that LAFCO can begin the recruitment process for a LAFCO Clerk.

## 11.2 LETTER ON NOTICE OF PREPARATION FOR COUNTY OF SANTA CLARA HOUSING ELEMENT EIR

On September 8, 2022, LAFCO staff sent a comment letter to the County Planning Office in response to the Notice of Preparation (NOP) that LAFCO received on the EIR for County of Santa Clara Housing Element & Stanford Community Plan Update.

The County is seeking input on the scope and content of environmental information to be included for the proposed project. At this time it is unclear whether LAFCO is a Responsible Agency under CEQA for the County's project. If it is determined that

LAFCO is a Responsible Agency under CEQA, LAFCO will be required to use the County's EIR when considering LAFCO proposals. Please see **Attachment A** for letter.

## 11.3 SANTA CLARA COUNTY ASSOCIATION OF PLANNING OFFICIALS MEETING

EO Palacherla and Asst. EO Noel attended the November 2, 2022 virtual meeting of the Santa Clara County Association of Planning Officials (SCCAPO). The meeting included a presentation from Santa Clara Valley Water District staff on guidelines and standards for land use near creeks; a check-in with cities on their Housing Element work, including comment letters from and meetings with the State HCD staff; a discussion of agencies' work plan items for 2023 and how agencies can support each other in those efforts; and a discussion on Planning Collaborative/Bay Area Metro Topics and future SCAAPO agenda items and hosts. Lastly, attendees provided updates on planning and development-related issues in their individual jurisdictions.

## 11.4 INTER-JURISDICTIONAL GIS WORKING GROUP MEETING

Asst. EO Noel attended the September 14, 2022 Inter-Jurisdictional GIS Working Group Meeting which was hosted virtually. This group includes various County departments that use and maintain GIS data, particularly LAFCO-related data. The group received a brief update on County Technology Services and Solutions' (TSS') parcel fabric migration project, an effort to improve the parcel base map of the County and move existing data to the new GIS coordinate system; and discussed a recent request to update various parts of the County's website to reflect the new supervisorial district boundaries and associated 2020 Census demographic data for each supervisorial district, County Procurement Department's questions and concerns about plans to amend/renew the County's existing ESRI GIS License, and future meeting dates and times. Attendees also provided individual updates to the group on relevant GIS matters.

## ATTACHMENT

| | |
|---|---|
| Attachment A: | Comment Letter on NOP of an EIR for the County of Santa Clara Housing Element & Stanford Community Plan Update (dated September 8, 2022) |

ITEM # 11
Attachment A

SANTA CLARA LAFCO

**Local Agency Formation Commission of Santa Clara County**
777 North First Street
Suite 410
San Jose, CA 95112
**SantaClaraLAFCO.org**



September 8, 2022 **VIA E-MAIL** [Planning2@pln.sccgov.org]

Bharat Singh, Principal Planner
County of Santa Clara, Planning Office
County Government Center
70 West Hedding Street, 7th Floor, East Wing
San Jose, CA 95110

**RE: Notice of Preparation of an Environmental Impact Report for the County of Santa Clara Housing Element & Stanford Community Plan Update**

Dear Mr. Singh:

Thank you for sending the Local Agency Formation Commission of Santa Clara County (LAFCO) a copy of the Notice of Preparation (NOP) of an Environmental Impact Report for the County of Santa Clara Housing Element & Stanford Community Plan Update via email on August 8, 2022 and for providing us with an opportunity to comment on the NOP. As generally described in the NOP, the project would make updates to the County's General Plan, including updates to the General Plan's Housing Element, the Stanford Community Plan, and amendments to other elements of the General Plan. More specifically:

The Housing Element Update would identify sites appropriate for the development of multifamily housing, and the County would rezone those sites as necessary to meet the requirements of State law. The County also proposes to create affordable housing and farmworker housing overlay zones based on the identification of High Opportunity Areas (for affordable housing), and access to amenities and services (for farmworker housing), which would facilitate more streamlined approval for such projects. Several updates to the Stanford Community Plan are also proposed.

And a number of amendments to other elements of the General Plan would be required to fully conform those elements to changes made in the Housing Element and Stanford Community Plan Update. The County would amend its Land Use Element and General Plan Land Use Designations map as needed to reflect the Housing Sites Inventory and would make any corresponding changes to other elements of the General Plan needed to ensure internal consistency within the General Plan as a whole, including the updated Housing Element.

LAFCO offers the following comments for the County's consideration:

**Project Description Concerns**

The project description in the NOP is inaccurate. As described, the proposed project is inconsistent with the long-standing fundamental growth management policies (Countywide Urban Development Policies) adopted jointly by LAFCO, the County, and the 15 Cities and presents foreseeable difficulties in implementation, such as the provision of urban services in rural areas (i.e. water, sewer, police, fire, emergency medical response, stormwater, etc.). Please see **Attachment A** for the Countywide Urban Development Policies (affirmed by Santa Clara LAFCO on April 6, 2022).

Furthermore, the project description is very general in nature and does not describe the challenges and obstacles to what the County is proposing.

The NOP includes information that is inaccurate. For example, the NOP (page 5, 2nd paragraph) states that "The HEU would perpetuate the County's fundamental policies regarding growth management and the accommodation of urban development within cities' urban service area (i.e. areas planned for urbanization)." However, the NOP (page 5, 4th paragraph) then states that "the County is considering using a limited number of sites within rural areas…" As is known, these rural areas are located outside of cities' urban service areas (i.e. not planned for urbanization and not approved for annexation to a city). Therefore, the County's proposed project (Housing Element Update and associated actions) <u>would not</u> perpetuate the County's fundamental policies regarding growth management and do the exact opposite in terms of promoting urban development in these rural areas. This inaccuracy could result in unintentionally misleading the reader.

The impact of the County abandoning these long-standing fundamental policies should be thoroughly analyzed in the EIR. Such an analysis would lay out a number of difficulties (absent or inadequate urban services, infrastructure and public facilities, etc.) and adverse environmental impacts (loss of or risk to farmlands and open space, increase in GHG emissions, promotion of urban sprawl, etc.).

**Buffer**

Please clarify how much buffer the County is planning to provide in terms of its housing element inventory. It is our understanding that the State Department of Housing and Community Development (HCD) recommends that jurisdictions create a buffer of at least 15 to 30 precent.

**Proposed Changes to County Zoning Designations and General Plan Designations**

Please clarify whether the County is proposing to change the Zoning designation and General Plan designation for each Housing Opportunity Site. If so, please explain what specific changes are being proposed and for which specific sites, what the anticipated net effect would be in terms of number of units of housing; and identify and analyze the resultant environmental impacts.

## Proposed Text Changes to General Plan and Zoning Ordinance

Please identify the specific changes (texts that will be revised, removed, or added) that the County proposes to make to the County's General Plan and County's Zoning Ordinance.

## Maps & Tables of Proposed Housing Opportunities Sites

Please include city urban service area boundaries on all maps showing the identified Housing Opportunity Site Maps.

Please provide more detailed maps (at a larger scale) of all proposed Housing Opportunity Sites, showing current city boundaries (city limits and city urban service areas) in the vicinity of the site(s).

When providing tables identifying the proposed Housing Opportunity Sites, please include a column indicating whether the site is located inside or outside of a city urban service area. Furthermore, please include a column that includes information that allows the reader to cross reference a specific proposed housing opportunity site with a specific site on a map. The inclusion of the abovementioned information would assist readers in understanding the specific sites that the County has identified.

## Identification of Responsible Agencies

Please clarify if LAFCO is a Responsible Agency as it relates to the EIR. If so, please indicate the types of LAFCO approvals that the County anticipates seeking. We also suggest that an additional section be included in the Draft EIR briefly identifying all Responsible Agencies for the EIR and providing brief information on the types of approvals or permits that the County anticipates seeking from the identified agencies.

Please also clarify whether the County anticipates tiering from the EIR for potential projects that require LAFCO approval and whether the County anticipates other jurisdictions tiering from the EIR for potential projects that require LAFCO approval.

## Project Alternatives

Several of the parcels identified in Table 2 – Housing Opportunity Sites Inventory are located outside of City Urban Services Areas [i.e. parcels identified as Rural (Gilroy) and Rural (Morgan Hill)]. We request that the County evaluate a project alternative that plans for anticipated future growth solely within existing cities' Urban Service Areas. It is important that County thoroughly consider and analyze this alternative, as it is the only alternative that is consistent with the long-standing jointly adopted Countywide Urban Development Policies, County General Plan, and the goals of Plan Bay Area 2050; and would help to minimize climate change risks.

The County has identified a limited number of Housing Opportunity Sites within San Jose's urban service area. Given the large amount of land located within San Jose's urban service area, it is unclear why the County has not identified more housing opportunity sites within San Jose's urban service area. Please explain how these sites were selected and why other sites were not.

In order to meet their Housing Element Update goals, the County should pursue strategies to increase the efficient use of sites within cities' Urban Service Areas, which would be consistent with County General Plan Policies, the Countywide Urban Development Policies, and Plan Bay Area goals, and would result in less significant environmental impacts.

## Conclusion

We support the goal of developing more housing in Santa Clara County and encourage the County to locate housing development on lands that are already within cities' Urban Services Areas so that these lands can be annexed and effectively be served by cities. We have shared this information with County staff in prior discussions and correspondence over the last several months.

We respectfully request that the County consider the comments presented in this letter. If you have any questions regarding this letter, please contact Dunia Noel, at (408) 993-4704. Thank you again for providing us with this opportunity.

Sincerely,

NPalacherla

Neelima Palacherla
LAFCO Executive Officer

Cc: LAFCO Members
Jacqueline Onciano, Director, Santa Clara County Dept. of Planning & Development

**Enclosure:**
Attachment A: Countywide Urban Development Policies

# COUNTYWIDE URBAN DEVELOPMENT POLICIES

## 1.1 INTRODUCTION

In the early 1970s, LAFCO, the County, and the 15 cities adopted[1] a set of fundamental growth management policies known as the Countywide Urban Development Policies (CUDPs). This pioneering and cooperative effort to guide future growth and development in Santa Clara County established jurisdictional roles, responsibilities, and regulatory systems for the timing and location of urban development. Its most central policy required urban growth and development to be located within cities and for unincorporated lands outside cities to remain rural.

Today, the CUDPs remain the foundation of all LAFCO policies, and of the cities' and County general plans. Furthermore, they serve as a living example of how collaboration between LAFCO, the County, and the cities, built on sound planning and growth management principles, help to discourage urban sprawl, preserve agricultural and open space lands, and promote efficient urban services delivery.

In the years immediately following their adoption, the CUDPs were documented in various adopted plans. These included the County's 1973 Urban Development/Open Space Plan, a countywide element of its general plan, and various general plans of the cities. The CUDPs formed the fundamental basis for the County's first consolidated 1980 County General Plan, and today, these policies are carried forward in the current Santa Clara County General Plan, the Envision San Jose 2040 General Plan, and are reflected in portions of most other cities' general plans.

These fundamental policies were incorporated and interwoven into various LAFCO policies over the years, forming an inseparable part of LAFCO law and policy for Santa Clara County. Given their long-term significance and ongoing applicability to planning and decision making in the future, this chapter provides an authoritative definition of the oft-referenced CUDPs, and comprehensively documents their history and their ongoing beneficial impacts.

## 1.2 HISTORY

When LAFCO was created in 1963, Santa Clara County was experiencing dramatic growth in population and economic development; however, it lacked a system to plan for the needs of the rapidly growing population and to manage the unbridled competition between the cities and County for territory and tax base. Annexation wars raged as cities competed with each other for land to meet growth needs exclusively by means of expansion, while the County, which still had a major percentage of the territorial jurisdiction of the North Valley, also allowed subdivisions and commercial development wherever possible. Cities

[1] LAFCO adopted the CUDPs on December 1, 1971; the County Board of Supervisors adopted them on January 12, 1972; and the cities adopted them between December 1971 and April 1972.

leapfrogged over undeveloped lands and annexed long, narrow strips of land along public roads in order to annex farmlands whose owners were seeking to develop.

This period of the county's history caused significant jurisdictional fragmentation and transformed the natural landscape. Some cities pursued defensive annexations in order to block other cities from annexing lands in their vicinity. Seeking to avoid annexation by nearby cities, many landowners and residents incorporated as new cities. In the decade leading up to 1963, seven new cities were formed, and by 1963 there were 63 special districts in existence (not including school districts). The proliferation of special districts provided specialized municipal services (e.g. sewer/sanitation, water, fire protection) to new urban development, with resultant fragmentation and duplication of utilities and urban services.

This disorderly, unmanaged growth also resulted in rapid conversion of productive farmland to urban and suburban land uses, and by the early 1960s much of the farmland in the northern part of the county was urbanized. The county once known as the "Valley of Heart's Delight," with fruit orchards and farms spanning the valley floor, could best be described as a sprawling patchwork of development, with fragmented services and illogical jurisdictional boundaries that were difficult and costly to serve.

As the economic and environmental costs of sprawl began to be better understood, a cooperative, solution-oriented approach was sought. LAFCO took the lead, and in 1967 adopted "boundary agreement lines" that served as a "cease fire" solution to the annexation wars. These boundary agreement lines, (originally called Spheres of Influence) as agreed to by the cities, divided the entire county into 15 separate areas and defined which lands could potentially be annexed into each of the cities. These agreements, now superseded by the function of Urban Service Areas (USA) and Spheres of Influence, provided a stable foundation for LAFCO, the 15 cities and the County to then discuss how to manage urban development in the county for the long term. Those discussions soon led to the development of a countywide policy framework through an unprecedented system of intergovernmental planning and cooperation, when LAFCO, the County and the 15 cities jointly adopted the Countywide Urban Development Policies.

## 1.3 COUNTYWIDE URBAN DEVELOPMENT POLICIES

The intent of adopting the CUDPs was for LAFCO, the County, and cities to establish a mutually agreed upon and long-term system to sustainably manage growth on a countywide basis. The CUDPs identify the distinct roles and expectations regarding the service responsibilities of the cities versus the county. They allow for urbanization in a manner that will accommodate the development goals of individual communities while conserving the natural resources of the county as a whole. They promote efficient and effective delivery of community services for existing and future residents/taxpayers, and they provide a stable and predictable foundation that allows for cooperative intergovernmental relations.

In brief, the fundamental CUDPs are stated as follows:

1. Urban development should occur, and urban services should be provided only on lands annexed to cities – and not within unincorporated areas, urban or rural.
2. Urban expansion should occur in an orderly, and planned manner – with cities responsible for planning and providing services to urban development within

explicitly adopted Urban Service Areas (USA) whose location and expansion is subject to LAFCO approval authority.

3. Urban unincorporated islands within USAs should eventually be annexed into their surrounding cities, so that cities have the responsibility for urban services and land use authority over all lands within their USA boundaries.

## 1.4 IMPLEMENTATION OF THE COUNTYWIDE URBAN DEVELOPMENT POLICIES

The CUDPs established important mutual commitments between the County and the 15 cities regarding timing and location of urban development. Implementation of these policies occurred by means of an evolving collaborative partnership between cities, the County, and LAFCO.

The **County** agreed to no longer compete with the cities for new urban development and undertook a series of actions to fulfill its commitment to the CUDPs. For lands outside city USAs, the County adopted its 1980 General Plan with land use plan designations and zoning districts that significantly limited allowable uses and densities of development, typically with minimum lot sizes of 20 acres per parcel up to 160 acres per parcel.

For lands within USAs, as early as in 1975, the County approved ordinances and adopted referral procedures that provided the opportunity for a city to annex lands within unincorporated islands as a pre-requisite to proposed new urban development. The County also amended its development ordinances and policies to require that discretionary land use approvals such as subdivisions, zone changes, and use permits within city USAs conform to the general plans of the cities.

The **cities** assumed full responsibility to plan for and accommodate needed urban growth and prepared USA maps identifying lands they intended to annex in order to develop and provide urban services within 5 years. The cities submitted their proposed USA boundaries to LAFCO for approval and committed to annex lands within the USA, including unincorporated islands, which were generally the result of past annexation practices and the annexation wars.

LAFCO conducted hearings and adopted the USA boundaries for each of the 15 cities on the following dates.

| | |
|---|---|
| Campbell | November 1, 1972 |
| Cupertino | March 4, 1973 |
| Gilroy | December 6, 1972 |
| Los Altos | June 6, 1973 |
| Los Altos Hills | January 3, 1973 |
| Los Gatos | April 4, 1973 |
| Milpitas | December 6, 1972 |
| Monte Sereno | December 6, 1972 |
| Morgan Hill | October 4, 1972 |
| Mountain View | February 7, 1973 |
| Palo Alto | April 4, 1973 |

| | |
|---|---|
| San Jose | October 4, 1972 |
| Santa Clara | November 1, 1972 |
| Saratoga | March 4, 1973 |
| Sunnyvale | December 6, 1972 |

**LAFCO** then became responsible for decision-making regarding future modifications to the cities' USA boundaries, in order to achieve the mutual goals that these policies established, such as agricultural land preservation, hillside preservation, and orderly, efficient and sustainable growth patterns. LAFCO's role in this regard is unique to Santa Clara County and is codified in state law.

From their inception to today, the CUDPs are essential and integral to all other LAFCO goals and policies. Therefore, LAFCO formally recognizes and affirms the CUDPs as the foundation of land use planning in Santa Clara County and all related policy and decision-making.

## 1.5 LASTING BENEFITS OF THE COUNTYWIDE URBAN DEVELOPMENT POLICIES

Collaborative implementation of and steadfast commitment to these policies have made Santa Clara County a much more livable, sustainable place than it would otherwise have become. The CUDPs and their systematic approach to managing urban growth have benefited the county as a whole and all its residents in multiple and mutually-reinforcing ways to promote:

- **Sustainable Growth:** ensuring sustainability and livability of communities by ensuring quality of life is not sacrificed to disorderly growth;
- **Fiscal Responsibility and Resiliency:** minimizing costs to taxpayers for public infrastructure and services through compact growth;
- **Environmental Stewardship:** safeguarding air and water quality, wildlife habitat, and water supply reservoir watersheds, and preventing loss of public open space assets critical to ecological balance;
- **Affordable and Responsibly-Located Housing:** promoting complete and efficient use of existing urbanized lands within cities, building within rather than outward, resulting in more cost efficient housing opportunities close to transit and services;
- **Transportation Options:** reducing sprawl and promoting compact development to reduce traffic demand generated by outward growth, emissions and pollution from vehicles, reduce longer commute distances, and encouraging urban densities supportive of transit solutions;
- **Open Space and Farmland Preservation:** protecting open space, parklands, hillsides and farmlands from premature and/or unwarranted development.

Taken together, all of these beneficial outcomes are part of the future-oriented approach recognized as being necessary to address the potentially disastrous effects of increasing greenhouse gas emissions and climate change.

For example, the CUDP's framework focuses urban development within cities, while preserving non-urban, open space areas such as the mountains that ring the north and south valley, as well as the remaining agricultural lands outside cities. In the last few decades, many cities' policies have evolved to accommodate tens of thousands in population growth within their existing boundaries rather than covering vast areas of land with low density sprawl. As a result, even with substantial growth in the county's population and economy since the CUDPs were adopted, the county's urban footprint has remained largely unchanged.

The CUDPs have been critical to the county's ability to protect and preserve open space. Only 23% of the county's total land area is within cities' USAs, while accounting for an overwhelming majority (95%) of the county's 2 million residents. This growth pattern has allowed open space districts and conservation agencies to better protect open space lands outside the urbanized areas. Nearly 30% of the county's land area is now comprised of protected open space lands or land that is under conservation easements.

Implementing the CUDPs has significantly contributed to fiscal efficiency and cost savings to taxpayers. Over the years, LAFCO, the cities, and the County have facilitated the annexation of hundreds of unincorporated islands to their surrounding cities. Today there are far fewer islands and far fewer special districts providing services, reducing the inefficiencies of fragmented service and land use responsibilities, and resulting in more efficient delivery of public services at lower costs to taxpayers.

Furthermore, the CUDPs form the foundation of the plans and functions of many local and regional agencies working to create sustainable communities and landscapes. For example, the CUDP concepts continue to inform countywide climate resiliency and sustainability planning, as well as the work of the following:

- the land acquisition and preservation strategies of many agencies involved in open space and farmland preservation, such as the Santa Clara Valley Open Space Authority, Midpeninsula Regional Open Space District, Peninsula Open Space Trust, and others;
- the transportation planning and investment strategies of the Metropolitan Transportation Commission and the County's Valley Transportation Authority;
- the regional housing needs allocations made by the Association of Bay Area Governments;
- the Santa Clara Valley Water District's water supply planning; and
- the work of many non-profit organizations to promote social equity, affordable housing, and environmental justice.

When created nearly five decades ago, Santa Clara County's growth management system was recognized widely as a national pioneer and paradigm of cooperative regional planning for growth management, and its policies and successes have been adopted elsewhere with local variations. Today, the CUDP's systematic planning principles are crucial to and consistent with climate-smart growth policy and climate resiliency concepts that have taken shape in the last 20 to 30 years. They form the critical foundation of most regional planning and decision-making in Santa Clara County, not just for today but into the foreseeable future, as originally intended.

ITEM # 12

SANTA CLARA LAFCO

**Local Agency Formation Commission of Santa Clara County**
777 North First Street
Suite 410
San Jose, CA 95112
**SantaClaraLAFCO.org**



**LAFCO MEETING:** **December 7, 2022**

**TO:** **LAFCO**

**FROM:** **Neelima Palacherla, Executive Officer**
**Dunia Noel, Asst. Executive Officer**

**SUBJECT:** **CALAFCO RELATED ACTIVITIES**

## STAFF RECOMMENDATION

Accept reports and provide direction, as necessary.

## REPORT ON THE 2022 CALAFCO ANNUAL CONFERENCE

Commissioner Constantine and Commissioner Jimenez attended this year's CALAFCO Annual Conference which was held at the Hyatt Regency at John Wayne Airport in Newport Beach from October 19 - October 21. The annual conference's theme was *CALAFCO 50+1 Years - A Golden Era in the Golden State* and provided an opportunity for LAFCOs across the state to share some of their best practices and learn new techniques and approaches from other LAFCOs.

### Summary of Conference Program

In addition to the pre-conference session entitled "Building on the Basics of LAFCO"; the program for the first day of the conference included two general sessions entitled "Municipal Service Reviews: It's a Brand-New Ballgame"; and "How I Learned to Stop Worrying and Love Fire District Consolidations." Commissioners Constantine and Jimenez attended a mobile workshop entitled "It's a Shore Thing: Navigating Municipal Service Delivery Within Coastal Areas." As part of the mobile workshop, attendees visited and learned about the history, features, and jurisdiction of the Harbor and about various multi-agency projects. Representatives from the City of Newport Beach, Capistrano Bay CSD, and South Coast Water District discussed their challenges to provide services within a coastal community and their multi-agency collaboration efforts to support efficient and effective service delivery.

Thursday's program included regional caucus meetings and elections, commissioner and staff roundtable discussions organized by region, and breakout sessions including "Recruitment and Succession Planning: Preparing for Future LAFCO Leaders, Today"; "Dangerous Currents! Recognizing and Avoiding Conflicts of Interest"; "Grand Juries & LAFCO: Why Can't We be Friends"; and "The Definitive

Session on Pensions: LAFCO's Two-fold Responsibility to Take Care of Its Own and Review Agencies."

Friday's program included general sessions on "Over the Hill LAFCO Commission Hearing on the Proposal to Dissolve the Over the Hill Fire District" (a mock case study); and the "CALAFCO Legislative Update." CALAFCO has posted all conference presentation materials and handouts on its website at www.calafco.org.

The 2023 CALAFCO Annual Conference is scheduled for October 18-20, 2023 at the Hyatt Regency in Monterey.

SANTA CLARA
LAFCO

Local Agency Formation Commission
of Santa Clara County

# RESOLUTION OF COMMENDATION

WHEREAS, Rich Constantine, appointed by the County of Santa Clara Cities Selection Committee, served on the Local Agency Formation Commission of Santa Clara County (LAFCO) as a Commissioner from May 2020 to December 2022; and

WHEREAS, Rich Constantine has committed himself to uphold the principles of LAFCO to prevent urban sprawl, to promote orderly growth and development, to ensure the efficient delivery of services, and to protect agricultural and open space lands; and

WHEREAS, Rich Constantine served as Chairperson of LAFCO in 2022, and has supported the Commission's efforts to increase visibility and public awareness of LAFCO and its role and responsibility in promoting orderly growth and good governance in Santa Clara County; and

WHEREAS, Rich Constantine, as Chairperson, has provided leadership and sound counsel in support of LAFCO's ongoing Countywide Fire Service Review; and

WHEREAS, Rich Constantine has played a significant role in LAFCO's efforts to provide greater oversight of special districts in order to improve their public accountability and transparency; and

WHEREAS, Rich Constantine has demonstrated thought and insight in his role as a Commissioner and has added a unique perspective to LAFCO by virtue of his tenure as Mayor of Morgan Hill from January 2019 to December 2022, past tenure on the Morgan Hill City Council, and his many contributions to the preservation of agricultural lands and open space which help create inclusive, livable, and sustainable communities; and

NOW THEREFORE, BE IT RESOLVED that the Local Agency Formation Commission of Santa Clara County does hereby commend and honor

## RICH CONSTANTINE

and expresses its sincere gratitude and appreciation for his nearly three years of dedicated service to LAFCO and extends its best wishes to Rich for the future.

PASSED AND ADOPTED, on this Seventh Day of December, Two Thousand and Twenty-Two by unanimous vote.

**COMMISSIONERS**

Chairperson

SANTA CLARA LAFCO

Local Agency Formation Commission
of Santa Clara County

# Resolution of Commendation

WHEREAS, Linda J. LeZotte was the first special district member to be appointed by the Santa Clara Valley Water District to serve as a Commissioner on the Local Agency Formation Commission (LAFCO), serving from January 2013 to February 2017, and from January 2019 to January 2021, and from February 2022 to November 2022; and

WHEREAS, Linda J. LeZotte previously served on LAFCO as an appointee of the City of San Jose from February 2001 to December 2006; and

WHEREAS, Linda J. LeZotte has committed herself to uphold the principles of LAFCO to prevent urban sprawl, to promote orderly growth and development, to ensure the efficient delivery of services, and to protect agricultural and open space lands; and

WHEREAS, Linda J. LeZotte served as Chairperson of LAFCO in 2015, and has supported the Commission's efforts to increase visibility and public awareness of LAFCO and its role and responsibility in promoting orderly growth and good governance in Santa Clara County; and

WHEREAS, Linda J. LeZotte served on LAFCO's Finance Committee for two years, and was involved in the development of LAFCO's annual budget and in the initiation of LAFCO's comprehensive organizational assessment study; and served on the Technical Advisory Committees for LAFCO's 2013 Special Districts Service Review, and 2015 Cities Service Review; and

WHEREAS, Linda J. LeZotte has played a significant role in LAFCO's efforts to provide greater oversight of special districts in order to improve their public accountability and transparency; and

WHEREAS, Linda J. LeZotte has demonstrated thought and insight in her role as a Commissioner and has added a unique perspective to LAFCO by virtue of her tenure with the Santa Clara Valley Water District from November 2010 to November 2022, past tenure on the San Jose City Council, and her many contributions to the preservation of agricultural lands and open space which help create inclusive, livable, and sustainable communities; and

NOW THEREFORE, BE IT RESOLVED that the Local Agency Formation Commission of Santa Clara County does hereby commend and honor

## LINDA J. LEZOTTE

and expresses its sincere gratitude and appreciation for her seven years of dedicated service to LAFCO and extends its best wishes to Linda for the future.

PASSED AND ADOPTED, on this Seventh Day of December, Two Thousand and Twenty-Two by unanimous vote.

**COMMISSIONERS**

________________________
Chairperson

________________ ________________ ________________

________________ ________________

SANTA CLARA LAFCO

Local Agency Formation Commission
of Santa Clara County

# RESOLUTION OF COMMENDATION

WHEREAS, Mike Wasserman, appointed by the County of Santa Clara Board of Supervisors, served on the Local Agency Formation Commission of Santa Clara County (LAFCO) as a Commissioner from December 2010 to December 2022; and

WHEREAS, Mike Wasserman has committed himself to uphold the principles of LAFCO to prevent urban sprawl, to promote orderly growth and development, to ensure the efficient delivery of services, and to protect agricultural and open space lands; and

WHEREAS, Mike Wasserman served as Chairperson of LAFCO in 2013 and 2016, and has supported the Commission's efforts to increase visibility and public awareness of LAFCO and its role and responsibility in promoting orderly growth and good governance in Santa Clara County; and

WHEREAS, Mike Wasserman served on LAFCO's Finance Committee for five years and was involved in the development of LAFCO's annual budget and workplan; and

WHEREAS, Mike Wasserman has played a significant role in LAFCO's efforts to provide greater oversight of special districts in order to improve their public accountability and transparency; and

WHEREAS, Mike Wasserman has demonstrated thought and insight in his role as a Commissioner and has added a unique perspective to LAFCO by virtue of his tenure with the County of Santa Clara Board of Supervisors from November 2010 to December 2022, past tenure on the Los Gatos Town Council, and his many contributions to the preservation of agricultural lands and open space which help create inclusive, livable, and sustainable communities; and

NOW THEREFORE, BE IT RESOLVED that the Local Agency Formation Commission of Santa Clara County does hereby commend and honor

## MIKE WASSERMAN

and expresses its sincere gratitude and appreciation for his twelve years of dedicated service to LAFCO and extends its best wishes to Mike for the future.

PASSED AND ADOPTED, on this Seventh Day of December, Two Thousand and Twenty-Two by unanimous vote.

**COMMISSIONERS**

____________________
Chairperson

____________________ ____________________ ____________________

____________________ ____________________

SDRMA
SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY

1112 I Street, Suite 300
Sacramento, California 95814-2865
T 916.231.4141 or 800.537.7790 * F 916.231.4111

Maximizing Protection. Minimizing Risk. * www.sdrma.org

**ITEM # 17.1**

October 18, 2022

Mr. Sequoia Hall
Chairperson
Local Agency Formation Commission of Santa Clara County
777 North First Street, Suite 410
San Jose, California 95112

**Re: President's Special Acknowledgement Award – Property/Liability Program**

Dear Mr. Hall,

This letter and enclosed certificate are to formally acknowledge the dedicated efforts of the Local Agency Formation Commission of Santa Clara County's Governing Body, management, and staff towards proactive risk management and loss prevention training for earning the President's Special Acknowledgement Award! The Award is to recognize members with no "paid" claims during the prior **five consecutive program years** in the Property/Liability Program.

A "paid" claim for the purposes of this recognition represents the first payment on an open claim during the prior program year and excludes property claims. Your agency's efforts have resulted in no "paid" property/liability claims for the prior five consecutive program years from 2017-22. This is an outstanding accomplishment that serves as an example for all SDRMA members!

In addition to this annual recognition, members with no "paid" claims during 2021-22 earned one credit incentive point (CIP) reducing their annual contribution amount, and members with no "paid" claims for the prior 5 consecutive program years earned three additional bonus CIPs.

On behalf of the SDRMA Board of Directors and staff, it is my honor to congratulate your Governing Body, management, and staff for your commitment to proactive risk management and loss prevention training.

Sincerely,
Special District Risk Management Authority

Mike Scheafer, President
Board of Directors

SDRMA
SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY

# President's Special Acknowledgement Award

The President of the Special District Risk Management Authority

Hereby gives special recognition to

## Local Agency Formation Commission of Santa Clara County

The President's Special Acknowledgement Award is to recognize members with no "paid" claims during the prior five consecutive program years in the Property/Liability Program. A "paid" claim for the purposes of this recognition represents the first payment on an open claim during that same period and excludes property claims. Congratulations on your excellent claims record!

Mike Scheafer, SDRMA Board President

October 18, 2022
Date

SDRMA
SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY

1112 I Street, Suite 300
Sacramento, California 95814-2865
T 916.231.4141 or 800.537.7790 • F 916.231.4111

Maximizing Protection. Minimizing Risk. • www.sdrma.org

October 18, 2022

Mr. Sequoia Hall
Chairperson
Local Agency Formation Commission of Santa Clara County
777 North First Street, Suite 410
San Jose, California 95112

**Re: President's Special Acknowledgement Award - Workers' Compensation Program**

Dear Mr. Hall,

This letter and enclosed certificate are to formally acknowledge the dedicated efforts of the Local Agency Formation Commission of Santa Clara County's Governing Body, management, and staff towards proactive loss prevention and workplace safety for earning the President's Special Acknowledgement Award! The Award is to recognize members with no "paid" claims during the prior **five consecutive program years** in the Workers' Compensation Program.

A "paid" claim for the purposes of this recognition represents the first payment on an open claim during the prior program year. Your agency's efforts have resulted in no "paid" workers' compensation claims for the prior five consecutive program years from 2017-22. This is an outstanding accomplishment that serves as an example for all SDRMA members!

In addition to this annual recognition, members with no "paid" claims during 2021-22 earned one credit incentive point (CIP) reducing their annual contribution amount, and members with no "paid" claims for the prior five consecutive program years earned three additional bonus CIPs. Also, members without claims receive a lower "experience modification factor" (EMOD), which also reduces their annual contribution amount.

On behalf of the SDRMA Board of Directors and staff, it is my privilege to congratulate your Governing Body, management, and staff for your commitment to proactive loss prevention and safety in the workplace.

Sincerely,
Special District Risk Management Authority

Mike Scheafer, President
Board of Directors

SDRMA

SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY

# *President's Special Acknowledgement Award*

The President of the Special District Risk Management Authority

Hereby gives special recognition to

## Local Agency Formation Commission of Santa Clara County

The President's Special Acknowledgement Award is to recognize members with no "paid" claims during the prior five consecutive program years in the Workers' Compensation Program. A "paid" claim for the purposes of this recognition represents the first payment on an open claim during that same period. Congratulations on your excellent claims record!

Mike Scheafer, SDRMA Board President

October 18, 2022

Date