



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

777 North First Street
Suite 410
San Jose, CA 95112
SantaClaraLAFCO.org

Commissioners

Susan Ellenberg
Sequoia Hall
Sergio Jimenez
Linda J. LeZotte
Rob Rennie
Mike Wasserman
Susan Vicklund Wilson

Alternate Commissioners

Cindy Chavez
Maya Esparza
Yoriko Kishimoto
Russ Melton
Terry Trumbull

Executive Officer
Neelima Palacherla

AGENDA

December 4, 2019, 1:15 PM

**Board Meeting Chambers, 70 West Hedding Street, First Floor
San Jose, CA 95110**

Chairperson: Susan Vicklund Wilson • Vice-Chairperson: Sergio Jimenez

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 MINUTES OF OCTOBER 2, 2019 LAFCO MEETING

ITEMS FOR ACTION / INFORMATION

4. ANNUAL FINANCIAL AUDIT REPORT (JUNE 30, 2019)

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, 2019) prepared for Santa Clara LAFCO by Chavan & Associates LLP.

5. APPOINTMENT OF 2020 LAFCO CHAIRPERSON AND VICE-CHAIRPERSON

Recommended Action: Appoint a commissioner to serve as Chairperson for 2020 and appoint a commissioner to serve as the Vice-Chairperson for 2020.

6. 2020 SCHEDULE OF LAFCO MEETINGS

Recommended Action: Adopt the schedule of LAFCO meetings and application filing deadlines for 2020.

7. RECENT LEGISLATION RELATED TO NEW PUBLIC WATER SYSTEMS AND POTENTIAL IMPACTS ON ORDERLY GROWTH AND DEVELOPMENT

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

8. UPDATE ON ORGANIZATIONAL ASSESSMENT STUDY

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

9. EXECUTIVE OFFICER'S REPORT

9.1 Update on Rancho Rinconada Recreation and Park District Special Study
For information only.

9.2 Update on Water Service Extension to Proposed Metta Tam Tu Buddhist Temple Development
For information only.

9.3 Comment Letter on City of Gilroy's Notice of Intent to Adopt a Mitigated Negative Declaration for Wren Investors and Hewell Urban Service Area Amendment

For information only.

9.4 Comment Letter on City of Gilroy's Notice of Preparation of a Supplemental Draft Environmental Impact Report for the Gilroy Sports Park Master Plan Update

For information only.

9.5 Santa Clara County Association of Planning Officials Meeting

For information only.

10. CALAFCO RELATED ACTIVITIES

10.1 Report on the 2019 CALAFCO Annual Conference

For information only.

11. LEGISLATIVE REPORT

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

12. PENDING APPLICATIONS / UPCOMING PROJECTS

12.1 West Valley Sanitation District 2019-01

13. COMMISSIONER REPORTS

14. NEWSPAPER ARTICLES / NEWSLETTERS

14.1 The Sphere (October 2019)

14.2 San Jose Mercury News: Historic \$93 million deal reached to preserve San Jose's Coyote Valley

15. WRITTEN CORRESPONDENCE

CLOSED SESSION

16. PERFORMANCE EVALUATION

Public Employee Performance Evaluation (Government Code §54957)

Title: LAFCO Executive Officer

17. ADJOURN

Adjourn to the regular LAFCO meeting on February 5, 2020 at 1:15 PM in the Board of Supervisors' Chambers, 70 West Hedding Street, San Jose.



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

Commissioners
Susan Ellenberg
Sequoia Hall
Sergio Jimenez
Linda J. LeZotte
Rob Rennie
Mike Wasserman
Susan Vicklund Wilson

ITEM # 3

Alternate Commissioners
Cindy Chavez
Maya Esparza
Yoriko Kishimoto
Russ Melton
Terry Trumbull
Executive Officer
Neelima Palacherla

LAFCO MEETING MINUTES WEDNESDAY, OCTOBER 2, 2019

CALL TO ORDER

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

1. ROLL CALL

The following commissioners were present:

- Chairperson Susan Vicklund Wilson
- Vice Chairperson Sergio Jimenez (arrived at 1:17 p.m.)
- Commissioner Susan Ellenberg
- Commissioner Sequoia Hall
- Commissioner Linda J. LeZotte
- Commissioner Rob Rennie
- Commissioner Mike Wasserman
- Alternate Commissioner Yoriko Kishimoto (arrived at 1:18 p.m.)
- Alternate Commissioner Russ Melton
- Alternate Commissioner Terry Trumbull

The following commissioners were absent:

- Alternate Commissioner Cindy Chavez
- Alternate Commissioner Maya Esparza

The following staff members were present:

- LAFCO Executive Officer Neelima Palacherla
- LAFCO Assistant Executive Officer Dunia Noel
- LAFCO Analyst Lakshmi Rajagopalan
- LAFCO Clerk Emmanuel Abello
- LAFCO Counsel Mala Subramanian

2. PUBLIC COMMENTS

There were none.

3. APPROVE MINUTES OF JUNE 5, 2019 LAFCO MEETING

The Commission approved the minutes of June 5, 2019 meeting.

Motion: LeZotte

Second: Wasserman

AYES: Ellenberg, Hall, LeZotte, Rennie, Wasserman, Vicklund Wilson

NOES: None ABSTAIN: None ABSENT: Jimenez

MOTION PASSED

4. COMPREHENSIVE ORGANIZATIONAL ASSESSMENT

Ms. Palacherla presented the staff report.

Alternate Commissioner Melton, as Chairperson of the Finance Committee, expressed appreciation to Committee members and staff for their work. He provided a brief background on the organizational assessment study and issuance of RFP, and informed that the Finance Committee interviewed four consultants on September 18th and recommended the hiring of Koff and Associates.

The Commission:

1. Awarded a service contract to Koff & Associates to conduct a Comprehensive Organizational Assessment of LAFCO in an amount not to exceed \$24,920.
2. Authorized the LAFCO Chairperson to execute the contract with Koff & Associates and to execute any necessary amendments subject to LAFCO Counsel's review and approval.

Motion: Jimenez Second: LeZotte

AYES: Ellenberg, Hall, Jimenez, LeZotte, Rennie, Wasserman, Vicklund Wilson

NOES: None ABSTAIN: None ABSENT: None

MOTION PASSED

5. UPDATE ON IMPLEMENTATION OF COMMUNICATIONS AND OUTREACH PLAN

Ms. Noel presented the staff report and invited commissioners and the public to view the LAFCO exhibit displayed outside the Board Chambers in the County Government Center. **Chairperson Vicklund Wilson** informed that the Communications Plan will be presented at the CALAFCO Conference in Sacramento as there is interest among LAFCOs on how it was done. **Commissioner LeZotte** congratulated staff and the consultant for their work. **Chairperson Vicklund Wilson** stated that the outreach materials will be useful in expanding the public's understanding of LAFCO.

The Commission accepted the report and directed staff to display the outreach materials at the CALAFCO Conference.

Motion: Vicklund Wilson Second: LeZotte

AYES: Ellenberg, Hall, Jimenez, LeZotte, Rennie, Wasserman, Vicklund Wilson

NOES: None ABSTAIN: None ABSENT: None

such as the County. She also noted that staff would have to consider existing State law and LAFCO policies. She proposed that rather than a policy recommendation, staff would bring back more detailed information and analysis of this issue, including insights from a session about it at the CALAFCO Conference.

Alternate Commissioner Kishimoto noted the policy contradictions between the need to provide safe water and sanitary service to the farm worker housing, and its location outside the city.

In response to **Commissioner Rennie**, **Commissioner Wasserman** stated that the discussion is related to items #9.1 and #9.2, but he made his motion under Item #8 because of its generic title. **Commissioner Rennie** observed that staff analysis involves a good amount of work. **Commissioner Jimenez** expressed the need for more information and indicated support for directing staff to conduct more analysis. He disclosed that proponents for the temple have reached out to his office.

Commissioner Hall expressed concern that the motion may impact staff's work plan. Ms. Palacherla agreed this would be a time intensive effort because it involves discussions with a number of agencies and stated that staff would have to juggle priorities.

Chairperson Vicklund Wilson expressed opposition to the part of the motion directing staff to develop specific policy recommendation. She noted that water extension to certain areas could be growth inducing and could negatively impact agricultural lands. She observed that such a policy would become a slippery slope when there are no safeguards, such as designating the water for a specific use or prohibiting its use for future development.

Commissioner Wasserman amended his motion to direct staff to provide information regarding the issue, and **Chairperson Vicklund Wilson** agreed.

Commissioner LeZotte noted that the staff report has identified the problem and provided an update on the discussions that staff has had with other agencies. She noted that it is unreasonable to expect a policy recommendation at the next meeting and suggested that staff bring back a report to start a conversation. **Commissioner Wasserman** expressed agreement and indicated that his amended motion only requests for more information. **Commissioner Jimenez** accepted the amended motion.

The Commission accepted the report and directed staff to provide additional information on the issue.

Motion: Hall

Second: LeZotte

AYES: Ellenberg, Hall, Jimenez, LeZotte, Rennie, Wasserman, Vicklund Wilson

NOES: None

ABSTAIN: Vicklund Wilson

ABSENT: None

MOTION PASSED

9. EXECUTIVE OFFICER'S REPORT

9.1 Inquiry re. Water Service Extension to Proposed Metta Tam Tu Buddhist Temple Development

Ms. Noel provided the staff report.

Commissioner Wasserman stated that the proposed temple is one of the reasons for the discussions under Item #8. He provided a brief background on the project and the reasons why the temple is seeking water service connection from Morgan Hill.

Commissioner Ellenberg observed that if the extra-territorial water connection from Morgan Hill is not allowed, the proposed temple would be in a difficult position since SWRCB has denied the well permit. She noted the need for a policy addressing the situation where a project was approved under a certain law but the law changes midstream with no grandfather provision, particularly when the proponent has acted in good faith. She proposed that such policy include safeguards so it would not result in growth inducement or set a bad precedent. She also expressed concern regarding possible violation of the 1993 and 2000 acts covering religious institutions and land use.

Chairperson Vicklund Wilson observed that the item is being considered for information only, and **Commissioner Ellenberg** agreed.

At the direction of **Chairperson Vicklund Wilson**, Ms. Palacherla advised that the process would require the Temple to approach Morgan Hill and if the City were to agree to provide water service, the City must seek LAFCO approval. She noted that LAFCO has not yet received an application. **Commissioner Ellenberg** indicated that the application could be coming and inquired how LAFCO would help in the situation. In response, Ms. Palacherla informed that when it is received, various aspects of the application will be reviewed including the detailed history of the project, the grandfather issue, consistency with the County General Plan, whether the County would approve the proposal if it were not served by an onsite well, and noted that staff would have to work closely with the County Planning Office. **Commissioner Ellenberg** stated she would like assurance that the process would start in an open and neutral position, with no presumption for disapproval and also without compromising LAFCO goals. Ms. Palacherla expressed understanding.

Commissioner Hall informed that it is not unusual for LAFCO to receive applications for churches and religious schools in Morgan Hill, and that some were even larger than this proposal and what the County would allow.

Commissioner Rennie disclosed that he met with proponents for the temple and stated that he explained LAFCO policies and procedures to them. He indicated that a hypothetical situation where the property is sold to a housing developer 10 years after the water connection is approved could be prevented by requiring an agricultural easement around the area. He cautioned, however, that if LAFCO facilitates water connection to this group, then others will be emboldened to also build large structures in unincorporated areas requiring urban service connections.

He stated that there are gray areas in this case because it appears that the amount of development has increased over time and is yet unclear what process was used. He agreed that LAFCO should find ways to help while addressing policy concerns.

The Commission noted the report.

9.2 Comment Letters on City of Gilroy's Consideration of Providing City Water Service Outside City Boundaries Without Seeking LAFCO Approval

Ms. Noel presented that staff report.

Bart Hechtman, informed that he is counsel for Christopher Ranch, which is the owner of the farm worker housing requesting water service connection from Gilroy. He stated that Christopher Ranch is one of the largest farming concerns in the South Bay and a natural ally for LAFCO in preserving agricultural lands. He noted that LAFCO staff is legally incorrect that LAFCO approval is required. He indicated that preventing water connection is contrary to policies of LAFCO, the City and the County. He stated this unique situation is exempt from LAFCO approval as surplus water is used to benefit agricultural industries and residential structures. He urged LAFCO to accept the report without further direction to staff and to just let Gilroy move forward, which will allow the County to approve the use permit.

In response to an inquiry by **Commissioner Wasserman**, Mr. Hechtman informed that the packet only includes the two letters that staff submitted to Gilroy and he had no further questions.

Commissioner Wasserman noted that since the sewer service was existing prior to 2001, there is no need for LAFCO approval. A brief discussion ensued between **Chairperson Vicklund Wilson** and **Commissioner Wasserman** and it was determined that correspondence between Gilroy and LAFCO is available to the commissioners.

Commissioner Jimenez acknowledged that this is an informational item at this time. In response to his inquiry, Ms. Palacherla advised that the Commission will be informed if staff has further correspondence with the City but there will be no action unless there is an application to LAFCO. Ms. Subramanian added that if Gilroy provides water service connection after making a decision that LAFCO approval is not required, staff will come back and inform LAFCO and LAFCO could consider if it wants to challenge that decision.

In response to an inquiry by **Commissioner Rennie**, Ms. Palacherla informed that no other agency has claimed exemption from LAFCO approval, and she advised that State law has criteria for exemption from LAFCO approval for certain service extensions, but in this case staff does not believe that the project meets the criteria.

Commissioner Hall referenced Commissioner Jimenez's statement that this is an informational item and suggested that unless there is an application, staff may not have detailed information on the project. **Commissioner Ellenberg** agreed and requested staff to forward any new correspondence to the Commission.

Chairperson Vicklund Wilson stated that LAFCO can consider the project if it has some safeguards, and she expressed concern that the City could move forward to circumvent LAFCO and set a precedent.

The Commission noted the report.

9.3 Comment Letter on Notice of Preparation of Environmental Impact Report for the Mountain Winery Annexation Project

The Commission noted the report.

9.4 Comment Letter on Notice of Preparation of Environmental Impact Report for San Martin Recreational Vehicle Park Project

The Commission noted the report.

9.5 Quarterly Meeting with County Planning Office Staff

The Commission noted the report.

9.6 Santa Clara County Special Districts Association Meeting

The Commission noted the report.

9.7 Santa Clara County Association of Planning Officials Meeting

The Commission noted the report.

9.8 Midpeninsula Regional Open Space District Legislative Picnic

The Commission noted the report.

9.9 Inter-Jurisdictional GIS Working Group Meetings

The Commission noted the report.

10. CALAFCO RELATED ACTIVITIES

10.1 Designate Voting Delegate and Alternate Voting Delegate

Ms. Noel presented a brief report.

The Commission appointed Commissioner Susan Vicklund Wilson as voting delegate and Commissioner Jimenez as the alternate voting delegate.

Motion: Jimenez

Second: Rennie

AYES: Ellenberg, Jimenez, Kishimoto, LeZotte, Rennie, Wasserman, Vicklund Wilson

NOES: None

ABSTAIN: None

ABSENT: None

MOTION PASSED

10.2 Proposed New CALAFCO Membership Dues Structure

The Commission noted the report.

10.3 Nominations to the CALAFCO Board of Directors

The Commission noted the report.

11. PENDING APPLICATIONS / UPCOMING PROJECTS

There was none.

12. COMMISSIONER REPORTS

Commissioner Rennie informed that Los Gatos successfully completed its island annexations with little opposition because the Town was strategic, conducted public outreach and thoroughly explained the advantages of annexation. **Chairperson Vicklund Wilson** congratulated Commissioner Rennie.

13. NEWSPAPER ARTICLES / NEWSLETTERS

There was none.

14. WRITTEN CORRESPONDENCE

The Commission noted the Letter from the Special District Risk Management Authority Regarding President’s Special Acknowledgement Award – Workers’ Compensation Program.

15. CLOSED SESSION: NEWSPAPER ARTICLES / NEWSLETTERS

The Commission adjourned to closed session at 2:21 p.m., and reconvened at 2:42 p.m., with no report.

16. ADJOURN

The Commission adjourned at 2:43 p.m., to the next regular LAFCO meeting on December 4, 2019 at 1:15 p.m., in the Board Meeting Chambers, 70 West Hedding Street, San Jose.

Approved on _____.

Susan Vicklund Wilson, Chairperson
Local Agency Formation Commission of Santa Clara County

By: _____
Emmanuel Abello, LAFCO Clerk



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

Commissioners
Susan Ellenberg
Sequoia Hall
Sergio Jimenez
Linda J. LeZotte
Rob Rennie
Mike Wasserman
Susan Vicklund Wilson

ITEM # 4

Alternate Commissioners
Cindy Chavez
Maya Esparza
Yoriko Kishimoto
Russ Melton
Terry Trumbull
Executive Officer
Neelima Palacherla

LAFCO MEETING: December 4, 2019

TO: LAFCO

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

SUBJECT: ANNUAL FINANCIAL AUDIT REPORT (JUNE 30, 2019)

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, 2019) prepared for Santa Clara LAFCO by Chavan & Associates, LLP.

AUDIT REPORT

The independent auditing firm of Chavan & Associates, LLP has prepared the LAFCO financial audit for FY 2019, ending on June 30, 2019. **(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, 2019.

Key financial highlights from the audit for the fiscal year ending June 30, 2019 are as follows:

- Total assets decreased by \$105,729, a decrease of 21% from the prior year.
- The net OPEB liability decreased by \$12,060, a decrease of 4% from the prior year.
- Total net position decreased by \$97,812, a 13% decrease from prior the year.
- Noncurrent liabilities decreased by \$69,525, a 5% decrease from prior the year.
- Deferred outflows of resources decreased by \$49,857, a 19% 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 November 12, 2019, (see **Attachment B**) 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.

We extend a special thanks to staff from the County Executive's Office and the Controller-Treasurer's Department for their assistance during the audit process.

LAFCO, at its June 2018 meeting, authorized staff to arrange for an annual audit of LAFCO's financials for Fiscal Years 2018 through 2021 to provide greater clarity and transparency on LAFCO's financial statements. 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. 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, 2019) |
| Attachment B: | Management Letter dated November 12, 2019; and
Commission Letter dated November 12, 2019 |

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

Annual Financial Audit Report

June 30, 2019



Chavan & Associates, LLP
Certified Public Accounts
1475 Saratoga Ave, Suite 180
San Jose, CA 95129

Local Agency Formation Commission of Santa Clara County

Table of Contents

TITLE	PAGE
FINANCIAL SECTION:	
Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	13
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	14
Notes to the Basic Financial Statements	15 - 35
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP) General Fund – General Fund	37
Schedule of Contributions for Pension Plans	38
Schedule of Changes in Net Pension Liability	39
Schedule of Contributions for OPEB Plans	40
Schedule of Changes in Net OPEB Liability	41
OTHER INDEPENDENT AUDITOR’S REPORTS:	
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 <i>Government Auditing Standards</i>	43 - 44

FINANCIAL
SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2019, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LAFCO's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of LAFCO, as of



June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 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 November 12, 2019 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 UP

November 12, 2019
San Jose, California

Management's Discussion and Analysis

Local Agency Formation Commission of Santa Clara County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

INTRODUCTION

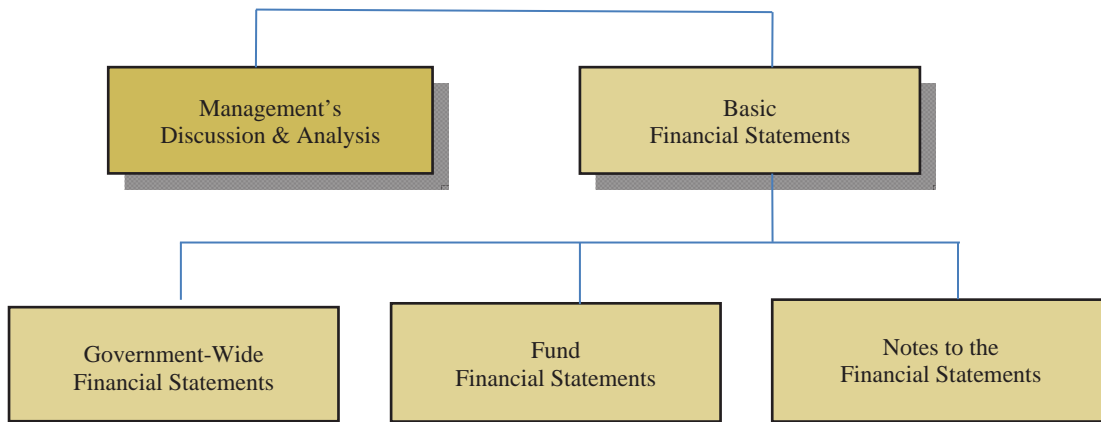
The Management's Discussion and Analysis (MD&A) is a required section of LAFCO's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of LAFCO's financial performance during the fiscal year that ended on June 30, 2019. This report will (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 2018 - 2019?" 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.

Local Agency Formation Commission of Santa Clara County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

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, 2019 were as follows:

- Total assets decreased by \$105,729, a decrease of 21% from the prior year.
- The net OPEB liability decreased by \$12,060, a decrease of 4% from the prior year.
- Total net position decreased by \$97,812, a 13% decrease from prior the year.
- Noncurrent liabilities decreased by \$69,525, a 5% decrease from prior the year.
- Deferred outflows of resources decreased by \$49,857, a 19% 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.

Local Agency Formation Commission of Santa Clara County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

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, 2019 as compared to June 30, 2018:

Table 1 - Summary of Statement of Net Position

Description	2019	2018	Change	Percentage Change
Assets				
Current Assets	\$ 396,887	\$ 502,616	\$ (105,729)	-21.04%
Deferred Outflows	\$ 207,743	\$ 257,600	\$ (49,857)	-19.35%
Liabilities				
Current Liabilities	\$ 47,599	\$ 37,923	\$ 9,676	25.51%
Noncurrent Liabilities	1,244,842	1,314,367	(69,525)	-5.29%
Total Liabilities	\$ 1,292,441	\$ 1,352,290	\$ (59,849)	-4.43%
Deferred Inflows	\$ 61,334	\$ 59,259	\$ 2,075	3.50%
Net Position				
Unrestricted	\$ (749,145)	\$ (651,333)	\$ (97,812)	13.06%

The decrease to current assets was actually a decrease to cash, which was the result of an operating deficit of \$115,405 for the year. The operating deficit was mainly caused by an increase of \$85,364 (14%) to employee services and \$76,325 (57%) to professional services over prior year. Most of the increase to professional services was attributable to legal and technology fees. Noncurrent liabilities decreased by \$69,525 mostly because of adjustments to LAFCO's compensated absences made by the County during the year which led to an increase to beginning net position of \$72,036 and a corresponding decrease to compensated absences.

Local Agency Formation Commission of Santa Clara County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

Table 2 shows the changes in net position for fiscal year 2019 as compared to 2018.

Table 2 - Summary of Changes in Net Position				
Description	2019	2018	Change	Percentage Change
Revenues				
Program revenues:				
Operating grants and contributions	\$ 837,611	\$ 802,944	\$ 34,667	4.32%
Charges for services	33,050	25,817	7,233	28.02%
General revenues:				
Investment income	12,141	12,620	(479)	-3.80%
Total Revenues	882,802	841,381	41,421	4.92%
Program Expenses				
General government	1,075,919	912,645	163,274	17.89%
Total Expenses	1,075,919	912,645	163,274	17.89%
Change in Net Position	(193,117)	(71,264)	(121,853)	63.10%
Beginning Net Position	(651,333)	(276,011)	(375,322)	57.62%
Prior Period Adjustments	95,305	(304,058)	399,363	-419.04%
Ending Net Position	\$ (749,145)	\$ (651,333)	\$ (97,812)	13.06%

Program revenues increased due an increased share of operating costs charged back to member agencies during the year. Program expenses increased due to an increase to employee costs, professional services, and expenses associated with pensions and other postemployment benefits, adjusted for changes to assumptions such as the discount rate and inflation. 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	2019	2018	Change	Percentage Change
General Fund	\$ 349,288	\$ 464,693	\$ (115,405)	-24.83%

Local Agency Formation Commission of Santa Clara County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

LAFCO'S NONCURRENT LIABILITIES

Table 4 summarizes LAFCO's noncurrent liabilities as of June 30, 2019 as compared to the prior fiscal year.

Table 4 - Summary of Noncurrent Liabilities				
	2019	2018	Change	Percentage Change
Net OPEB Liability	\$ 270,331	\$ 282,391	\$ (12,060)	-4.27%
Net Pension Liability	832,463	837,372	(4,909)	-0.59%
Compensated Absences	142,048	194,604	(52,556)	-27.01%
Total Noncurrent Liabilities	<u>\$ 1,244,842</u>	<u>\$ 1,314,367</u>	<u>\$ (69,525)</u>	<u>-5.29%</u>

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 2018/2019 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 final budgeted revenue was \$875,326. The final budgeted expenditures and other uses of funds were \$1,131,997.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Commission adopted its FY 2020 Budget at the June 5, 2019 LAFCO meeting. The budget includes appropriations totaling \$1,294,158 which is a 14% increase from FY 2019. The appropriations include an addition of \$100,000 to the existing \$150,000 Reserve, which brings the total contingency reserve amount to \$250,000. The budget assumes a roll-over of \$107,446 in fund balance from the previous fiscal year and does not anticipate a significant change in application fees and investment revenues (\$41,000) 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, 2019

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 396,887
Total Assets	<u>\$ 396,887</u>
Deferred Outflows of Resources	
OPEB adjustments	\$ 24,639
Pension adjustments	183,104
Total Deferred Inflows of Resources	<u>\$ 207,743</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 21,310
Accrued liabilities	26,289
Total current liabilities	<u>47,599</u>
Noncurrent liabilities:	
Net OPEB liability	270,331
Net pension liability	832,463
Compensated absences	142,048
Total noncurrent liabilities	<u>1,244,842</u>
Total Liabilities	<u>\$ 1,292,441</u>
Deferred Inflows of Resources	
OPEB adjustments	\$ 37,984
Pension adjustments	23,350
Total Deferred Inflows of Resources	<u>\$ 61,334</u>
Net Position	
Unrestricted	\$ (749,145)
Total Net Position	<u>\$ (749,145)</u>

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, 2019

	<u>Expenses</u>	<u>Program Revenues</u>	
		Charges for Services	Operating Grants and Contributions
			<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental activities:			
General government	\$ 1,075,919	\$ 33,050	\$ 837,611
Total governmental activities	<u>\$ 1,075,919</u>	<u>\$ 33,050</u>	<u>\$ 837,611</u>
General revenues:			
Investment income			<u>12,141</u>
Change in net position			<u>(193,117)</u>
Net position July 1, 2018			(651,333)
Prior period adjustment - compensated absences allocation changes from the County			72,036
Prior period adjustment - OPEB updates from the County			<u>23,269</u>
Net position July 1, 2018, as adjusted			<u>(556,028)</u>
Net position ending June 30, 2019			<u><u>\$ (749,145)</u></u>

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, 2019

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 396,887
Total Assets	<u>\$ 396,887</u>
LIABILITIES	
Accounts payable	\$ 21,310
Accrued liabilities	<u>26,289</u>
Total Liabilities	<u>47,599</u>
FUND BALANCE	
Unassigned	<u>349,288</u>
Total Fund Balance	<u>349,288</u>
Total Liabilities and Fund Balance	<u>\$ 396,887</u>

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, 2019

Total fund balance - governmental funds \$ 349,288

Amounts reported in the Statement of Net Position are different because:

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	(30,904)
Difference between actual and expected earnings	(4,059)
Change in assumptions	(3,021)
Contribution subsequent to measurement date	24,639

Pension adjustments:

Difference between actual and expected experience	14,828
Difference between actual and expected earnings	4,661
Change in assumptions	62,342
Contribution subsequent to measurement date	77,923

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	\$ 270,331	
Net pension liability	832,463	
Compensated absences	<u>142,048</u>	<u>(1,244,842)</u>

Total net position - governmental activities \$ (749,145)

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, 2019

	<u>General Fund</u>
Revenues:	
Intergovernmental	\$ 837,611
Charges for services	33,050
Investment income	<u>12,141</u>
Total revenues	<u>882,802</u>
Expenditures:	
Current:	
Employee services	713,900
Professional services	210,543
Commission fees	5,000
Facilities	39,360
Insurance	5,296
Supplies	7,262
Memberships	9,615
Travel	4,949
Miscellaneous	<u>2,282</u>
Total expenditures	<u>998,207</u>
Net change in fund balance	(115,405)
Fund balance - July 1, 2018	<u>464,693</u>
Fund balance - June 30, 2019	<u><u>\$ 349,288</u></u>

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, 2019

Total net change in fund balance - governmental funds \$ (115,405)

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. (58,232)

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. (19,480)

Change in net position of governmental activities \$ (193,117)

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

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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, 2019, 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.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

- 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, structures and improvements, machinery and equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the Commission's capitalization threshold is met. Amortization of assets acquired under capital lease is included in depreciation and amortization. Currently, LAFCO has no items meeting the capital asset criteria.

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. Long-Term Debt/Noncurrent Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. LAFCO did not have any long-term debt outstanding as of June 30, 2019 but did have noncurrent obligations from benefit plans and compensated absences.

N. 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

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

O. 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.

P. 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

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

Q. 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, 2016. For this report, the following timeframes are used for LAFCO's pension plans:

Valuation Date (VD).....	June 30, 2017
Measurement Date (MD).....	June 30, 2018
Measurement Period (MP).....	June 30, 2017 to June 30, 2018

R. 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.

S. Implemented New Accounting Pronouncements (Change in Accounting Principles)

Statement No. 83, *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. As of June 30, 2019, this Statement did not have an impact on LAFCO's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. As of June 30, 2019, this Statement did not have an impact on LAFCO's financial statements.

T. Upcoming Accounting and Reporting Changes

GASB Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

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. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. LAFCO is in the process of determining the impact this Statement will have on the financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period*

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

GASB Statement No. 90, Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61

The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

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 are effective for financial statements for periods beginning after December 15, 2020. Earlier application is encouraged. LAFCO doesn't believe this statement will have a significant impact 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 \$396,887 as of June 30, 2019.

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 the District'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.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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 436 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, 2019.

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.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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, 2019:

Description	Balance July 01, 2018	Additions	Adjustments & Deletions	Balance June 30, 2019
Net Pension Liability	837,372	45,119	50,028	832,463
Net OPEB Liability	282,391	108,259	120,319	270,331
Compensated Absences	194,604	68,131	120,687	142,048
Total Noncurrent Liabilities	<u>\$ 1,314,367</u>	<u>\$ 221,509</u>	<u>\$ 291,034</u>	<u>\$ 1,244,842</u>

NOTE 4 - 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.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Classic</u>	<u>PEPRA</u>
Benefit formula	2% @ 55 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%	2.00%
Required employee contribution rates	7.497%	6.750%
Required employer contribution rates	9.052%	9.052%

Employees Covered

At June 30, 2019, 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, 2019, the contributions were as follows:

Contributions - employer	\$	57,403
Contributions - employee		20,520
Total	\$	<u>77,923</u>

Pension Liabilities

As of June 30, 2019, LAFCO reported a net pension liability of \$832,463.

LAFCO's net pension liability for the Plan is measured at a .028% 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, 2018, 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, 2017 rolled forward to June 30, 2018 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.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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, 2018	\$ 2,816,656	\$ 1,979,284	\$ 837,372
Service cost	72,114	-	72,114
Interest	206,148	-	206,148
Changes of assumptions	(28,601)	-	(28,601)
Differences between expected and actual experience	19,945	-	19,945
Benefit payments	(130,376)	-	(130,376)
Change in proportionate share	-	-	-
Employer contributions	-	77,923	(77,923)
Employee contributions	-	31,795	(31,795)
Net investment income	-	174,067	(174,067)
Benefit payments	-	(130,376)	130,376
Net plan to resource movement	-	3	(3)
Administrative expense	-	(3,199)	3,199
Other	-	(6,074)	6,074
Net change	139,230	144,139	(4,909)
Balance at June 30, 2019	<u>\$ 2,955,886</u>	<u>\$ 2,123,423</u>	<u>\$ 832,463</u>

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

For the year ended June 30, 2019, LAFCO recognized pension expense of \$113,458.

At June 30, 2019, 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	\$ 84,291	\$ 21,949
Differences between Expected and Actual Experience	16,229	1,401
Differences between Projected and Actual Investment Earnings	4,661	-
Pension Contributions Made Subsequent to Measurement Date	77,923	-
	<u>\$ 183,104</u>	<u>\$ 23,350</u>

LAFCO reported \$77,923 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, 2020

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Miscellaneous</u>
2020	\$ 63,850
2021	43,135
2022	(18,821)
2023	(6,333)
2024	-
Thereafter	-
	<u>\$ 81,831</u>

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (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.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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	<u>100.00%</u>		

(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:

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 1,276,525
1% Decrease	7.15%
Net Pension Liability	\$ 832,463
1% Increase	8.15%
Net Pension Liability	\$ 521,486

Pension Plan Fiduciary Net Position

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

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 5 - 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-2017.pdf>.

Benefits Provided

All County employees hired prior to August 12, 1996, with at least five years of service after attaining age 50 are covered under the OPEB Plan upon retirement. For employees hired after August 12, 1996 and on or before June 18, 2006, the eligibility requirements were increased to a minimum of eight years of service after attaining age 50. For employees hired after June 19, 2006 and mostly on or before September 30, 2013, the eligibility requirements were increased to a minimum of ten years of service after attaining age 50, age 52 for Miscellaneous employees hired on or after January 1, 2013. For a majority of the employees hired beginning in August 2013 (mostly on and after September 30, 2013), the eligibility requirements were increased to a minimum of fifteen years of service and attaining age 50 for Safety employees and 52 for Miscellaneous employees. For all of the above, employees must retire from CalPERS directly from the County. The County does not cover premium cost associated with dependents.

Employees Covered by Benefit Terms

At June 30, 2018 (the valuation date), the benefit terms covered the following employees:

Active employees	4
Inactive employees	-
Total employees	<u><u>4</u></u>

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 \$24,639. Total contributions included in the measurement period were \$34,427. The actuarially determined contribution was \$29,697. LAFCO's contributions were 6.2% of covered employee payroll during the year.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Actuarial Assumptions

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

Valuation Date:	June 30, 2018
Measurement Date:	June 30, 2018
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: 10.90% to 3.30%, varying by service, including wage inflation
Investment Rate of Return	7.0%, Net of investment expenses
Medical Cost Trend Rates:	
Non-Medicare medical plan	7.00% graded down to an ultimate of 4.50% over 10 years
Medicare medical plan	6.50% graded down to an ultimate of 4.50% over 8 years
Medicare Part B	4.00%

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, 2018, the measurement date, for the fiscal year ended June 30, 2019.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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	57.00%	6.960%
Fixed Income	27.00%	1.360%
Real Estate	8.00%	4.460%
Treasury Inflation Protected Securities	5.00%	3.860%
All Commodities	3.00%	3.860%
Total	100.00%	

Net OPEB Liability

LAFCO's net OPEB liability was measured as of June 30, 2018 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 (valuation date) for the fiscal year ended June 30, 2019. The following summarizes the changes in the net OPEB liability during the year ended June 30, 2019, for the measurement date of June 30, 2018:

Fiscal Year Ended June 30, 2019 (Measurement Date June 30, 2018)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2018	\$ 471,112	\$ 188,721	\$ 282,391
Service cost	13,122	-	13,122
Interest in Total OPEB Liability	20,649	-	20,649
Employer contributions	-	44,336	(44,336)
Difference between actual and exp experience	(3,650)	-	(3,650)
Proportionate share changes	21,414	8,578	12,836
Changes in assumptions	3,835	-	3,835
Difference between actual and exp earnings	-	1,156	(1,156)
Benefit payments	(8,877)	(8,877)	-
Other	(13,486)	(127)	(13,359)
Net changes	33,007	45,067	(12,060)
Balance at June 30, 2019	\$ 504,119	\$ 233,788	\$ 270,331
Covered Employee Payroll	\$ 397,559		
Total OPEB Liability as a % of Covered Employee Payroll	126.80%		
Plan Fid. Net Position as a % of Total OPEB Liability	46.38%		
Service Cost as a % of Covered Employee Payroll	3.30%		
Net OPEB Liability as a % of Covered Employee Payroll	68.00%		

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Deferred Inflows and Outflows of Resources

At June 30, 2019, 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	\$ -	\$ 30,904
Difference between actual and expected earnings	-	4,059
Change in assumptions	-	3,021
OPEB contribution subsequent to measurement date	24,639	-
Totals	\$ 24,639	\$ 37,984

Of the total amount reported as deferred outflows of resources related to OPEB, \$24,639 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, 2020. 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,	
2020	\$ (8,855)
2021	(8,855)
2022	(8,855)
2023	(7,812)
2024	(3,622)
Thereafter	15
Total	\$ (37,984)

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2019:

Service cost	\$ 13,122
Interest in TOL	20,649
Change in proportionate shares	12,836
Difference between actual and expected experience	(6,772)
Difference between actual and expected earnings	(1,276)
Change in assumptions	(807)
OPEB Expense	\$ 37,752

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2019:

Net OPEB liability ending		\$	270,331
Net OPEB liability beginning			(282,391)
Change in net OPEB liability			(12,060)
Changes in deferred outflows			9,788
Changes in deferred inflows			5,597
Employer contributions and implicit subsidy			34,427
OPEB Expense		\$	<u>37,752</u>

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)	\$ 335,729	\$ 270,331	\$ 216,868

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)	4%	(1% Increase)
Net OPEB Liability (Asset)	\$ 205,713	\$ 270,331	\$ 355,963

NOTE 6 - 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, 2019.

Operating Leases

LAFCO is under a current lease for building space at 777 North First Street, San Jose, California. The lease has a sixty-two-month term that expires on March 31, 2022. The base rent ranges from \$3,404 to \$3,982 which includes a 4% increase on the first of April every year.

Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

As of June 30, 2019, the future minimum lease payments were as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2020	\$ 44,625
2021	46,407
2022	<u>35,838</u>
Total	<u>\$ 126,870</u>

Total rent expense for the year ended June 30, 2019 was \$39,360

NOTE 7 - 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, 2019, LAFCO had the following coverages subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage from SDRMA.:

	<u>Limits</u>
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.

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, 2019

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 833,826	\$ 833,826	\$ 837,611	\$ 3,785
Charges for services	35,000	35,000	33,050	(1,950)
Investment income	4,000	6,500	12,141	5,641
	872,826	875,326	882,802	7,476
Total revenues				
Expenditures:				
Current:				
Employee services	720,316	720,316	713,900	6,416
Professional services	302,241	302,241	210,543	91,698
Commission fees	10,000	10,000	5,000	5,000
Facilities	42,764	42,764	39,360	3,404
Insurance	6,000	6,000	5,296	704
Supplies	20,500	20,500	7,262	13,238
Memberships	8,926	8,926	9,615	(689)
Travel	18,750	18,750	4,949	13,801
Miscellaneous	2,500	2,500	2,282	218
	1,131,997	1,131,997	998,207	133,790
Total expenditures				
Net change in fund balance	(259,171)	(256,671)	(115,405)	141,266
Fund balance beginning	464,693	464,693	464,693	-
Fund balance ending	\$ 205,522	\$ 208,022	\$ 349,288	\$ 141,266

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, 2019

Fiscal Year Ended	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially Determined Contributions (ADC)	\$ 50,865	\$ 56,192	\$ 64,817	\$ 72,514	\$ 77,923
Contributions in Relation to ADC	50,865	56,192	64,817	72,514	77,923
Contribution Deficiency (Excess)	-	-	-	-	-
Covered Payroll	\$ 322,075	\$ 335,288	\$ 356,470	\$ 381,587	\$ 421,278
Contributions as a Percentage of Covered Payroll	15.79%	16.76%	18.18%	19.00%	18.50%

Notes to Schedule:

Valuation Date: June 30, 2017

Assumptions Used: Entry Age Normal

Inflation Assumed at 2.75%.

Investment Rate of Returns set at 7.5%.

The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

Asset valuation method is Market Value of Assets.

Payroll growth 3.00%.

The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.

Fiscal year 2015 was the first year of implementation, therefore only five 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 was adjusted in fiscal year 2019.

Local Agency Formation Commission of Santa Clara County

Schedule of Changes in Net Pension Liability

For the Fiscal Year Ended June 30, 2019

Fiscal Year	2015	2016	2017	2018	2019
Total pension liability					
Service cost	\$ 54,769	\$ 54,109	\$ 56,283	\$ 66,427	\$ 72,114
Interest	162,515	171,403	180,987	189,609	206,148
Changes of assumptions	-	(42,028)	-	158,690	(28,601)
Differences between expected and actual experience	-	(3,558)	3,559	(2,638)	19,945
Benefit payments	(94,224)	(101,138)	(108,619)	(116,090)	(130,376)
Change in proportionate share	-	-	-	-	-
Net change in Total Pension Liability	123,060	78,787	132,210	295,998	139,230
Total pension liability - beginning	2,186,600	2,309,660	2,388,448	2,520,658	2,816,656
Total pension liability - ending	<u>\$ 2,309,660</u>	<u>\$ 2,388,448</u>	<u>\$ 2,520,658</u>	<u>\$ 2,816,656</u>	<u>\$ 2,955,886</u>
Plan fiduciary net position					
Employer contributions	\$ 50,865	\$ 56,192	\$ 64,817	\$ 72,514	\$ 77,923
Employee contributions	27,292	26,336	28,002	29,734	31,795
Net investment income	266,077	39,872	9,509	199,967	174,067
Benefit payments	(94,224)	(101,138)	(108,619)	(116,090)	(130,376)
Net plan to resource movement	-	(156)	47	(28)	3
Administrative expense	-	(2,032)	(1,099)	(2,651)	(3,199)
Other	-	-	-	-	(6,074)
Net change in plan fiduciary net position	250,011	19,074	(7,342)	183,446	144,139
Plan fiduciary net position - beginning	1,534,095	1,784,106	1,803,180	1,795,838	1,979,284
Plan fiduciary net position - ending	<u>\$ 1,784,106</u>	<u>\$ 1,803,180</u>	<u>\$ 1,795,838</u>	<u>\$ 1,979,284</u>	<u>\$ 2,123,423</u>
Net pension liability	\$ 525,555	\$ 585,268	\$ 724,820	\$ 837,372	\$ 832,463
Plan fiduciary net position as a percentage of the total pension liability	77.25%	75.50%	71.24%	70.27%	71.84%
Covered payroll	322,075	335,288	356,470	381,587	421,278
Net pension liability as a percentage of covered payroll	163.18%	174.56%	203.33%	219.44%	197.60%
Total pension Liability as a percentage of covered payroll	717.12%	712.36%	707.12%	738.14%	701.65%

Fiscal year 2015 was the first year of implementation, therefore only five 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 was adjusted in fiscal year 2019.

Local Agency Formation Commission of Santa Clara County

Schedule of Contributions for OPEB Plans

For the Fiscal Year Ended June 30, 2019

<u>Fiscal Year Ended</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contribution (ADC)	\$ 29,697	\$ 29,697
Less: actual contribution in relation to ADC	(34,427)	(24,639)
Contribution deficiency (excess)	\$ (4,730)	\$ 5,058
Covered employee payroll	\$ 349,612	\$ 397,559
Contrib. as a % of covered employee payroll	9.85%	6.20%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	June 30, 2018
Measurement Date:	June 30, 2018
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: 10.90% to 3.30%, varying by service, including wage inflation
Investment Rate of Return	7.0%, Net of investment expenses
Medical Cost Trend Rates:	
Non-Medicare medical plan	7.00% graded down to an ultimate of 4.50% over 10 years
Medicare medical plan	6.50% graded down to an ultimate of 4.50% over 8 years
Medicare Part B	4.00%

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 not changes in benefit terms.

There were no changes in discount rates, inflations went from 2.75% to 2.5%, wage inflation went from 3% to 2.75%.

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Local Agency Formation Commission of Santa Clara County

Schedule of Changes in Net OPEB Liability

For the Fiscal Year Ended June 30, 2019

Fiscal Year Ended	2018	2019
Total OPEB liability		
Service cost	\$ 14,472	\$ 13,122
Interest	34,597	20,649
Changes of benefit terms	-	-
Differences between expected and actual experience	(40,235)	(3,650)
Changes of assumptions	(9,061)	3,835
Benefit payments	(16,867)	(8,877)
Proportionate share changes	-	21,414
Other	-	(13,486)
Net change in Total OPEB Liability	(17,095)	33,007
Total OPEB Liability - beginning	488,207	471,112
Total OPEB Liability - ending	\$ 471,112	\$ 504,119
 Plan fiduciary net position		
Employer contributions	\$ 28,891	\$ 44,336
Proportionate share changes	-	8,578
Employee contributions	1,325	-
Net investment income	16,679	1,156
Difference between estimated and actual earnings	-	-
Benefit payments	(16,867)	(8,877)
Implicit subsidy fulfilled	-	-
Other	3,999	(127)
Administrative expense	(563)	-
Net change in plan fiduciary net position	33,464	45,067
Plan fiduciary net position - beginning	155,257	188,721
Plan fiduciary net position - ending	\$ 188,721	\$ 233,788
 Net OPEB liability (asset)	\$ 282,391	\$ 270,331
 Plan fiduciary net position as a percentage of the total OPEB liability	40.06%	46.38%
 Covered Employee Payroll	\$ 349,612	\$ 397,559
 Net OPEB liability as a percentage of covered employee payroll	80.77%	68.00%
 Total OPEB liability as a percentage of covered employee payroll	134.75%	126.80%

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 not changes in benefit terms.

There were no changes in discount rates, inflations went from 2.75% to 2.5%, wage inflation went from 3% to 2.75%.

OTHER INDEPENDENT
AUDITOR'S REPORTS



**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, 2019, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements, and have issued our report thereon dated November 12, 2019.

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.

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 agreements, 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



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

November 12, 2019
San Jose, California

Management Letter
June 30, 2019

Prepared by
Chavan & Associates, LLP
Certified Public Accountants





To the Local Agency Formation Commission of Santa Clara County

Introduction and Internal Controls

In planning and performing our audit of the basic financial statements of as of and for the year ended June 30, 2019, 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 '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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of '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 Agency'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 Agency decision making. Accordingly, this communication is not intended to be and should not be used for any other purpose.

November 12, 2019
San Jose, California



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, 2019, and have issued our report thereon dated November 12, 2019. 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.



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. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during June 30, 2019. 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 (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, capital assets, long-term obligations and defined benefit pension plans.

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 misstatements 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 November 12, 2019.

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.



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

November 12, 2019
San Jose, California



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

Commissioners
Susan Ellenberg
Sequoia Hall
Sergio Jimenez
Linda J. LeZotte
Rob Rennie
Mike Wasserman
Susan Vicklund Wilson

ITEM # 5

Alternate Commissioners
Cindy Chavez
Maya Esparza
Yoriko Kishimoto
Russ Melton
Terry Trumbull
Executive Officer
Neelima Palacherla

LAFCO MEETING: December 4, 2019

TO: LAFCO

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

**SUBJECT: APPOINTMENT OF 2020 LAFCO CHAIRPERSON AND
VICE-CHAIRPERSON**

STAFF RECOMMENDATION

Appoint a commissioner to serve as Chairperson for 2020 and appoint a commissioner to serve as the Vice-Chairperson for 2020.

BACKGROUND

Appointment of the LAFCO Chairperson and Vice-Chairperson is typically made on a calendar year basis, usually at the December LAFCO meeting. Pursuant to LAFCO bylaws, the rotation schedule is as follows unless otherwise determined by the Commission:

- Cities member
- County member
- San Jose member
- Special Districts member
- County member
- Public member
- Special Districts member

Over the last few years, LAFCO has experienced frequent changes in its membership resulting in the need for deviation from the adopted chair rotation schedule in order to allow new commissioners adequate time to gain knowledge and experience on LAFCO matters, before serving as LAFCO Chairperson.

During the 2016/2017 rotation schedule, the Commission skipped both the Cities member and San Jose member in order to allow both incoming appointees adequate time to become familiar with LAFCO.

In December 2016, LAFCO appointed the Special Districts member (Sequoia Hall) as Chair for 2017 and in February 2017, LAFCO appointed the County member (Ken Yeager) as Vice-Chair for 2017.

In December 2017, LAFCO appointed the County member (Ken Yeager) as Chair for 2018 and appointed the Public member (Susan Vicklund Wilson) as Vice-Chair for 2018.

In February 2019, LAFCO appointed the Public member (Susan Vicklund Wilson) as Chair for 2019 and appointed the San Jose member (Sergio Jimenez) as Vice-Chair for 2019, with the understanding that the Cities member would serve as Vice-Chair in 2020 to address the fact that the Commission's 2016/2017 rotation schedule skipped the Cities member. **Therefore, it is recommended that the Chair be the San Jose member, and the Vice-Chair be the Cities member.**



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

777 North First Street
Suite 410
San Jose, CA 95112

SantaClaraLAFCO.org

Commissioners
Susan Ellenberg
Sequoia Hall
Sergio Jimenez
Linda J. LeZotte
Rob Rennie
Mike Wasserman
Susan Vicklund Wilson

Alternate Commissioners
Cindy Chavez
Maya Esparza
Yoriko Kishimoto
Russ Melton
Terry Trumbull

Executive Officer
Neelima Palacherla

**2020 SCHEDULE OF LAFCO MEETINGS AND
APPLICATION FILING DEADLINES**

LAFCO MEETING	DEADLINE TO FILE APPLICATION
Wednesday February 5, 2020 Board Meeting Chambers	Thursday December 5, 2019
Wednesday April 8, 2020 Board Meeting Chambers	Thursday February 6, 2020
Wednesday June 3, 2020 Board Meeting Chambers	Thursday April 9, 2020
Wednesday August 5, 2020 Board Meeting Chambers	Thursday June 4, 2020
Wednesday October 7, 2020 Board Meeting Chambers	Thursday August 6, 2020
Wednesday December 2, 2020 Board Meeting Chambers	Thursday October 8, 2020

TIME OF MEETINGS:	1:15 PM
LOCATION OF MEETINGS:	Board Meeting Chambers 70 West Hedding Street San Jose, CA 95110
APPLICATION MAILING ADDRESS:	LAFCO Office 777 North First Street, Suite 410 San Jose, CA 95112 (408) 993-4705



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

Commissioners
 Susan Ellenberg
 Sequoia Hall
 Sergio Jimenez
 Linda J. LeZotte
 Rob Rennie
 Mike Wasserman
 Susan Vicklund Wilson

ITEM # 7

Alternate Commissioners
 Cindy Chavez
 Maya Esparza
 Yoriko Kishimoto
 Russ Melton
 Terry Trumbull
Executive Officer
 Neelima Palacherla

LAFCO MEETING: December 4, 2019

TO: LAFCO

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

**SUBJECT: RECENT LEGISLATION RELATED TO NEW PUBLIC
 WATER SYSTEMS AND POTENTIAL IMPACTS ON
 ORDERLY GROWTH AND DEVELOPMENT**

STAFF RECOMMENDATION

Accept report and provide direction, as necessary.

BACKGROUND

At the October 2, 2019 LAFCO meeting, LAFCO staff provided an initial report on water service extensions into the unincorporated area. At that meeting, the Commission requested more information on recent legislation concerning new public water systems (i.e. SB 1263 and SB 200) and the potential impact of these laws on land use planning and development in the county.

The purpose of this report is to provide the Commission with a brief summary of the provisions within SB 1263 and SB 200 that are most likely to pertain to LAFCO and land use planning and development. This report is a high-level overview of a complex and evolving issue and is not intended to address any proposed/pending development proposals or anticipated applications to LAFCO.

SB 1263 AND SB 200

SB 1263 (**Attachment A**) and SB 200 (**Attachment B**) were passed by the Legislature with the intent of preventing the establishment of new, unsustainable public water systems. The State Water Resource Control Board (SWRCB) is responsible for administering both laws.

A “public water system” is a system for the provision of water for human consumption through pipes or other constructed conveyance that has 15 or more service connections or regularly serves at least 25 individuals daily at least 60 days out of the year.

SB 1263, effective January 1, 2017, among other things, does the following:

- Prohibits a person from operating a public water system unless he or she first submits an application, including a technical report, to the SWRCB and receives a permit.
- Requires an applicant for such a permit to first submit a preliminary technical report to the SWRCB at least 6 months before initiating construction of any water-related improvement.
- Allows the SWRCB to direct the applicant to undertake additional discussion and negotiation with existing public water systems that the SWRCB determines have the technical, managerial, and financial (TMF) capability to provide adequate and reliable supply of domestic water to the service area of the proposed new public water system.
- Authorizes the SWRCB to deny the permit of a proposed new public water system if it determines that it is feasible for the service area of the public water system addressed to be serviced by one or more currently permitted public water systems and determines that it is reasonably foreseeable that the proposed new public water system will be unable to provide affordable, safe drinking water in the reasonably foreseeable future.

SB 200, effective July 24, 2019, among other things, does the following:

- Authorizes the SWRCB to deny the permit of a proposed new public water system if it determines that it is feasible for the service area of the public water system to be serviced by one or more currently permitted public water systems that are within 3 miles as measured through existing public rights of way of any boundary of the applicant's proposed public water systems service area.

Several key terms and standards in these laws are undefined, such as "feasible" and "reasonably foreseeable." SWRCB staff indicated that such terms are likely to remain undefined and that staff will administer these laws on a case-by-case manner.

Thus, the SWRCB in its implementation of SB 1263 and SB 200 could deny the permit for a new public water system and direct the applicant to instead seek extra territorial service extensions from nearby cities.

The Cortese-Knox-Hertzberg (CKH) Act and LAFCO policies discourage extra-territorial service extensions because city and special district boundaries indicate where a city or special district provides service, and such service extensions diminish the meaning or purpose for having boundaries. There is a direct link between land use planning and infrastructure planning within a jurisdiction, and boundaries allow a jurisdiction to rationally plan for services, knowing where services are to be provided, over what timeframe and for what type of land uses. Extra territorial service extensions create a disconnect between services and

boundaries and blur the lines of responsibility for land use planning, service provision, development and growth management in an area.

Implementation of SB 1263 and SB 200 could result in significant unintended consequences for land use and services planning /provision, and ultimately for orderly growth and development – particularly in Santa Clara County – where the County General Plan prohibits urban development and the provision of urban services in the unincorporated rural areas outside city Urban Service Areas, and limits development in those areas to uses that can only be supported by onsite services.

Extending urban services into unincorporated areas facilitates leapfrog development and urban sprawl, leading to land speculation and increased pressure on adjacent land to urbanize, and ultimately to the unnecessary conversion of agricultural and open space lands. Additionally, the ad hoc extension of services is inefficient and could have cost implications for cities and taxpayers.

However, there may be ways to work with SWRCB staff to implement these laws in a way that is consistent with LAFCO policies and County policies. Further understanding of this issue and discussions amongst affected local agencies, including LAFCO, SWRCB, County Planning Department and County Office of Environmental Health staff, Santa Clara Valley Water District staff, and cities staff are required in order to see if a mutually acceptable solution can be found.

ONGOING DISCUSSIONS ON NEW PUBLIC WATER SYSTEMS

November 14, 2019 Interagency Meeting

Since the October 2, 2019 LAFCO meeting, LAFCO staff, County Planning Department and County Environmental Health staff, and SWRCB staff have met and discussed implementation of SB 1263 and SB 200 and its potential adverse impacts on land use planning, development, and growth management efforts in the county.

The group discussed how to incorporate determination of availability of a long-term water source early in the County's planning and development review process. The current process allows for this determination to be made as late as after the County conditionally approves a use permit. The group agreed that going forward, such a determination should be made as early as possible in the review process, well before the County issues any conditional approval/approval of a use permit.

The group discussed the need to map and gather information on current public water systems and to identify areas where there are known water quality issues. LAFCO, SWRCB and the County each have data that can assist in this mapping effort.

The group requested that SWRCB staff advise them on best practices for sustainable public water systems and provide examples of systems that have been particularly successful in the technical, managerial, and financial (TMF) capability of their system to deliver safe drinking water. Lastly, the group discussed additional ways in which the TMF capability of systems can be strengthened, such as:

- Identifying and requiring qualified operators for small water systems
- Requiring bonds or escrow type accounts to provide financial resources to address long-term maintenance and anticipated upgrading of the small water systems infrastructure
- Identifying feasible small water system consolidation opportunities that are consistent with County policies and LAFCO policies

SWRCB staff indicated that they do not want to risk permitting new public water systems in the unincorporated county that are likely to struggle or fail in the future, but also recognized that implementation of SB 1263 and SB 200 poses serious challenges for LAFCO and the County. **The group agreed that this is a very complex issue without a simple solution and that further research and interagency discussions should continue to occur in hopes of finding a mutually acceptable local solution.**

Until more is known, and specific local solutions are identified, revising or developing new LAFCO policies on this issue is premature.

CALAFCO Annual Conference Session

This issue is not unique to Santa Clara County. Several LAFCOs including Sonoma, Stanislaus, and Merced have reported their serious concerns. The recent CALAFCO Annual Conference provided a forum for LAFCOs to learn more about SB 1263 and SB 200 and to discuss local unintended adverse consequences. At the conference, LAFCO staff attended a session that included a presentation from SWRCB staff on these laws. Later that evening, staff met with SWRCB staff about our local concerns.

CALAFCO Legislative Committee Meeting

Chairperson Vicklund Wilson requested that the CALAFCO Legislative Committee’s Agenda for November 15, 2019 include a discussion on how the legislation (SB 1263 and SB 200) is impacting LAFCOs. Staff provided information on our experience with the implementation of this legislation in Santa Clara County. The Committee discussed the issue and agreed that in the future CALAFCO must be more proactive in raising concerns about proposed legislation that would undermine LAFCO’s mission and authority.

Staff will continue to update the Commission on this very important issue.

ATTACHMENTS

- Attachment A: SB 1263 (2016, Wieckowski)
- Attachment B: SB 200 (2019, Monning)

Senate Bill No. 1263

CHAPTER 843

An act to amend Section 116540 of, and to add Section 116527 to, the Health and Safety Code, and to add Section 106.4 to the Water Code, relating to drinking water.

[Approved by Governor September 29, 2016. Filed with
Secretary of State September 29, 2016.]

LEGISLATIVE COUNSEL'S DIGEST

SB 1263, Wieckowski. Public water system: permits.

(1) Existing law, the California Safe Drinking Water Act, imposes on the State Water Resources Control Board various responsibilities and duties relating to providing a dependable, safe supply of drinking water. The act prohibits a person from operating a public water system unless he or she first submits an application, including a technical report, to the state board and receives a permit, as specified. The act requires the state board, upon determination that the application is complete, to make a specified investigation, and allows the state board to impose permit conditions, requirements for system improvements, and time schedules as the state board deems necessary to ensure an affordable, reliable, and adequate supply of water at all times that is pure, wholesome, and potable. The act provides that a person who knowingly makes a false statement or representation in a report submitted, maintained, or used for purposes of compliance with the act may be punished as a misdemeanor.

This bill would require a person submitting an application for a permit for a proposed new public water system to first submit a preliminary technical report to the state board at least 6 months before initiating construction of any water-related improvement, as defined. Because a misstatement in the report could be a crime under the provision described above, this bill would impose a state-mandated local program by expanding the scope of a crime. The bill would allow the state board to direct the applicant to undertake additional discussion and negotiation with certain existing public water systems the state board determines have the technical, managerial, and financial capacity to provide an adequate and reliable supply of domestic water to the service area of the proposed new public water system, as specified, and would require an applicant to comply before submitting an application for a permit to operate a system and would prohibit the application from being deemed complete unless the applicant has complied. The bill would, if the state board determines that it is feasible for the service area of the public water system addressed by the application to be served by one or more currently permitted public water systems, authorize the state board to deny the permit of a proposed new public water system

if it determines that it is reasonably foreseeable that the proposed new public water system will be unable to provide affordable, safe drinking water in the reasonably foreseeable future, as prescribed.

(2) Existing law allows the state board to delegate primary responsibility for the administration and enforcement of the act within a county to a local health officer if certain criteria are met. Existing law requires that the local primacy agency be empowered with all of the authority granted to the state board over the specified public water systems.

This bill would prohibit a local primacy agency from issuing a permit to operate a public water system without the concurrence of the state board. The bill would require, for a proposed new public water system that would be regulated by a local primacy agency, the applicant to also submit a copy of the preliminary technical report to the state board.

(3) Existing law declares the established policy of the state that every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes. Existing law requires a city or county that determines a project, as defined, is subject to the California Environmental Quality Act to identify certain water systems that may supply water for the project and to request those public water systems to prepare and approve a specified water supply assessment. Under existing law, if no public water system is identified, the city or county is required to prepare and approve the water supply assessment. Existing law provides that if, as a result of its assessment, the public water system or city or county concludes that its water supplies are, or will be, insufficient, the public water system or city or county is required to provide its plans for acquiring additional water supplies, as prescribed.

This bill would prohibit a city, including a charter city, or a county from issuing a building permit for the construction of a new residential development where a source of the water supply is water transported by a water hauler, bottled water, a water-vending machine, or a retail water facility, as specified. By imposing new duties on a city or county in connection with the issuance of a building permit, the bill would impose a state-mandated local program.

(4) The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for specified reasons.

The people of the State of California do enact as follows:

SECTION 1. The Legislature finds and declares all of the following:

(a) There are over 7,500 public water systems in California. The vast majority of these systems provide a reliable supply of safe drinking water. However, there are hundreds of smaller public water systems that consistently fail to provide a reliable supply of safe drinking water to their

customers. Many failing public water systems were created without the necessary technical, managerial, or financial capacity to be sustainable in the long term in view of water supply uncertainties. These uncertainties can be created by effects on water quality and quantity, global climate change, migration of groundwater contamination, the establishment of new drinking water standards, and other factors that are known to significantly erode a system's capacity.

(b) Failing public water systems disproportionately affect disadvantaged communities who are least able to afford to address the conditions that led to the failure.

(c) The proliferation of new, unsustainable public water systems also may undermine the state's human right to water policy.

(d) Therefore, it is the policy of the state to discourage the establishment of new, unsustainable public water systems when there is a feasible alternative.

SEC. 2. Section 116527 is added to the Health and Safety Code, to read:

116527. (a) As used in this section, "water-related improvement" includes, but is not limited to, a water pipe, a water pump, or drinking water infrastructure.

(b) (1) Before a person submits an application for a permit for a proposed new public water system, the person shall first submit a preliminary technical report to the state board at least six months before initiating construction of any water-related improvement.

(2) In order to assist in expediting the permitting process, a person that is considering submitting an application for a permit for a proposed new public water system is encouraged, but is not required, to submit the preliminary technical report no later than seven days after submission of an application to the city or county for a building permit for any water-related improvement.

(3) For a proposed new public water system that would be regulated by a local primacy agency, the applicant shall also submit a copy of the preliminary technical report to the state board.

(c) The preliminary technical report shall include all of the following:

(1) The name of each public water system for which any service area boundary is within three miles, as measured through existing public rights-of-way, of any boundary of the applicant's proposed public water system's service area.

(2) A discussion of the feasibility of each of the adjacent public water systems identified pursuant to paragraph (1) annexing, connecting, or otherwise supplying domestic water to the applicant's proposed new public water system's service area. The applicant shall consult with each adjacent public water system in preparing the report and shall include in the report any information provided by each adjacent public water system regarding the feasibility of annexing, connecting, or otherwise supplying domestic water to that service area.

(3) A discussion of all actions taken by the applicant to secure a supply of domestic water from an existing public water system for the proposed new public water system's service area.

(4) All sources of domestic water supply for the proposed new public water system.

(5) The estimated cost to construct, operate, and maintain the proposed new public water system, including long-term operation and maintenance costs and a potential rate structure.

(6) A comparison of the costs associated with the construction, operation and maintenance, and long-term sustainability of the proposed new public water system to the costs associated with providing water to the proposed new public water system's service area through annexation by, consolidation with, or connection to an existing public water system.

(7) A discussion of all actions taken by the applicant to pursue a contract for managerial or operational oversight from an existing public water system.

(8) An analysis of whether a proposed new public water system's total projected water supplies available during normal, single dry, or multiple dry water years during a 20-year projection will meet the projected water demand for the service area.

(9) Any information provided by the local agency formation commission. The applicant shall consult with the local agency formation commission if any adjacent public water system identified pursuant to paragraph (1) is a local agency as defined by Section 56054 of the Government Code.

(d) (1) If documents prepared to comply with Division 13 (commencing with Section 21000) of the Public Resources Code or any other application for public agency approval concerning providing drinking water to the proposed new public water system's service area include the information required by subdivision (c), including documentation of the consultation with each adjacent public water system and the local agency formation commission, the applicant may submit those documents to the state board in lieu of the preliminary technical report and the documents shall be considered the functional equivalent of the preliminary technical report.

(2) If documents prepared to comply with Division 13 (commencing with Section 21000) of the Public Resources Code or any other application for public agency approval concerning providing drinking water to the proposed new public water system's service area include some, but not all, of the information required by subdivision (c), including documentation of the consultation with an adjacent public water system and the local agency formation commission, the applicant shall submit those documents and the preliminary technical report to the state board and together those documents and the preliminary technical report shall be considered the functional equivalent of the preliminary technical report requirements of this section. A preliminary technical report submitted pursuant to this paragraph shall only be required to include information that is not otherwise addressed by the other submitted documents.

(e) Upon review of a preliminary technical report submitted pursuant to this section, the state board may do all of the following actions:

(1) If an existing public water system has not already sought annexation of the service area of a proposed new public water system from the local agency formation commission or the applicant has not already sought an extension of services agreement from an existing public water system, direct the applicant to undertake additional discussion and negotiation with the local agency formation commission and any existing public water system meeting the requirements of paragraph (1) of subdivision (c) that the state board determines has the technical, managerial, and financial capacity to provide an adequate and reliable supply of domestic water to the service area of the proposed new public water system. The state board shall not direct the applicant to undertake additional discussion and negotiation if documentation submitted to the state board demonstrates that additional discussion and negotiation is unlikely to be successful, including, but not limited to, documentation that the local agency formation commission has previously denied the application for an extension of service or annexation, or that the existing public water system has declined to apply to the local agency formation commission for approval of an extension of services to, or annexation of, the service area of the proposed new public water system.

(2) Direct the applicant to report on the results of discussion and negotiations conducted pursuant to paragraph (1) to the state board.

(3) Establish a time schedule for the applicant's performance of directives issued pursuant to this subdivision.

(f) (1) An applicant shall comply with the state board's directives as assigned in and consistent with subdivision (e) before submitting an application for a permit for a proposed new public water system under this chapter.

(2) An application for a permit for a proposed new public water system under this chapter shall not be deemed complete unless the applicant has complied with the requirements of this section.

(g) The state board's review of a preliminary technical report pursuant to this section shall not be deemed a project or approval of a permit application submitted under this chapter.

(h) The requirements of this section do not apply to either of the following:

(1) An application for a permit for a new public water system that was deemed complete prior to January 1, 2017, pursuant to the statutory permit application requirements effective at the date of the permit submission.

(2) An extension of, or annexation to, an existing public water system.

(i) (1) The requirements of this section do not apply to a service area where an applicant certifies in writing to the state board that the applicant will not rely on the establishment of a new public water system for its water supply. The state board shall acknowledge receipt of the applicant's certification in a timely manner.

(2) An applicant who certifies that the service area will not rely on the establishment of a new public water system and later seeks a permit for a new public water system shall comply with the provisions of this section

and shall assume all risk of delay or rejection related to the permit application.

(j) (1) The provisions of this subdivision apply to a proposed new public water system that achieves either or both of the following:

(A) Consolidates two or more existing public water systems, existing state small water systems, or other existing water systems, which results in the creation of a new public water system.

(B) Provides water service in lieu of individual domestic wells.

(2) At least six months before the construction of any water-related improvements, an applicant for a new public water system that meets the criteria in paragraph (1) shall provide a written notice to the state board that does both of the following:

(A) Clearly describes the proposed new public water system and how it meets the criteria in paragraph (1).

(B) Requests an exemption from the requirements of this section.

(3) The state board shall promptly acknowledge receipt of a written notice described in paragraph (2). The state board shall have 30 days from the acknowledgment of receipt of the written notice to issue a written notice to the applicant that compliance with the requirements of this section is necessary and that an application for a permit of a new public water system under this chapter is not complete until the applicant has complied with the requirements of this section. A determination by the state board that compliance with the requirements of this section is necessary shall be final and is not subject to review by the state board. A determination by the state board pursuant to this subdivision is not considered a project subject to Division 13 (commencing with Section 21000) of the Public Resources Code.

(4) If the state board receives a written notice from a project applicant that satisfies the requirements of paragraph (2), the project described in the notice is deemed exempt from the requirements of this section on the 35th day following the date of the state board's acknowledgment of receipt of the written notice, unless the state board has issued a notice to comply pursuant to paragraph (3).

SEC. 3. Section 116540 of the Health and Safety Code is amended to read:

116540. (a) Following completion of the investigation and satisfaction of the requirements of paragraphs (1) and (2), the state board shall issue or deny the permit. The state board may impose permit conditions, requirements for system improvements, technical, financial, or managerial requirements, and time schedules as it deems necessary to ensure a reliable and adequate supply of water at all times that is pure, wholesome, potable, and does not endanger the health of consumers.

(1) A public water system that was not in existence on January 1, 1998, shall not be granted a permit unless the public water system demonstrates to the state board that the water supplier possesses adequate financial, managerial, and technical capability to ensure the delivery of pure,

wholesome, and potable drinking water. This section shall also apply to any change of ownership of a public water system.

(2) A permit under this chapter shall not be issued to an association organized under Title 3 (commencing with Section 18000) of the Corporations Code. This section shall not apply to unincorporated associations that, as of December 31, 1990, are holders of a permit issued under this chapter.

(b) Notwithstanding Section 116330, a local primacy agency shall not issue a permit under this article without the concurrence of the state board.

(c) In considering whether to approve a proposed new public water system, the state board shall consider the sustainability of the proposed new public water system and its water supply in the reasonably foreseeable future, in view of global climate change, potential migration of groundwater contamination and other potential treatment needs, and other factors that can significantly erode a system's capacity.

(d) If the state board determines that it is feasible for the service area of the public water system addressed by an application under this article to be served by one or more permitted public water systems identified pursuant to paragraph (1) of subdivision (c) of Section 116527, the state board may deny the permit of a proposed new public water system if it determines, based on its assessment of the preliminary technical report submitted pursuant to Section 116527, the permit application, and other relevant, substantial evidence submitted, that it is reasonably foreseeable that the proposed new public water system will be unable to provide affordable, safe drinking water in the reasonably foreseeable future.

(e) An applicant may appeal decisions and actions of the deputy director taken pursuant to this section to the state board.

SEC. 4. Section 106.4 is added to the Water Code, to read:

106.4. (a) For the purposes of this section:

(1) "Bottled water" has the same meaning as defined in Section 111070 of the Health and Safety Code.

(2) "Residential development" has the same meaning as defined in Section 65008 of the Government Code.

(3) "Retail water facility" has the same meaning as defined in Section 111070 of the Health and Safety Code.

(4) "Water-vending machine" has the same meaning as defined in Section 111070 of the Health and Safety Code.

(5) "Water hauler" has the same meaning as defined in Section 111070 of the Health and Safety Code.

(b) A city, including a charter city, or a county shall not issue a building permit for the construction of a new residential development where a source of water supply is water transported by a water hauler, bottled water, a water-vending machine, or a retail water facility.

(c) This section does not apply to a residence that will be rebuilt because of a natural disaster.

(d) The Legislature finds and declares that this section addresses a matter of statewide concern and not a municipal affair, as that term is used in Section 5 of Article XI of the California Constitution.

SEC. 5. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because a local agency or school district has the authority to levy service charges, fees, or assessments sufficient to pay for the program or level of service mandated by this act or because costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.

Senate Bill No. 200

CHAPTER 120

An act to add Section 53082.6 to the Government Code, to amend Sections 39719, 100827, 116275, 116385, 116530, 116540, and 116686 of, and to add Chapter 4.6 (commencing with Section 116765) to Part 12 of Division 104 of, the Health and Safety Code, and to add Chapter 7 (commencing with Section 8390) to Division 4.1 of the Public Utilities Code, relating to drinking water, making an appropriation therefor, and declaring the urgency thereof, to take effect immediately.

[Approved by Governor July 24, 2019. Filed with Secretary of
State July 24, 2019.]

LEGISLATIVE COUNSEL'S DIGEST

SB 200, Monning. Drinking water.

(1) Existing law, the California Safe Drinking Water Act, requires the State Water Resources Control Board to administer provisions relating to the regulation of drinking water to protect public health. Existing law declares it to be the established policy of the state that every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes.

This bill would establish the Safe and Affordable Drinking Water Fund in the State Treasury to help water systems provide an adequate and affordable supply of safe drinking water in both the near and long terms. The bill would authorize the state board to provide for the deposit into the fund of certain moneys and would continuously appropriate the moneys in the fund to the state board for grants, loans, contracts, or services to assist eligible recipients. The bill would require the state board, in consultation with the Department of Finance, to adopt a fund expenditure plan with specified contents and would require, on and after July 1, 2020, expenditures of the fund to be consistent with the plan. The bill would require, by January 1, 2021, the state board, in consultation with local health officers and other relevant stakeholders, to make publicly available, as specified, a map of aquifers that are used or likely to be used as a source of drinking water that are at high risk of containing contaminants that exceed safe drinking water standards. For purposes of the map, the bill would require local health officers and other relevant local agencies to provide all results of, and data associated with, water quality testing performed by certified laboratories to the state board, as specified. By imposing additional duties on local health officers and local agencies, the bill would impose a state-mandated local program.

The act provides for the operation of public water systems and authorizes the state board to contract with, or provide a grant to, an administrator to

provide administrative, technical, operational, or managerial services, or any combination of those services, to a designated water system to assist with the provision of an adequate supply of affordable, safe drinking water. The act defines an administrator as a person whom the state board has determined is competent to perform the administrative, technical, operational, or managerial services required, as specified, and authorizes a privately owned public utility to serve as an administrator.

This bill would, among other things, authorize an administrator to additionally provide legal services pursuant to those provisions and to act, where the administrator is authorized to act on behalf of a designated public water system, on behalf of a voluntary participant, as defined. The bill would recast the authorization for a local agency or a privately owned public utility to serve as an administrator for these purposes.

The act prohibits a person from operating a public water system unless the person first submits an application to the state board and receives a permit to operate the system, as specified. The act authorizes the state board, if the state board determines that it is feasible for the service area of the public water system addressed by the application to be served by one or more currently permitted public water systems, to deny the permit of a proposed new public water system if it determines that it is reasonably foreseeable that the proposed new public water system will be unable to provide affordable, safe drinking water in the reasonably foreseeable future, as prescribed.

This bill would eliminate the requirement that the state board determine that it is reasonably foreseeable that the proposed new public water system will be unable to provide affordable, safe drinking water in the reasonably foreseeable future in order to deny the permit of a proposed new public water system.

The act defines a disadvantaged community for its purposes as an area, as specified, in which the median household income is less than 80% of the statewide average.

This bill would revise that definition to apply to specified areas with a median household income of less than 80% of the statewide annual median household income level.

The act requires a public water system to submit a technical report to the state board as a part of the permit application or when otherwise required by the state board, as specified.

This bill would require a public water system to submit the report in the form and format and at intervals specified by the state board.

(2) Existing law requires a laboratory that performs analyses for regulatory purposes of drinking water, wastewater, hazardous waste, and contaminated soils or sediments to obtain certification or accreditation, as specified. Existing law requires, when a person or entity submits material to the laboratory for testing, the laboratory to report the results of all detected contaminants and pollutants to that person or entity.

This bill would require a laboratory accredited by the State Water Resources Control Board to also report the results of each drinking water

analysis to the state board in the form or format and at intervals specified by the state board.

(3) The California Global Warming Solutions Act of 2006 designates the State Air Resources Board as the state agency charged with monitoring and regulating sources of emissions of greenhouse gases. The act authorizes the state board to include the use of market-based compliance mechanisms. Existing law requires all moneys, except for fines and penalties, collected by the state board as part of a market-based compliance mechanism to be deposited in the Greenhouse Gas Reduction Fund and to be available upon appropriation. Existing law continuously appropriates 35% of the annual proceeds of the fund for transit, affordable housing, and sustainable communities programs and 25% of the annual proceeds of the fund for certain components of a specified high-speed rail project.

This bill, beginning in the 2020–21 fiscal year, would require 5% of the annual proceeds of the Greenhouse Gas Reduction Fund, up to the sum of \$130,000,000, to be deposited into the Safe and Affordable Drinking Water Fund for the purposes of the Safe and Affordable Drinking Water Fund, subject to specified restrictions. The bill would require the Director of Finance, beginning in the 2023–24 fiscal year and until June 30, 2030, to calculate the sum to be transferred by the Controller from the General Fund to the Safe and Affordable Drinking Water Fund if the annual transfer from the annual proceeds of the Greenhouse Gas Reduction Fund is less than \$130,000,000 to equal a total transfer into the Safe and Affordable Drinking Water Fund of \$130,000,000, as specified.

(4) The Budget Act of 2019 appropriates \$100,000,000 from the Greenhouse Gas Reduction Fund and \$30,000,000 from the General Fund to the State Water Resources Control Board for support or local assistance to fund grants, loans, contracts, or services to help water systems provide safe and affordable drinking water.

This bill would require these moneys to be available for the purposes of the Safe and Affordable Drinking Water Fund, subject to specified restrictions.

(5) This bill would provide that its provisions are severable.

(6) The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that, if the Commission on State Mandates determines that the bill contains costs mandated by the state, reimbursement for those costs shall be made pursuant to the statutory provisions noted above.

(7) This bill would declare that it is to take effect immediately as an urgency statute.

Appropriation: yes.

The people of the State of California do enact as follows:

SECTION 1. Section 53082.6 is added to the Government Code, to read: 53082.6. A local agency may serve as an administrator for the purposes of Section 116686 of the Health and Safety Code.

SEC. 2. Section 39719 of the Health and Safety Code is amended to read:

39719. (a) The Legislature shall appropriate the annual proceeds of the fund for the purpose of reducing greenhouse gas emissions in this state in accordance with the requirements of Section 39712.

(b) To carry out a portion of the requirements of subdivision (a), the annual proceeds of the fund are continuously appropriated for the following:

(1) Beginning in the 2015–16 fiscal year, and notwithstanding Section 13340 of the Government Code, 35 percent of the annual proceeds of the fund are continuously appropriated, without regard to fiscal years, for transit, affordable housing, and sustainable communities programs as follows:

(A) Ten percent of the annual proceeds of the fund is hereby continuously appropriated to the Transportation Agency for the Transit and Intercity Rail Capital Program created by Part 2 (commencing with Section 75220) of Division 44 of the Public Resources Code.

(B) Five percent of the annual proceeds of the fund is hereby continuously appropriated to the Low Carbon Transit Operations Program created by Part 3 (commencing with Section 75230) of Division 44 of the Public Resources Code. Moneys shall be allocated by the Controller, according to requirements of the program, and pursuant to the distribution formula in subdivision (b) or (c) of Section 99312 of, and Sections 99313 and 99314 of, the Public Utilities Code.

(C) Twenty percent of the annual proceeds of the fund is hereby continuously appropriated to the Strategic Growth Council for the Affordable Housing and Sustainable Communities Program created by Part 1 (commencing with Section 75200) of Division 44 of the Public Resources Code. Of the amount appropriated in this subparagraph, no less than 10 percent of the annual proceeds of the fund shall be expended for affordable housing, consistent with the provisions of that program.

(2) Beginning in the 2015–16 fiscal year, notwithstanding Section 13340 of the Government Code, 25 percent of the annual proceeds of the fund is hereby continuously appropriated to the High-Speed Rail Authority for the following components of the initial operating segment and Phase I Blended System as described in the 2012 business plan adopted pursuant to Section 185033 of the Public Utilities Code:

(A) Acquisition and construction costs of the project.

(B) Environmental review and design costs of the project.

(C) Other capital costs of the project.

(D) Repayment of any loans made to the authority to fund the project.

(3) (A) Beginning in the 2020–21 fiscal year, and until June 30, 2030, 5 percent of the annual proceeds of the fund, up to the sum of one hundred thirty million dollars (\$130,000,000), is hereby annually transferred to the

Safe and Affordable Drinking Water Fund established pursuant to Section 116766 for the purposes of Chapter 4.6 (commencing with Section 116765) of Part 12 of Division 104.

(B) Moneys transferred under this paragraph shall be used for the purpose of facilitating the achievement of reductions of greenhouse gas emissions in this state in accordance with the requirements of Section 39712 or to improve climate change adaptation and resiliency of disadvantaged communities or low-income households or communities, consistent with Division 25.5 (commencing with Section 38500). For purposes of the moneys transferred under this paragraph, a state agency may also comply with the requirements of paragraphs (2) and (3) of subdivision (a) of Section 16428.9 of the Government Code by describing how each proposed expenditure will improve climate change adaptation and resiliency of disadvantaged communities or low-income households or communities.

(c) In determining the amount of annual proceeds of the fund for purposes of the calculation in subdivision (b), the funds subject to Section 39719.1 shall not be included.

SEC. 3. Section 100827 of the Health and Safety Code is amended to read:

100827. (a) A laboratory accredited by the state board shall report, in a timely fashion and in accordance with the request for analysis, the full and complete results of all detected contaminants and pollutants to the person or entity that submitted the material for testing. The state board may adopt regulations to establish reporting requirements for this section.

(b) A laboratory accredited by the state board shall report the results of each drinking water analysis the laboratory conducts to the state board in the form or format and at intervals specified by the state board.

SEC. 4. Section 116275 of the Health and Safety Code is amended to read:

116275. As used in this chapter:

(a) “Contaminant” means any physical, chemical, biological, or radiological substance or matter in water.

(b) “Department” means the state board.

(c) “Primary drinking water standards” means:

(1) Maximum levels of contaminants that, in the judgment of the state board, may have an adverse effect on the health of persons.

(2) Specific treatment techniques adopted by the state board in lieu of maximum contaminant levels pursuant to subdivision (j) of Section 116365.

(3) The monitoring and reporting requirements as specified in regulations adopted by the state board that pertain to maximum contaminant levels.

(d) “Secondary drinking water standards” means standards that specify maximum contaminant levels that, in the judgment of the state board, are necessary to protect the public welfare. Secondary drinking water standards may apply to any contaminant in drinking water that may adversely affect the odor or appearance of the water and may cause a substantial number of persons served by the public water system to discontinue its use, or that may otherwise adversely affect the public welfare. Regulations establishing

secondary drinking water standards may vary according to geographic and other circumstances and may apply to any contaminant in drinking water that adversely affects the taste, odor, or appearance of the water when the standards are necessary to ensure a supply of pure, wholesome, and potable water.

(e) “Human consumption” means the use of water for drinking, bathing or showering, hand washing, oral hygiene, or cooking, including, but not limited to, preparing food and washing dishes.

(f) “Maximum contaminant level” means the maximum permissible level of a contaminant in water.

(g) “Person” means an individual, corporation, company, association, partnership, limited liability company, municipality, public utility, or other public body or institution.

(h) “Public water system” means a system for the provision of water for human consumption through pipes or other constructed conveyances that has 15 or more service connections or regularly serves at least 25 individuals daily at least 60 days out of the year. A public water system includes the following:

(1) Any collection, treatment, storage, and distribution facilities under control of the operator of the system that are used primarily in connection with the system.

(2) Any collection or pretreatment storage facilities not under the control of the operator that are used primarily in connection with the system.

(3) Any water system that treats water on behalf of one or more public water systems for the purpose of rendering it safe for human consumption.

(i) “Community water system” means a public water system that serves at least 15 service connections used by yearlong residents or regularly serves at least 25 yearlong residents of the area served by the system.

(j) “Noncommunity water system” means a public water system that is not a community water system.

(k) “Nontransient noncommunity water system” means a public water system that is not a community water system and that regularly serves at least 25 of the same persons over six months per year.

(l) “Local health officer” means a local health officer appointed pursuant to Section 101000 or a local comprehensive health agency designated by the board of supervisors pursuant to Section 101275 to carry out the drinking water program.

(m) “Significant rise in the bacterial count of water” means a rise in the bacterial count of water that the state board determines, by regulation, represents an immediate danger to the health of water users.

(n) “State small water system” means a system for the provision of piped water to the public for human consumption that serves at least five, but not more than 14, service connections and does not regularly serve drinking water to more than an average of 25 individuals daily for more than 60 days out of the year.

(o) “Transient noncommunity water system” means a noncommunity water system that does not regularly serve at least 25 of the same persons over six months per year.

(p) “User” means a person using water for domestic purposes. User does not include a person processing, selling, or serving water or operating a public water system.

(q) “Waterworks standards” means regulations adopted by the state board entitled “California Waterworks Standards” (Chapter 16 (commencing with Section 64551) of Division 4 of Title 22 of the California Code of Regulations).

(r) “Local primacy agency” means a local health officer that has applied for and received primacy delegation pursuant to Section 116330.

(s) “Service connection” means the point of connection between the customer’s piping or constructed conveyance, and the water system’s meter, service pipe, or constructed conveyance. A connection to a system that delivers water by a constructed conveyance other than a pipe shall not be considered a connection in determining if the system is a public water system if any of the following apply:

(1) The water is used exclusively for purposes other than residential uses, consisting of drinking, bathing, and cooking, or other similar uses.

(2) The state board determines that alternative water to achieve the equivalent level of public health protection provided by the applicable primary drinking water regulation is provided for residential or similar uses for drinking and cooking.

(3) The state board determines that the water provided for residential or similar uses for drinking, cooking, and bathing is centrally treated or treated at the point of entry by the provider, a passthrough entity, or the user to achieve the equivalent level of protection provided by the applicable primary drinking water regulations.

(t) “Resident” means a person who physically occupies, whether by ownership, rental, lease, or other means, the same dwelling for at least 60 days of the year.

(u) “Water treatment operator” means a person who has met the requirements for a specific water treatment operator grade pursuant to Section 106875.

(v) “Water distribution operator” means a person who has met the requirements for a specific water distribution operator grade pursuant to Section 106875.

(w) “Water treatment plant” means a group or assemblage of structures, equipment, and processes that treats, blends, or conditions the water supply of a public water system.

(x) “Water distribution system” means any combination of pipes, tanks, pumps, and other physical features that deliver water from the source or water treatment plant to the consumer.

(y) “Public health goal” means a goal established by the Office of Environmental Health Hazard Assessment pursuant to subdivision (c) of Section 116365.

(z) “Small community water system” means a community water system that serves no more than 3,300 service connections or a yearlong population of no more than 10,000 persons.

(aa) “Disadvantaged community” means the entire service area of a community water system, or a community therein, in which the median household income is less than 80 percent of the statewide annual median household income level.

(ab) “State board” means the State Water Resources Control Board.

(ac) “Deputy director” means the deputy director appointed by the state board pursuant to subdivision (k) of Section 116271.

SEC. 5. Section 116385 of the Health and Safety Code is amended to read:

116385. Any person operating a public water system shall obtain and provide at that person’s expense an analysis of the water to the state board, in the form, covering those matters, and at intervals as the state board by regulation may prescribe. The analysis shall be performed by a laboratory duly certified by the state board.

SEC. 6. Section 116530 of the Health and Safety Code is amended to read:

116530. (a) A public water system shall submit a technical report to the state board as part of the permit application or when otherwise required by the state board. This report may include, but not be limited to, detailed plans and specifications, water quality information, physical descriptions of the existing or proposed system, information related to technical, managerial, and financial capacity and sustainability, and information related to achieving the goals of Section 106.3 of the Water Code, including affordability and accessibility.

(b) A public water system shall submit the report in the form and format and at intervals specified by the state board.

SEC. 7. Section 116540 of the Health and Safety Code is amended to read:

116540. (a) Following completion of the investigation and satisfaction of the requirements of paragraphs (1) and (2), the state board shall issue or deny the permit. The state board may impose permit conditions, requirements for system improvements, technical, financial, or managerial requirements, and time schedules as it deems necessary to ensure a reliable and adequate supply of water at all times that is pure, wholesome, potable, and does not endanger the health of consumers.

(1) A public water system that was not in existence on January 1, 1998, shall not be granted a permit unless the public water system demonstrates to the state board that the water supplier possesses adequate financial, managerial, and technical capability to ensure the delivery of pure, wholesome, and potable drinking water. This section shall also apply to any change of ownership of a public water system.

(2) A permit under this chapter shall not be issued to an association organized under Title 3 (commencing with Section 18000) of the Corporations Code. This section shall not apply to unincorporated

associations that, as of December 31, 1990, are holders of a permit issued under this chapter.

(b) Notwithstanding Section 116330, a local primacy agency shall not issue a permit under this article without the concurrence of the state board.

(c) In considering whether to approve a proposed new public water system, the state board shall consider the sustainability of the proposed new public water system and its water supply in the reasonably foreseeable future, in view of global climate change, potential migration of groundwater contamination and other potential treatment needs, and other factors that can significantly erode a system's capacity.

(d) If the state board determines that it is feasible for the service area of the public water system addressed by an application under this article to be served by one or more permitted public water systems identified pursuant to paragraph (1) of subdivision (c) of Section 116527, the state board may deny the permit of a proposed new public water system.

(e) An applicant may petition the state board for reconsideration of a decision of action of the deputy director taken pursuant to this section.

SEC. 8. Section 116686 of the Health and Safety Code is amended to read:

116686. (a) (1) To provide an adequate supply of affordable, safe drinking water to disadvantaged communities, voluntary participants, and public water systems that have demonstrated difficulty in maintaining technical, managerial, and financial capacity and to prevent fraud, waste, and abuse, the state board may do any of the following, if sufficient funding is available:

(A) (i) Contract with, or provide a grant to, an administrator to provide administrative, technical, operational, legal, or managerial services, or any combination of those services, to a designated water system to assist the designated water system with the provision of an adequate supply of affordable, safe drinking water, which may include steps necessary to enable consolidation.

(ii) To fulfill the requirements of this section, the state board may contract with more than one administrator, but only one administrator may be assigned to provide services to a given designated water system.

(iii) An administrator may provide services to more than one designated water system.

(B) Order the designated water system to accept administrative, technical, operational, legal, or managerial services, including full management and control of all aspects of the designated water system, from an administrator selected by the state board.

(C) Order the designated water system to accept administrative, technical, operational, legal, or managerial services from an administrator appointed by the state board for full oversight of construction or development projects related to a consolidation or extension of service, including, but not limited to, accepting loans and grants issued by the state board and entering into contracts on behalf of the designated water system.

(2) In performing its duties pursuant to paragraph (1), the state board may use criteria from the handbook adopted pursuant to subdivision (g).

(b) Unless the state board has already held a public meeting pursuant to subdivision (b) of Section 116682, the state board shall do all of the following to determine that a public water system or state small water system is a designated water system:

(1) Provide the public water system or state small water system with notice and an opportunity to show either of the following:

(A) That the public water system or state small water system has not consistently failed to provide an adequate supply of affordable, safe drinking water.

(B) That the public water system or state small water system has taken steps to timely address its failure to provide an adequate supply of affordable, safe drinking water.

(2) (A) Conduct a public meeting in a location as close as feasible to the affected community.

(B) The state board shall make reasonable efforts to provide a 30-day notice of the meeting to affected ratepayers, renters, and property owners.

(C) Representatives of the public water system or state small water system, affected ratepayers, renters, and property owners shall be provided an opportunity to present oral and written comments at the meeting.

(D) The meeting shall provide an opportunity for public comment.

(3) Provide an opportunity to submit comments by mail or electronically during the 30-day notice period and for at least one week after the public meeting described in paragraph (2).

(4) If the public water system is operated by a local educational agency, obtain the local educational agency's agreement, in writing, to the appointment of an administrator.

(c) The state board shall make financial assistance available to an administrator for a designated water system, as appropriate and to the extent that funding is available.

(d) The authority granted to an administrator by the state board pursuant to subdivision (a) may include, but shall not be limited to, the authority to do all of the following:

(1) Expend available moneys for capital infrastructure improvements that the designated water system needs to provide an adequate supply of affordable, safe drinking water or to execute a consolidation ordered pursuant to Section 116682.

(2) Set and collect user water rates and fees, subject to approval by the state board. The state board shall consider affordability when approving water rates and fees. The provisions of this section are subject to all applicable constitutional requirements, including Article XIII D of the California Constitution.

(3) Expend available moneys for operation and maintenance costs of the designated water system.

(4) Expend available moneys necessary to achieve consolidation, including conducting feasibility or planning studies, or addressing outstanding technical or legal issues.

(e) The state board shall work with the administrator of a designated water system and the communities served by that designated water system to develop, within the shortest practicable timeframe, adequate technical, managerial, and financial capacity to deliver an adequate supply of affordable, safe drinking water so that the services of the administrator are no longer necessary.

(f) A designated water system shall not be responsible for any costs associated with an administrator that are higher than the costs necessary to maintain the designated water system and provide an adequate supply of affordable, safe drinking water.

(g) Before ordering a designated water system to accept administrative, technical, operational, legal, or managerial services from an administrator pursuant to subdivision (a), the state board shall develop standards, terms, and procedures in a handbook adopted consistent with the process provided for in subdivision (a) of Section 116760.43 for all of the following:

(1) Ensuring compliance with subdivision (f).

(2) Providing opportunity for public comment on selection of an administrator and the services to be provided.

(3) Providing public access to budgets, ownership and financial information, and other documents and records related to the provision of water service to the designated water system or affected residences and to the management of the designated water system by the administrator.

(4) Providing regular public meetings, notifications, opportunities for public comment, and other forms of engagement with customers of the designated water system for significant decisions or actions made on behalf of the designated water system, including, but not limited to, establishing operating budgets, altering water rates, adopting system policies, entering into long-term contracts or financing commitments, and developing system projects or plans.

(5) Formal requests to the state board to reverse or modify a decision of an administrator or to request substitution of an administrator.

(6) Ensuring an administrator acts in the best interests of the community served.

(7) Development and approval of a post-administrator drinking water service plan to ensure compliance with subdivision (e). Development of the plan shall include, but is not limited to, an evaluation of long-term public governance or community ownership options.

(h) Administrative and managerial contracts pursuant to this section shall be exempt from Chapter 2 (commencing with Section 10290) of Part 2 of Division 2 of the Public Contract Code and may be awarded on a noncompetitive bid basis as necessary to implement the purposes of this section.

(i) For purposes of this section, a local government, as defined in Article XIII C of the California Constitution, that sets water rates in accordance

with Article XIII D of the California Constitution shall be deemed to be providing affordable water.

(j) This section does not apply to a charter city, charter county, or charter city and county.

(k) (1) For purposes of this section, an administrator is authorized to act on behalf of an affected residence to the same extent, and in the same manner, as a designated water system with the consent of the affected residence.

(2) For purposes of this section, where an administrator is authorized to act on behalf of a designated public water system, it may also act on behalf of a voluntary participant.

(l) The Legislature finds and declares that the funding provided to a state small water system, affected residence, public water system, voluntary participant, or administrator for purposes of this section serves a public purpose and does not constitute a gift of public funds within the meaning of Section 6 of Article XVI of the California Constitution.

(m) For purposes of this section, the following terms have the following meanings:

(1) “Administrator” means a person whom the state board has determined is competent to perform the administrative, technical, operational, legal, or managerial services required for purposes of this section, pursuant to criteria set forth in the handbook adopted pursuant to subdivision (g). Notwithstanding any other law, a privately owned public utility may serve as an administrator for purposes of this section.

(2) “Designated water system” means a public water system or state small water system that has been ordered to consolidate pursuant to Section 116682 or that serves a disadvantaged community, and that the state board finds consistently fails to provide an adequate supply of affordable, safe drinking water.

(3) “Domestic well” has the same meaning as defined in Section 116767.

(4) “Voluntary participant” means the owner of a domestic well or state small water system who has agreed to accept financial assistance pursuant to Chapter 4.6 (commencing with Section 116765) for the provision of an adequate and affordable supply of safe drinking water.

SEC. 9. Chapter 4.6 (commencing with Section 116765) is added to Part 12 of Division 104 of the Health and Safety Code, to read:

CHAPTER 4.6. SAFE AND AFFORDABLE DRINKING WATER

Article 1. Findings and Declarations

116765. The Legislature finds and declares all of the following:

(a) Every Californian should enjoy the same degree of protection from environmental and health hazards. Every community should be a healthy environment in which to live, work, play, and learn.

(b) No single group of people should bear a disproportionate share of the negative environmental consequences and adverse health impacts arising from industrial, governmental, or commercial operations or policies.

(c) Concentrated environmental contamination in water creates cumulative health burdens resulting in communities with higher rates of disease such as asthma, heart disease, cancer, neurological and reproductive health effects, birth defects, and obesity.

(d) Despite significant improvements in environmental protection over the past several decades, millions of Californians continue to live, work, play, and go to school in unhealthy environments.

(e) California was one of the first states in the nation to put environmental justice considerations into law and defines environmental justice as the fair treatment of people of all races, cultures, and incomes with respect to the development, adoption, implementation, and enforcement of environmental laws, regulations, and policies.

(f) California law also declares that it is the established policy of the state that every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes.

(g) Yet, still more than 1,000,000 Californians do not have access to safe drinking water. In communities where the sole water supply is contaminated with substances like arsenic, manganese, nitrates, or hexavalent chromium, families are often left without safe water. The central valley and central coast regions, where more than 90% of the communities rely on groundwater as a primary source of drinking water, are particularly at risk, but other communities around the state are also at risk. More than 250,000 people in the central valley alone lack access to a consistent source of safe, affordable water.

(h) The Safe Drinking Water and Toxic Enforcement Act of 1986 lists lead, arsenic, and hexavalent chromium as substances that can cause cancer and reproductive toxicity.

(i) Established state environmental justice law and policies are only effective insofar as they result in true parity.

(j) It is the intent of the Legislature that the State of California bring true environmental justice to our state and begin to address the continuing disproportionate environmental burdens in the state by creating a fund to provide safe drinking water in every California community, for every Californian.

(k) Climate change is exacerbating the water impacts on disadvantaged and environmentally burdened communities by reducing surface water flows, accelerating declining groundwater basins, and contributing to increasing concentrations of environmental contamination.

(l) Enhancing the long-term sustainability of drinking water systems in disadvantaged and environmentally burdened communities increases those communities' resilience to climate change.

(m) Funding for safe and affordable drinking water under this chapter promotes investments in disadvantaged communities, provides important contributions to those communities in adapting to climate change, and is an

appropriate expenditure from the Greenhouse Gas Reduction Fund created pursuant to Section 16428.8 of the Government Code.

(n) It is the intent of the Legislature that the state board, in developing the fund expenditure plan pursuant to Article 4 (commencing with Section 116768), strive to ensure all regions of the state receive the same level of consideration for funding pursuant to this chapter, to the extent practicable.

Article 2. Safe and Affordable Drinking Water Fund

116766. (a) The Safe and Affordable Drinking Water Fund is hereby established in the State Treasury to help water systems provide an adequate and affordable supply of safe drinking water in both the near and long terms. Notwithstanding Section 13340 of the Government Code, all moneys deposited in the fund are continuously appropriated to the board to fund the following:

(1) Operation and maintenance costs to help deliver an adequate supply of safe drinking water in both the near and long terms.

(2) Consolidating water systems, or extending drinking water services to other public water systems, domestic wells, and state small water systems.

(3) The provision of replacement water, as needed, to ensure immediate protection of health and safety as a short-term solution.

(4) The provision of services under Section 116686 for purposes of helping the systems become self-sufficient in the long term.

(5) The development, implementation, and sustainability of long-term drinking water solutions.

(6) Board costs associated with the implementation and administration of programs pursuant to this chapter.

(b) Consistent with subdivision (a), the board shall expend moneys in the fund for grants, loans, contracts, or services to assist eligible recipients.

(c) (1) Eligible recipients of funding under this chapter are public agencies, nonprofit organizations, public utilities, mutual water companies, federally recognized California Native American tribes, nonfederally recognized Native American tribes on the contact list maintained by the Native American Heritage Commission for the purposes of Chapter 905 of the Statutes of 2004, administrators, and groundwater sustainability agencies.

(2) To be eligible for funding under this chapter, grants, loans, contracts, or services provided to a public utility that is regulated by the Public Utilities Commission or a mutual water company shall have a clear and definite public purpose and shall benefit the customers of the water system and not the investors.

(d) On and after July 1, 2020, an expenditure from the fund shall be consistent with the fund expenditure plan.

(e) The board may expend moneys from the fund for reasonable costs associated with the administration of this chapter, not to exceed 5 percent of the annual deposits into the fund.

(f) In administering the fund, the board shall make reasonable efforts to ensure that funds are used to secure the long-term sustainability of drinking water service and infrastructure, including, but not limited to, requiring adequate technical, managerial, and financial capacity of eligible applicants as part of funding agreement outcomes.

(g) Beginning in the 2023–24 fiscal year, and each fiscal year thereafter until June 30, 2030, if the annual transfer to the fund pursuant to paragraph (3) of subdivision (b) of Section 39719 is less than one hundred thirty million dollars (\$130,000,000), on an annual basis the Director of Finance shall calculate a sum equivalent to the difference, up to one hundred thirty million dollars (\$130,000,000), and the Controller shall transfer that sum from the General Fund to the Safe and Affordable Drinking Water Fund. This subdivision is operative only while a market-based compliance mechanism adopted pursuant to Section 38562 is operative.

Article 3. Definitions

116767. For the purposes of this chapter:

(a) “Adequate supply” has the same meaning as defined in Section 116681.

(b) “Administrator” has the same meaning as defined in Section 116686.

(c) “Board” means the State Water Resources Control Board.

(d) “Community water system” has the same meaning as defined in Section 116275.

(e) “Consistently fails” has the same meaning as defined in Section 116681.

(f) “Disadvantaged community” has the same meaning as defined in Section 79505.5 of the Water Code.

(g) “Domestic well” has the same meaning as defined in Section 116681.

(h) “Fund” means the Safe and Affordable Drinking Water Fund established pursuant to Section 116766.

(i) “Fund expenditure plan” means the fund expenditure plan adopted pursuant to Article 4 (commencing with Section 116768).

(j) “Groundwater sustainability agency” has the same meaning as defined in Section 10721 of the Water Code.

(k) “Low-income household” means a single household with an income that is less than 200 percent of the federal poverty level, as updated periodically in the Federal Register by the United States Department of Health and Human Services under authority of subsection (2) of Section 9902 of Title 42 of the United States Code.

(l) “Mutual water company” means a mutual water company, as defined in Section 14300 of the Corporations Code, that operates a public water system or a state small water system.

(m) “Nonprofit organization” means an organization qualified to do business in California and qualified under Section 501(c)(3) of Title 26 of the United States Code.

(n) “Public agency” means a state agency or department, special district, joint powers authority, city, county, city and county, or other political subdivision of the state.

(o) “Public utility” has the same meaning as defined in Section 216 of the Public Utilities Code.

(p) “Public water system” has the same meaning as defined in Section 116275.

(q) “Replacement water” includes, but is not limited to, bottled water, vended water, point-of-use, or point-of-entry treatment units.

(r) “Safe drinking water” has the same meaning as defined in Section 116681.

(s) “Service connection” has the same meaning as defined in Section 116275.

(t) “State small water system” has the same meaning as defined in Section 116275.

(u) “Vended water” has the same meaning as defined in Section 111070.

Article 4. Fund Expenditure Plan

116768. The purposes of the fund expenditure plan are as follows:

(a) To identify public water systems, community water systems, and state small water systems that consistently fail to provide an adequate supply of safe drinking water, including the cause or causes of the failure and appropriate measures to remedy the failure.

(b) To determine the amount and type of funding necessary to implement appropriate measures to remedy a failure to provide an adequate supply of safe drinking water.

(c) To identify public water systems, community water systems, and state small water systems that are at significant risk of failing to provide an adequate supply of safe drinking water, including the source or sources of the risk and appropriate measures to eliminate the risk.

(d) To determine the amount and type of funding necessary to implement appropriate measures to eliminate the risk of failing to provide an adequate supply of safe drinking water.

(e) To identify gaps in the provision of safe drinking water, in furtherance of Section 106.3 of the Water Code, and to determine the amount and type of funding necessary to minimize or eliminate those gaps.

116768.5. (a) On or before July 1, 2020, the board shall develop and adopt a policy for developing the fund expenditure plan that includes all of the following elements:

(1) A requirement that the board consult with an advisory group to aid in meeting the purposes of the fund expenditure plan as established in Section 116768. The advisory group shall include representatives of the following:

(A) Public water systems.

(B) Technical assistance providers.

(C) Local agencies.

- (D) Nongovernmental organizations.
 - (E) Residents served by community water systems in disadvantaged communities, state small water systems, and domestic wells.
 - (F) The public.
 - (2) Identification of key terms, criteria, and metrics, and their definitions.
 - (3) A description of how proposed remedies will be identified, evaluated, prioritized, and included in the fund expenditure plan.
 - (4) The establishment of a process by which members of a disadvantaged community may petition the board to consider ordering consolidation.
 - (5) A requirement that the board hold at least one public hearing before adopting a fund expenditure plan.
 - (b) The board, in consultation with the Department of Finance, shall annually adopt a fund expenditure plan. The board shall adopt a handbook and may update it at least once every three years.
 - (c) On or before March 1, 2021, and every March 1 thereafter, the board shall provide to the Joint Legislative Budget Committee and the chairpersons of the fiscal committees in each house of the Legislature the most recently adopted fund expenditure plan. The board may submit the fund expenditure plan as required by this subdivision either in the Governor's Budget documents or as a separate report.
116769. (a) The fund expenditure plan shall contain the following:
- (1) A report of expenditures from the fund for the prior fiscal year and planned expenditures for the current fiscal year.
 - (2) A list of systems that consistently fail to provide an adequate supply of safe drinking water. The list shall include, but is not limited to, all of the following:
 - (A) Any public water system that consistently fails to provide an adequate supply of safe drinking water.
 - (B) Any community water system that serves a disadvantaged community that must charge fees that exceed the affordability threshold established by the board in order to supply, treat, and distribute potable water that complies with federal and state drinking water standards.
 - (C) Any state small water system that consistently fails to provide an adequate supply of safe drinking water.
 - (3) A list of public water systems, community water systems, and state small water systems that may be at risk of failing to provide an adequate supply of safe drinking water.
 - (4) An estimate of the number of households that are served by domestic wells or state small water systems in high-risk areas identified pursuant to Article 6 (commencing with Section 116772). The estimate shall identify approximate locations of households, without identifying exact addresses or other personal information, in order to identify potential target areas for outreach and assistance programs.
 - (5) An estimate of the funding needed for the next fiscal year based on the amount available in the fund, anticipated funding needs, other existing funding sources, and other relevant data and information.

(6) A list of programs to be funded that assist or will assist households supplied by a domestic well that consistently fails to provide an adequate supply of safe drinking water. This list shall include the number and approximate location of households served by each program without identifying exact addresses or other personal information.

(7) A list of programs to be funded that assist or will assist households and schools whose tap water contains contaminants, such as lead or secondary contaminants, at levels that exceed recommended standards.

(b) The fund expenditure plan shall be based on data and analysis drawn from the drinking water needs assessment funded by Chapter 449 of the Statutes of 2018 as that assessment may be updated and as information is developed pursuant to Article 6 (commencing with Section 116772).

(c) The fund expenditure plan shall prioritize funding for all of the following:

(1) Assisting disadvantaged communities served by a public water system, and low-income households served by a state small water system or a domestic well.

(2) The consolidation or extension of service, when feasible, and administrative and managerial contracts or grants entered into pursuant to Section 116686 where applicable.

(3) Funding costs other than those related to capital construction costs, except for capital construction costs associated with consolidation and service extension to reduce the ongoing unit cost of service and to increase sustainability of drinking water infrastructure and service delivery.

116770. The fund expenditure plan may include expenditures for the following:

(a) The provision of replacement water, as needed, to ensure immediate protection of health and safety as a short-term solution.

(b) The development, implementation, and sustainability of long-term drinking water solutions, including, but not limited to, the following:

(1) (A) Technical assistance, planning, construction, repair, and operation and maintenance costs associated with any of the following:

(i) Replacing, blending, or treating contaminated drinking water.

(ii) Repairing or replacing failing water system equipment, pipes, or fixtures.

(iii) Operation and maintenance costs associated with consolidated water systems, extended drinking water services, or reliance on a substituted drinking water source.

(B) Technical assistance and planning costs may include, but are not limited to, analyses to identify and efforts to further opportunities to reduce the unit cost of providing drinking water through organizational and operational efficiency improvements, and other options and approaches to reduce costs.

(2) Creating and maintaining natural means and green infrastructure solutions that contribute to sustainable drinking water.

(3) Consolidating water systems.

(4) Extending drinking water services to other public water systems, community water systems, and state small water systems, or domestic wells.

(5) Satisfying outstanding long-term debt obligations of public water systems, community water systems, and state small water systems where the board determines that a system's lack of access to capital markets renders this solution the most cost effective for removing a financial barrier to the system's sustainable, long-term provision of drinking water.

(c) Identifying and providing outreach to persons who are eligible to receive assistance from the fund.

(d) Testing the drinking water quality of domestic wells serving low-income households, prioritizing those in high-risk areas identified pursuant to Article 6 (commencing with Section 116772).

(e) Providing services under Section 116686.

Article 5. Miscellaneous Provisions

116771. (a) The board may undertake any of the following actions to implement the fund:

(1) Provide for the deposit of any of the following moneys into the fund:

(A) Federal contributions.

(B) Voluntary contributions, gifts, grants, or bequests.

(C) Financial participation by a public agency in an activity authorized for funding from the fund.

(2) Enter into agreements for contributions to the fund from the federal government, local or state agencies, and private corporations or nonprofit organizations.

(3) Direct portions of the fund to a subset of eligible applicants as required or appropriate based on funding source and consistent with the annual fund expenditure plan.

(4) Direct moneys described in subparagraph (B) of paragraph (1) towards a specific project, program, or study.

(5) Take additional action as may be appropriate for adequate administration and operation of the fund.

(b) The board may set appropriate requirements as a condition of funding, including, but not limited to, the following:

(1) A system technical, managerial, or financial capacity audit.

(2) Improvements to reduce costs and increase efficiencies.

(3) An evaluation of alternative treatment technologies.

(4) A consolidation or service extension feasibility study.

(5) Requirements for a domestic well with nitrate contamination where ongoing septic system failure may be causing or contributing to contamination of a drinking water source to have conducted an investigation and project to address the septic system failure, if adequate funding sources are identified and accessible.

(c) Actions taken to implement, interpret, or make specific this chapter, including, but not limited to, the adoption or development of any plan,

handbook, or map, are not subject to the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).

116771.5. (a) This chapter does not expand any obligation of the state to provide resources for the provisions of this article or to require the expenditure of additional resources beyond the amount of moneys deposited in the fund.

(b) The Legislature finds and declares that participation in an activity authorized for funding from the fund or a contribution to the fund by a federal, state, or local agency serves a public purpose and does not constitute a gift of public funds within the meaning of Section 6 of Article XVI of the California Constitution.

Article 6. Information on High-Risk Areas

116772. (a) (1) By January 1, 2021, the board, in consultation with local health officers and other relevant stakeholders, shall use available data to make available a map of aquifers that are at high risk of containing contaminants that exceed safe drinking water standards that are used or likely to be used as a source of drinking water for a state small water system or a domestic well. The board shall update the map annually based on new and relevant data.

(2) The board shall make the map of high-risk areas, as well as the data used to make the map, publicly accessible on its internet website in a manner that complies with the Information Practices Act of 1977 (Chapter 1 (commencing with Section 1798) of Title 1.8 of Part 4 of Division 3 of the Civil Code). The board shall notify local health officers and county planning agencies of high-risk areas within their jurisdictions.

(b) (1) By January 1, 2021, a local health officer or other relevant local agency shall provide to the board all results of, and data associated with, water quality testing performed by a laboratory that has accreditation or certification pursuant to Article 3 (commencing with Section 100825) of Chapter 4 of Part 1 of Division 101 for a state small water system or domestic well that was collected after January 1, 2014, and that is in the possession of the local health officer or other relevant local agency.

(2) By January 1, 2022, and by January 1 of each year thereafter, all results of, and data associated with, water quality testing performed by a laboratory that has accreditation or certification pursuant to Article 3 (commencing with Section 100825) of Chapter 4 of Part 1 of Division 101 for a state small water system or domestic well that is submitted to a local health officer or other relevant local agency shall also be submitted directly to the board in electronic format.

SEC. 10. Chapter 7 (commencing with Section 8390) is added to Division 4.1 of the Public Utilities Code, to read:

CHAPTER 7. DESIGNATED WATER SYSTEM ADMINISTRATION

8390. A privately owned public utility may serve as an administrator for purposes of Section 116686 of the Health and Safety Code.

SEC. 11. (a) The amounts appropriated by Item 3940-102-0001 and Item 3940-102-3228 in the Budget Act of 2019 shall be available for purposes outlined in Chapter 4.6 (commencing with Section 116765) of Part 12 of Division 104 of the Health and Safety Code.

(b) Funds made available pursuant to subdivision (a) shall be used for the purpose of facilitating the achievement of reductions of greenhouse gas emissions in this state in accordance with the requirements of Section 39712 of the Health and Safety Code or to improve climate change adaptation and resiliency of disadvantaged communities, as defined in Section 39711 of the Health and Safety Code, or low-income households or communities, as defined in Section 39713 of the Health and Safety Code, consistent with Division 25.5 (commencing with Section 38500) of the Health and Safety Code. For purposes of the funds made available pursuant to subdivision (a), a state agency may also comply with the requirements of paragraphs (2) and (3) of subdivision (a) of Section 16428.9 of the Government Code by describing how each proposed expenditure will improve climate change adaptation and resiliency of disadvantaged communities or low-income households or communities.

SEC. 12. This act does not impose a levy, charge, or exaction of any kind, such as a tax or fee.

SEC. 13. The provisions of this act are severable. If any provision of this act or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.

SEC. 14. If the Commission on State Mandates determines that this act contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code.

SEC. 15. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the California Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to address the immediate need to provide safe and affordable drinking water to all Californians, it is necessary for this act to take effect immediately.



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

Commissioners
Susan Ellenberg
Sequoia Hall
Sergio Jimenez
Linda J. LeZotte
Rob Rennie
Mike Wasserman
Susan Vicklund Wilson

ITEM # 8

Alternate Commissioners
Cindy Chavez
Maya Esparza
Yoriko Kishimoto
Russ Melton
Terry Trumbull
Executive Officer
Neelima Palacherla

LAFCO MEETING: December 4, 2019

TO: LAFCO

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

SUBJECT: UPDATE ON ORGANIZATIONAL ASSESSMENT STUDY

STAFF RECOMMENDATION

Accept report and provide direction, as necessary.

BACKGROUND

At its October 2, 2019 meeting, the Commission awarded a service contract to Koff & Associates to conduct a Comprehensive Organizational Assessment of LAFCO, in an amount not to exceed \$24,920; and authorized the LAFCO Chairperson to execute the contract with Koff & Associates and any necessary amendments to the contract subject to LAFCO Counsel’s review and approval. The service agreement was signed by Chairperson Vicklund Wilson and Koff & Associates’ representative and fully executed on October 21, 2019.

On October 22nd, EO Palacherla and Asst. EO Noel held a kick-off meeting with the consultants to provide background and begin the study. The consultants then provided an orientation to the staff of the various steps in the study process and reviewed the Position Assessment Questionnaire (PAQ) that individual staff members must complete. Staff is working on completing the PAQs. The consultants are working on determining the comparator agencies and will continue with their other data collection and analysis activities as part of the study.

Per the schedule, the consultants will discuss their draft findings and recommendations with the Finance Committee in February 2020 and receive feedback from the Committee. An additional meeting of the Finance Committee may be held in March 2020, if necessary. At the April 2020 LAFCO meeting, the consultants will present their final findings and recommendations to the full Commission for consideration and any appropriate next steps.



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

Commissioners
Susan Ellenberg
Sequoia Hall
Sergio Jimenez
Linda J. LeZotte
Rob Rennie
Mike Wasserman
Susan Vicklund Wilson

ITEM # 9

Alternate Commissioners
Cindy Chavez
Maya Esparza
Yoriko Kishimoto
Russ Melton
Terry Trumbull
Executive Officer
Neelima Palacherla

LAFCO MEETING: December 4, 2019
TO: LAFCO
**FROM: Neelima Palacherla, Executive Officer
Dunia Noel, Asst. Executive Officer
Lakshmi Rajagopalan, Analyst**
SUBJECT: EXECUTIVE OFFICER’S REPORT

9.1 UPDATE ON RANCHO RINCONADA RECREATION AND PARK DISTRICT SPECIAL STUDY

For Information Only.

LAFCO’s consultants (Berkson Associates) are in the process of preparing a Draft Report with their analysis and findings. However, recent unforeseen changes in executive staffing at the City of Cupertino’s Park and Recreation Department have resulted in a delay in receiving critical information from the City. Therefore, LAFCO’s schedule for completing the Study will need to be revised.

The City’s new Interim Director of the Parks and Recreation Department and other key Department staff are scheduled to tour Rancho Rinconada Recreation and Park District’s facility on November 22nd to become more familiar with the District’s facility and gain a better understanding of the issues at hand. The new Interim Director will then meet with the City’s leadership team in order to begin the City’s information gathering process. Following that meeting, City staff expect to be able to inform LAFCO staff of when they will be able to provide the requested information to LAFCO’s consultants.

LAFCO staff will then revise the schedule accordingly, including new dates for the release of the Public Review Draft Report, presentation of the Draft Report to LAFCO at a public hearing (no final action will be taken on the Report), presentation of the Draft Report to a joint meeting of the Cupertino City Council and the Cupertino Parks and Recreation Commission, and LAFCO’s final public hearing to consider potential action on the Report.

9.2 UPDATE ON WATER SERVICE EXTENSION TO PROPOSED METTA TAM TU BUDDHIST TEMPLE DEVELOPMENT

For Information Only

LAFCO staff, while reviewing an upcoming Morgan Hill City Council agenda learned that the City Council, at its November 20, 2019 meeting, would be considering a request from the Metta Tam Tu Buddhist Temple for a water service connection outside of the City's Urban Service Area Boundary in order to facilitate the proposed construction of a 7,000 square foot Buddha Hall on a property located in the unincorporated area. Although staff knew that the City's consideration of this request was forthcoming, the specifics were unknown to staff until November 18th. LAFCO did not receive notice from the City on this matter.

LAFCO staff consulted County staff and learned that they also had not received notice from the City and that the City's staff report contained factual inaccuracies concerning the status of the County's review and permitting of the proposed development.

On November 20, 2019, the County and LAFCO sent a joint letter (**Attachment A**) to the Morgan Hill City Council requesting that this agenda item be continued for a minimum of 30 days to allow the County and LAFCO the ability to review the proposal and provide feedback to the City.

The County is the land use planning, development review, and permitting agency for the proposed development. LAFCO is the review and approval agency for service extensions outside of city boundaries. In the letter, the County notes that:

Based on an initial review of the proposal, it appears that the proposed water connection would necessitate a modification to the Use Permit the County has approved for the temple, which should occur prior to Morgan Hill's consideration of the water service connection. The County Administration would thus appreciate consult with the applicants (Metta Tam) and the State Water Board regarding the proposal before it is considered by the City.

In response to the County's and LAFCO's joint request for a 30-day continuance, the City Council adopted a resolution approving the water service request and directing City staff to coordinate with the County and LAFCO before filing an application with LAFCO for an out of agency service request. City staff anticipate sending the request to LAFCO in April 2020 for a June 2020 LAFCO decision.

The County Planning Department is developing a history of the development review process for the proposed project site.

9.3 COMMENT LETTER ON CITY OF GILROY'S NOTICE OF INTENT TO ADOPT A MITIGATED NEGATIVE DECLARATION FOR WREN INVESTORS AND HEWELL URBAN SERVICE AREA AMENDMENT

For Information Only

In October 2019, LAFCO staff submitted a comment letter on City of Gilroy's Notice of Intent to Adopt a Mitigated Negative Declaration for Wren Investors and Hewell Urban Service Area Amendment. LAFCO's comment letter requested that the City's environmental analysis fully disclose and analyze the anticipated development, including the services that the City will provide to the area; evaluate the project's consistency to LAFCO Policies; and consider the proposed project's relationship to the City's current General Plan Update. Please see comment letter (**Attachment B**) for further details.

9.4 COMMENT LETTER ON CITY OF GILROY'S NOTICE OF PREPARATION OF A SUPPLEMENTAL DRAFT ENVIRONMENTAL IMPACT REPORT FOR THE GILROY SPORTS PARK MASTER PLAN UPDATE

For Information Only

In October 2019, LAFCO staff submitted a comment letter on the Notice of Preparation of a Supplemental Draft Environmental Impact Report for the Gilroy Sports Park Master Plan Update. The proposed project is an update to Phase III of the adopted Gilroy Sport Park Master Plan to accommodate construction and operations of a permanent structure for operations of a 100,000 square-foot, two-story building with two ice rinks and related parking infrastructure. LAFCO's comment letter requested that the EIR clarify if LAFCO action is required; evaluate potential project impacts; and consider the proposed project's relationship to the City's current General Plan Update. Please see comment letter (**Attachment C**) for further details.

9.5 SANTA CLARA COUNTY ASSOCIATION OF PLANNING OFFICIALS MEETING

For Information Only.

LAFCO staff attended the November 2019 SCCAPO meeting hosted by the City of Milpitas. At the meeting, staff from the Metropolitan Transportation Commission provided an update on Plan Bay Area 2050 and Horizon. The group also received an informational presentation on text messaging tools for community notifications.

ATTACHMENTS

Attachment A: Joint Letter from County of Santa Clara Planning Dept. and Santa Clara LAFCO to Morgan Hill Mayor and City Council dated November 20, 2019

Attachment B: Comment Letter on City of Gilroy's Notice of Intent to Adopt a Mitigated Negative Declaration for Wren Investors and Hewell Urban Service Area Amendment

Attachment C: Comment Letter on City of Gilroy's Notice of Preparation of a Supplemental Draft Environmental Impact Report for the Gilroy Sports Park Master Plan Update

ITEM # 9
Attachment A

From: Eastwood, Rob
To: [Jennifer Carman](#); [Rich Constantine](#); [Michelle Bigelow](#); [Irma Torrez](#)
Cc: [Palacherla, Neelima](#); [Onciano, Jacqueline](#)
Subject: Request for Continuance - Item #9 on City Council Agenda
Date: Wednesday, November 20, 2019 9:01:39 PM
Attachments: [November 20 2019 Morgan Hill City Council Me.pdf](#)

Please find attached correspondence from the County and LAFCO asking for a continuance for Item #9 (Water Connection – Metta Tam) on tonight’s agenda.

-Rob

Rob Eastwood, AICP
Planning Manager, Department of Planning and Development
County of Santa Clara
(408) 299-5792
rob.eastwood@pln.sccgov.org

Please visit our website at www.sccplanning.org

To look up unincorporated property zoning information: <http://sccpropertyinfo.org/>

Questions on Plan Check Status?, please e-mail: PLN-PermitCenter@pln.sccgov.org

WARNING: This message is from an external user. Confidential information such as social security numbers, credit card numbers, bank routing numbers, gift card numbers, wire transfer information and other personally identifiable information should not be transmitted to this user. For question, please contact the Morgan Hill IT Department by opening a new helpdesk request online or call 408-909-0055.



SANTA
CLARA
LAFCO

November 20, 2019

City of Morgan Hill
17555 Peak Avenue
Morgan Hill, CA 95037

**Subject: November 20, 2019 Morgan Hill City Council Meeting, Agenda Item #9 –
Water Service Connection to Metta Tam Tu Buddhist Temple, Fisher Avenue.**

Dear Mayor Constantine and Members of the Morgan Hill City Council -

On behalf of the County of Santa Clara Department of Planning and Development and Santa Clara County Local Agency Formation Commission (LAFCO), we are requesting that Item #9 on the November 20, 2019 City of Morgan Hill City Council Agenda, regarding extension of a water service connection to the Metta Tam Tu Buddhist Temple on Fisher Avenue, be continued for a minimum of 30 days to allow the County and LAFCO the ability to review the proposal and provide feedback to the City.

Neither the LAFCO nor the County administration received formal notice of this proposed City Council action.

Based on an initial review of the proposal, it appears that the proposed water connection would necessitate a modification to the Use Permit the County has approved for the temple, which should occur prior to Morgan Hill's consideration of the water service connection . The County Administration would thus appreciate consult with the applicants (Metta Tam) and the State Water Board regarding the proposal before it is considered by the City.

Thank you for your consideration in this matter.

Sincerely,

DocuSigned by:

Jacqueline Onciano

58D620AC52194DC...
Jacqueline R. Onciano

Director, Department of Planning and Development

DocuSigned by:

Neelima Palacherla

1EF88BF3D724BB...
Neelima Palacherla

Executive Officer
LAFCO of Santa Clara County

Cc:

Board of Supervisors

LAFCO

Sylvia Gallegos, Deputy County Executive

Eric Lacy, State Water Resources Control Board

Mr. Do Tran, Metta Tam Tu



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

777 North First Street
Suite 410
San Jose, CA 95112

SantaClaraLAFCO.org

ITEM # 9, Attachment B

Commissioners	Alternate Commissioners
Susan Ellenberg	Cindy Chavez
Sequoia Hall	Maya Esparza
Sergio Jimenez	Yoriko Kishimoto
Linda J. LeZotte	Russ Melton
Rob Rennie	Terry Trumbull
Mike Wasserman	Executive Officer
Susan Vicklund Wilson	Neelima Palacherla

VIA E-MAIL [melissa.durkin@cityofgilroy.org]

Melissa Durkin, Planner II
Community Development Department
City of Gilroy
7351 Rosanna Street
Gilroy, CA 95020

**RE: CITY OF GILROY’S NOTICE OF INTENT TO ADOPT A MITIGATED
NEGATIVE DECLARATION FOR WREN INVESTORS AND HEWELL
URBAN SERVICE AREA AMENDMENT**

Dear Ms. Durkin:

Thank you for providing the Santa Clara LAFCO, a Responsible Agency, the opportunity to review and comment on the City of Gilroy’s Initial Study (IS) and proposed adoption of a Mitigated Negative Declaration (MND) for the proposed Wren Investors and Hewell Urban Service Area Amendment.

Project Description Concerns & Resulting Analysis Concerns

As indicated in these documents, the proposed project is a “single urban service area amendment to the City of Gilroy’s urban service area (USA) that includes both the previously separate Wren Investors project site and the Hewell project site. The 50.3-acres Wren Investors project site is located north and west of the Gilroy city limits and USA and the 5.36-acre Hewell site is located just outside the northern city limits and outside the USA. Both sites are within the City of Gilroy 2020 General Plan 20-year planning boundary.”

According to the City’s Notice of Intent, the proposed project “does not include any development at this time.” However, in Table 1 of the IS, anticipated buildout for the two sites is presented, including proposed land uses, acreage, and number of residential lots; and a conceptual lot layout for each site is presented in Figure 5 and Figure 6 of the IS. It is unclear what the exact project description is for the proposal and it appears that the project description as written, is not comprehensive enough and would not allow for an adequate environmental analysis to be conducted that meets LAFCO’s needs as a Responsible Agency.

In general, the only purpose of including an area within a city’s USA is to allow the city to annex and provide urban services to the area because the anticipated

development is imminent, and these lands are pre-zoned for a specific development project. Therefore, the City's environmental analysis must fully disclose and analyze the anticipated development, the timing of that development and the services that the City will provide to the area to support that development.

In order to properly conduct such an analysis, more detailed and specific information on the proposed development must be included. This will allow for a more detailed evaluation of the project's anticipated impacts on existing services, utilities, and facilities and how those impacts will be addressed by the City. Without such information, it is premature for LAFCO to consider an USA amendment proposal or its associated environmental impacts.

Proposed Mitigated Negative Declaration's Relationship to Prior Uncertified Wren Investors EIR

As was noted on Page 14 of Appendix B of the City's IS & MND, "EMC Planning Group previously completed CEQA and LAFCO documentation for Wren Investors project in 2014. A portion of the environmental analysis for Hewell/Sheedy Urban Service Area Amendment, Pre-zoning, and Annexation project ("Hewell project") was prepared in 2015. However, the environmental impact report (EIR) for the Wren Investors project was never certified and the Hewell project was put on hold before the CEQA documentation could be completed." It is unclear why the City has prepared only a MND for the proposed project at this time, when the City prepared an EIR for substantially the same proposed project in 2014/2015.

Proposed Project's Relationship to General Plan Update Which is Underway

As noted in the City's MND, "both sites are within the City of Gilroy 2020 General Plan 20-year planning boundary" which was adopted June 2002. We understand that the city is in the process of preparing a new General Plan, which will articulate the vision of the community through the year 2040. As you know, one of the main purposes of any comprehensive general plan update is for a city to analyze future growth scenarios and their associated impacts (e.g. environmental and financial), before approving a specific scenario through the city's adoption of a new General Plan. We also understand that the City Council will soon be considering a Preferred Land Use Alternative for the 2040 General Plan, including a preferred land use alternative for the project area; and that Preferred Land Use Alternative will be analyzed in an upcoming Environmental Impact Report for the 2040 General Plan. Given that the outcome of the update is currently undetermined, it is premature to propose such a USA amendment.

Project's Consistency with LAFCO's Policies

In the Land Use section (p. 67) of the proposed IS, it is stated that the proposed project "would not... conflict with any applicable land-use plan, policy or regulation adopted for the purpose of avoiding or mitigating an environmental effect." However, it does not appear that an analysis was done to evaluate the proposed project for consistency with applicable City policies, County policies or Santa Clara

LAFCO Policies. No specific policies and/or analysis is presented for review, just a summary conclusion. Furthermore, the Land Use section (p. 67) of the IS makes a vague reference to a policy consistency analysis that was prepared for the Wren Investors Draft EIR (2014) and Hewell USA Amendment, Prezone, and Annexation Administrative Draft Initial Study (2015) which was never certified or adopted by the City. The purpose of that reference is unclear.

As part of the USA amendment review process, LAFCO staff will evaluate whether the project is consistent with LAFCO's goals which are as follows:

- Preserve agricultural land and open space resources,
- Discourage urban sprawl, and
- Encourage the efficient provision of services.

LAFCO has adopted local policies based on the above goals. The IS & MND should include an analysis of the proposed project's consistency with applicable LAFCO policies; applicable City policies and County policies.

LAFCO Urban Service Area Policies discourage USA expansions that include agricultural and open space land. These Policies also address issues such as availability of adequate water supply, local and regional impacts, regional housing needs, ability of school districts to provide school facilities, ability of the city to provide urban services to the growth areas without detracting from current service levels, whether the conversion of agricultural and open space lands is premature and if there are other areas into which to channel growth, fiscal impact on other agencies, and consistency with city and county general plans and specific plans. The IS & MND should include an evaluation of whether the project is consistent with all of LAFCO's Urban Service Area Policies.

LAFCO also requires that the City provide information on the current supply of vacant land within its Urban Service Area for the land use categories that the City proposes for the lands within the Urban Service expansion area. If a city has a substantial supply of vacant land within its Urban Service Area and applies for an USA expansion, LAFCO will require an explanation of why the expansion is necessary; why infill development is not undertaken first; and how an orderly, efficient growth pattern, consistent with LAFCO's mandate, will be maintained.

The site of the proposed project includes prime farmlands. Therefore, the IS & MND should include an evaluation of the proposed project's impacts on farmlands.

Conclusion

For the foregoing reasons, we urge the City Council to not approve the proposed Mitigated Negative Declaration at this time. As you know, LAFCO is a Responsible Agency for the proposed project and therefore has an independent obligation to review the IS and MND for legal adequacy under CEQA prior to issuing any approvals for the Project (CEQA Guidelines, §15096.) Therefore, we respectfully request that the City prepare revised documents that address the identified

deficiencies and that the City then recirculate new documents to affected agencies and the public for their review and comment, as required by CEQA.

Thank you.

Sincerely,

A handwritten signature in cursive script, appearing to read "N Palacherla".

Neelima Palacherla
LAFCO Executive Officer

Cc: LAFCO Members
Jacqueline Onciano, Director, Santa Clara County Dept. of Planning & Development



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

ITEM # 9, Attachment C

Commissioners	Alternate Commissioners
Susan Ellenberg	Cindy Chavez
Sequoia Hall	Maya Esparza
Sergio Jimenez	Yoriko Kishimoto
Linda J. LeZotte	Russ Melton
Rob Rennie	Terry Trumbull
Mike Wasserman	Executive Officer
Susan Vicklund Wilson	Neelima Palacherla

October 18, 2019

VIA E-MAIL [Sue.OStrander@ci.gilroy.ca.us]

Sue O’Strander, Deputy Director
Community Development Department, Planning Division
City of Gilroy
7351 Rosanna Street
Gilroy, CA 95020

**RE: CITY OF GILROY’S NOTICE OF PREPARATION OF A SUPPLEMENTAL
DRAFT ENVIRONMENTAL IMPACT REPORT FOR THE GILROY SPORTS
PARK MASTER PLAN UPDATE**

Dear Ms. O’Strander:

Thank you for providing the Local Agency Formation Commission (LAFCO) of Santa Clara County with an opportunity to comment on the Notice of Preparation (NOP) of a Supplemental Draft Environmental Impact Report (EIR) for the Gilroy Sports Park Master Plan Update.

We understand that the proposed project is an update to Phase III of the adopted Gilroy Sport Park Master Plan to accommodate construction and operations of a permanent structure for operations of a 100,000 square-foot, two-story (approximately 30 feet in height) building with two ice rinks and related parking infrastructure, instead of an approximately 41,000 square foot tent-like structure, multi-use ball field, and related parking that are currently identified for that area in the adopted Master Plan. The project site is located outside of the city limits and city’s urban serve area.

LAFCO has the following initial comments on the NOP for the City’s consideration:

Clarification of Project Description, including Any Anticipated Role of LAFCO in Project

According to the City’s Notice of Preparation, the proposed project includes only changes to the Phase III area of the Gilroy Sports Park Master Plan to accommodate construction and operations of a permanent structure and related parking infrastructure for an 100,000 square-foot indoor facility with related parking infrastructure. It is not clear if the proposed project involves annexation of the parcel to the City. If it is determined that LAFCO action is anticipated for an urban service area amendment/annexation, or service extension, LAFCO would be a

Responsible Agency and would have to rely on the Supplemental Draft EIR. Please clarify if LAFCO is a Responsible Agency.

Evaluate Potential Project Impacts

The Supplemental Draft EIR should include a detailed evaluation of the following:

- Proposed project's consistency with LAFCO policies and County General Plan policies
- Proposed project's impacts to agricultural lands;
- Proposed project's impacts on public services and associated facilities, especially fire and police protection services
- Adequacy of utilities and associated systems/facilities necessary to serve the proposed project;
- Growth inducing impacts of the proposed project; and
- Cumulative impacts of the proposed project when considered with other current and probable future projects in the area.

Consider Proposed Project's Relationship to General Plan Update Which is Underway

We understand that the City is in the process of preparing a new General Plan, which will articulate the vision of the community through the year 2040. As you know, one of the main purposes of any comprehensive general plan update is for a city to analyze future growth scenarios and their associated impacts (e.g. environmental and financial), before approving a specific growth scenario through the city's adoption of a new General Plan. It appears that the City is considering changing the General Plan Land Use Designation for various lands in and around the city, including lands located just west of the Gilroy Sports Part. It is unclear how these foreseeable changes will be addressed in the proposed Supplemental EIR, particularly the required analysis of cumulative impacts on public services and associated facilities; and impacts on utilities and associated systems/facilities.

Conclusion

Thank you for the opportunity to review and comment on this Notice of Preparation. Please forward a copy of the Draft EIR when it becomes available. If you have questions regarding these comments, please contact me at (408) 993-4713.

Sincerely,



Neelima Palacherla

Cc: LAFCO Members

Jacqueline Onciano, Director, Santa Clara County Dept. of Planning & Development



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

Commissioners
 Susan Ellenberg
 Sequoia Hall
 Sergio Jimenez
 Linda J. LeZotte
 Rob Rennie
 Mike Wasserman
 Susan Vicklund Wilson

ITEM # 10

Alternate Commissioners
 Cindy Chavez
 Maya Esparza
 Yoriko Kishimoto
 Russ Melton
 Terry Trumbull
Executive Officer
 Neelima Palacherla

LAFCO MEETING: December 4, 2019

TO: LAFCO

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

SUBJECT: CALAFCO RELATED ACTIVITES

10.1 REPORT ON THE 2019 CALAFCO ANNUAL CONFERENCE

For Information Only.

Commissioners Jimenez, Rennie, and Vicklund Wilson; Alternate Commissioners Melton and Trumbull; and LAFCO staff EO Palacherla and Asst. EO Noel, attended this year’s CALAFCO Annual Conference which was held at the Hyatt Regency in Sacramento from October 30 – November 1. The annual conference’s theme was *Connecting CA* 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.

Commissioner Vicklund Wilson and Rennie Participate on Session Panels & EO Palacherla Organizes and Participates on Session Panel

Commissioner Vicklund Wilson (who recently completed her term on the CALAFCO Board of Directors) served as a panelist on a Breakout Session entitled “MSRs: You Get Out What You Put In.” Commissioner Vicklund Wilson provided an overview of Santa Clara LAFCO’s Service Review Program and its critical role in improving the public accountability and transparency of special districts in Santa Clara County.

Executive Officer Palacherla organized a breakout session entitled “What’s Your Story? Crafting and Communicating a Compelling LAFCO Narrative.” Commissioner Rennie participated on the panel and discussed why effective communication is important to LAFCOs, and why Santa Clara LAFCO developed a Communications and Outreach Plan. EO Palacherla discussed the process that Santa Clara LAFCO used to develop its Plan. LAFCO’s consultants, Marianna Leuschel and Chad Upham, discussed how to tell the story of a place; and provided an overview of Santa Clara LAFCO’s Communication Plan, including messages, outreach tools and strategies; and showcased LAFCO’s new communication materials. The session concluded with a group exercise to get attendees thinking about new ways in which their LAFCO can

better communicate and connect with those who do not understand LAFCO's mandate and importance.

Summary of Conference Program

In addition to the pre-conference session entitled "LAFCO 101 – Understanding and Applying the Basics"; the program for the first day of the conference included two general sessions entitled "Stress-Testing LAFCOs and Local Agencies in Changing Times"; and "It Takes a Village: State, County and LAFCO Collaboration to Solve a Local Problem." LAFCO staff attended a mobile workshop to the newly redeveloped Bridge District along the City of West Sacramento's waterfront and heard from West Sacramento Mayor Christopher Cabaldon on the unique relationship between the City and the Port of West Sacramento. As part of the mobile workshop, the group also visited the Port, the Farmer's Rice Cooperative, and the new Sacramento Regional Fire Museum.

Thursday's program included regional caucus meetings and elections, commissioner and staff roundtable discussions organized by region, and breakout sessions including "Innovations in Service Delivery: Doing Government Differently"; "Water, Water Everywhere But Not a Drop to Drink"; "The Legislative Menu: Plan It Rather Than Be Served On It"; and "Housing is a Municipal Service: Opportunities and Challenges for LAFCO in Addressing the Housing Call."

Friday's program included general sessions on "Leading Your LAFCO Into the Next Decade"; and "CALAFCO Legislative Update: 2019 Legislative Impacts on LAFCO." CALAFCO has posted all conference presentation materials and handouts on its website at www.calafco.org.

The 2020 CALAFCO Annual Conference is scheduled for October 21–23, 2020 at the Hyatt Regency in Monterey.



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

Commissioners
Susan Ellenberg
Sequoia Hall
Sergio Jimenez
Linda J. LeZotte
Rob Rennie
Mike Wasserman
Susan Vicklund Wilson

ITEM # 11

Alternate Commissioners
Cindy Chavez
Maya Esparza
Yoriko Kishimoto
Russ Melton
Terry Trumbull
Executive Officer
Neelima Palacherla

LAFCO MEETING: December 4, 2019

TO: LAFCO

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

SUBJECT: LEGISLATIVE REPORT

STAFF RECOMMENDATION

Accept report and provide direction, as necessary.

2019 LEGISLATION OF PARTICULAR INTEREST TO SANTA CLARA LAFCO

The following is a report on the bills signed into law by the Governor in 2019, that are of relevance to Santa Clara LAFCO.

AB 1822 (Assembly Local Government Committee) Omnibus Bill

This is the Assembly Local Government Omnibus bill that makes several non-substantive changes to the Cortese Knox Hertzberg Act. The bill:

- Revises the definition of the term “service” to mean a specific governmental activity established within, and as a part of, a function of the local agency (§56074)
- Includes the definition of the term “service review” to mean an analysis conducted by the commission documenting and analyzing the services in a particular geographic region or jurisdictional area (§56074.5)
- Streamlines language on existing outside service extension statutes (§56133)
- Clarifies the section allowing for the waiver of protest proceedings following Commission approval of a proposal (§56663)
- Includes that a change of organization or reorganizations consisting of a consolidation of two or more cities is subject to confirmation of voters (§57077)
- Clarifies voter requirements for dissolution of a local hospital district (§57103)

AB 600 (Chu) Annexation of Disadvantaged Unincorporated Communities

This bill amends current law under which a LAFCO cannot annex territory greater than 10 acres, or as determined by commission policy, if there exists a disadvantaged unincorporated community (DUC) contiguous to the proposed annexation, unless an application to annex the disadvantaged unincorporated community into the subject city has been filed. This bill clarifies that the prohibition on approving an annexation involving a disadvantaged unincorporated community, as described above, applies to the annexation of territory greater than 10 acres, or smaller as determined by commission policy. The bill also allows the existing approval prohibition and the exemptions to the application requirement apply to the annexation of two or more contiguous areas that take place within 5 years of each other and that are individually less than 10 acres but cumulatively more than 10 acres.

AB 508 (Chu) Consolidation or Extension of Water Service to Disadvantaged Communities

This bill furthers the authority of the State Water Resources Control Board (SWRCB) to order consolidation or extension of water services to a disadvantaged community, if the community, in whole or in part is substantially reliant on domestic wells that consistently fail to provide an adequate supply of safe drinking water. The bill sets a deadline no later than July 1, 2020 for the SWRCB to develop policies outlining the process for members of a disadvantaged community to petition for consolidation.

The bill requires the SWRCB to consider how many owners of dwelling units served by domestic wells in the service area have provided or are likely to provide written consent to extension of service and would specify that the SWRCB needs not find that any specific percentage of the owners of dwelling units served by domestic wells in the service area are likely to consent to the consolidation or extension of service to serve their dwelling units.

The bill also prohibits the SWRCB from requiring the consolidation or extension of service to a residence served solely by a domestic well until an owner of the affected residence provides written consent to the consolidation or extension of service.

The bill requires the SWRCB, before ordering consolidation or extension of service, to hold at least one public meeting at the initiation of the process in a place as close as feasible to the affected areas and to make a reasonable effort to provide a 30-day notice of the meeting.

The bill also requires that the SWRCB, upon ordering consolidation or extension of service, to compensate the receiving water system for any capacity lost as a result of the consolidation or extension of service, as necessary and appropriate, either by paying a capacity connection fee or providing additional capacity needed as a result, and by paying legal fees.

AB 948 (Kalra) Coyote Valley Conservation Program

This bill recognizes Coyote Valley as a resource of statewide significance and authorizes the Santa Clara Valley Open Space Authority to establish and administer the Coyote Valley Conservation Program to address resource and recreational goals of the Coyote Valley. The bill authorizes the Santa Clara Valley Open Space Authority to collaborate with state, regional, and local partners to help achieve specified goals of the program. The bill authorizes the Authority to acquire and dispose of interests and options in real property. The bill requires a development project proponent or party within Coyote Valley to provide notice to the Authority of the proposed project and authorizes the Authority to provide analysis of the environmental values and potential impacts of the proposed project. The bill requires Coyote Valley to be acknowledged as an area of statewide significance in local planning documents developed or updated on or after January 1, 2020, affecting land use within Coyote Valley.

AB 1628 (Rivas) Environmental Justice

This bill revises the definition of environmental justice (one of the factors that the Commission must consider in its review of a proposal) to mean the fair treatment and meaningful involvement of people of all races, cultures, incomes, and national origins, with respect to the location of public facilities and provision of public services, to ensure a healthy environment for all people so that the effects of pollution are not disproportionately borne by any particular populations or communities. [§56668(p)]

REPORT ON CALAFCO LEGISLATIVE COMMITTEE MEETINGS

The CALAFCO Legislative Committee held its first meeting for the 2020 session as a conference call on October 18, 2019. Executive Officer Palacherla participated in the brief meeting. The Committee reviewed the 2019 Legislative year, adopted the 2020 Legislative Committee meeting calendar and guidelines; reviewed the Omnibus bill process; and discussed some of the issues and priorities for the upcoming year.

EO Palacherla attended the second meeting of the Legislative Committee on November 15, 2019 via conference call. The Committee discussed (1) potential amendments to the Legislative Committee Guidelines; (2) various proposals for inclusion in the 2020 Omnibus Bill; (3) proposed CALAFCO sponsored legislation; and (4) impacts of SB 1263 (2016, Wieckowski) and SB 200 (2019, Monning) to LAFCOs. The next Legislative Committee meeting is scheduled for January 17, 2020 in Irvine.

2020 Omnibus Bill May Include Proposal related to Santa Clara LAFCO Public Member Appointments

One of the potential proposals for inclusion in the 2020 Omnibus Bill relates to Santa Clara LAFCO. Specifically, the proposal is to delete the following existing restriction concerning the Public Member appointment currently found in Government Code §56327(d):

The [public] member shall not be a resident of a city which is already represented on the commission. The commission may also appoint an alternate member, who shall not be a resident of a city represented on the commission.

This restriction is specific to Santa Clara LAFCO and does not apply to public or alternate public members at any of the other LAFCOs including the LAFCOs with the special seats. Santa Clara LAFCO has a provision for a special seat (for the City of San Jose), similar to a few other LAFCOs (Kern, Sacramento, San Diego, and Los Angeles) that also have special seats on their commissions.

Because San Jose has a permanent seat on the Commission, the restriction automatically excludes a resident of San Jose from ever serving as a public member on LAFCO, disenfranchising over half the county population. The proposed revision would create consistency and eliminate an unnecessary limitation for a large segment of the County's population to serve on the Commission.

The Legislative Intent file for AB 2003 (1981-1982), the bill that added the special seat for San Jose and the restriction for the public member, does not document a specific explanation for the restriction. Because there was some opposition to providing a special seat for San Jose, it is likely that the restriction was included to pacify the opposition that LAFCO membership would not be dominated by San Jose representation. This is a less central concern now since Santa Clara LAFCO is a seven-member commission with the addition of two special district seats in 2013.

This proposal was initially considered by CALAFCO for inclusion in the 2019 Omnibus Bill as part of a more comprehensive rewrite of provisions related to commission composition. However, it was ultimately not approved for the Omnibus Bill due to the complexity of the changes proposed.

This time around, the proposal includes the deletion of the restriction for Santa Clara LAFCO and other only modest, non-substantive changes to the provisions. The CALAFCO Legislative Committee has requested that Santa Clara LAFCO get feedback from the cities about the proposed deletion to gauge the level of local support for the proposed change. EO Palacherla has reached out to the Santa Clara County Cities Association to see how best to accomplish this.

The Commission considered this matter on February 7, 2018 under Agenda Item #11 and voted to support the proposed deletion of the restriction.

October 2019

Legislature Turns Toward Housing Policy

Written by: Michael Colantuono and Aleks R. Giragosian, Colantuono, Highsmith & Whatley, PC

ANNUAL CONFERENCE EDITION

New Housing Legislation – Are we
Paying Attention?

Making sense of Reclamation
Districts in Yolo County

Doing more than surviving at
San Luis Obispo LAFCo

2019 Report to the Membership

Message from the Chair

Thank You to our
Associate Members

Message from the Executive Director



Governor Newsom recently signed AB 101, a budget trailer bill designed to address California’s housing crisis. Many of its provisions are of interest to cities, counties, and LAFCOs.

Grant Programs. AB 101 incentivizes housing by authorizing the Infill Infrastructure Grant Program of 2019 and the Local Government Planning Support Grants Program. Applications by cities and counties with compliant housing elements that the Department of Housing and Community Development (HCD) has designated as “pro-housing” will receive preference. AB 101’s Infill Infrastructure Grant Program of 2019 authorizes \$410 million for any city within a county with a population over 250,000 and \$90 million for any city within a county with a population less than 250,000.

The notice of funding availability will be published by November 30, 2019. For the \$410 million grant, an eligible infill project is a mixed-use residential project in an urbanized area on a site previously developed, or on a vacant site adjoining parcels developed with urban uses on 75% of its perimeter. Cities may apply individually, or jointly with a developer, to fund infrastructure to support eligible projects, including:

- Water, sewer, or other utility service improvements;
- Streets, roads, or transit facilities;
- Site preparation or demolition; and
- Sidewalk or streetscape improvements.

To qualify for an Infill Grant, a city or county must:

- Have a compliant housing element;
- Have submitted its annual housing element progress reports since 2017;

Continued on Page 9

The Sphere

CALAFCO Journal

October 2019

The Sphere is a publication of the California Association of Local Agency Formation Commissions.

BOARD OF DIRECTORS

Josh Susman, Chair
Michael McGill, Vice Chair
Michael Kelley, Secretary
Shiva Frentzen, Treasurer
Cheryl Brothers
Bill Connelly
Blake Inscore
Gay Jones
Debra Lake
Jo MacKenzie
Margie Mohler
Anita Paque
Jane Parker
Daniel Parra
Susan Vicklund-Wilson
David West

CALAFCO Staff

Pamela Miller, Executive Director
Stephen Lucas, Executive Officer
Christine Crawford, Deputy Exec. Officer
Martha Poyatos, Deputy Exec. Officer
Keene Simonds, Deputy Exec. Officer
Clark Alsop, Legal Counsel
Jeni Tickler, Executive Assistant
Jim Gladfelter, CPA

To submit articles, event announcements, comments or other materials noteworthy to LAFCo commissioners and staff, please contact the Editor at 916-442-6536 or info@calafco.org.

The contents of this newsletter do not necessarily represent the views of CALAFCO, its members, or their professional or official affiliations.

1020 12th Street, Suite 222
Sacramento, CA 95814
916-442-6536

www.calafco.org



Josh Susman
Chair of the Board
CALAFCO

A MESSAGE FROM THE CHAIR OF CALAFCO

Greetings to my fellow California LAFCo members. It has been my privilege and honor to serve as your CALAFCO Chair of the Board this past year.

Our accomplishments would not have been possible without your support - the CALAFCO membership and all who volunteer on committees, your CALAFCO Board, the volunteer regional EOs and the tireless commitment and dedication of CALAFCO's Executive Director, Pamela Miller.

It has been a tumultuous year and it would be great for me to say it has been smooth sailing and that all our sponsored and supported legislation was approved and adopted and there were no challenges for CALAFCO or for all LAFCos throughout our great state. But, alas, this would be "fake news".

Issues and pressures are everywhere...from the Federal government to our own statewide challenges, our individual LAFCo issues and our own CALAFCO priorities. The one thing we all have in common is the strength of one voice we enjoy, the unity of all California LAFCos through CALAFCO. As we each take on our own LAFCo challenges, we have the opportunity to come together and be connected through CALAFCO.

Allow me to be honest for a moment. I've been honored to be on the CALAFCO Board of Directors for 12 years. What has consumed me for the last five years as a member of the CALAFCO Executive Committee (two years as Treasurer) and now as current Chair, has been the sustainability of the CALAFCO Association. Believe it or not, I was on the Board when the current dues structure based on categories of rural, suburban and urban was created. That structure has served the Association well, yet we've outgrown it since it was implemented. Your CALAFCO Board has been discussing this in-depth for the past two years and to that end, the Board's been working to create a contemporary plan and dues structure to better reflect the growing organization, both regionally and statewide, to maintain a sustainable organization.

After almost two years in the making, your Board has reviewed, vetted, discussed and now released for our members' consideration and approval what will be before you at the Annual Business Meeting. I assure you, the Board has considered the significance of this request. One may ask, "Are there improvements to this proposal going forward that could be made?" I know I speak for the Board when I say we are open to new information and feedback. And, time is important if we want to stay financially healthy and not rely on Fund Reserves to balance the budget in future years, and maintain the level of service CALAFCO is providing.

As your Chair, and on behalf of the Board, I ask you at this time for your support as we take the crucial steps forward into the future for a stronger and sustainable CALAFCO organization, representing all of California's LAFCos.

Thanks to all of you for your professionalism in moving CALAFCO forward. I look forward to a bright future for our Association and the magic to be created by the power of our collective voice.

The Sphere

A Message from the CALAFCO Executive Director

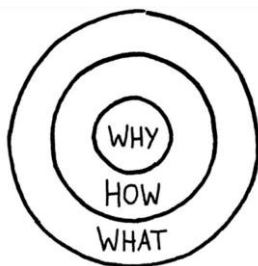


Pamela Miller
Executive Director

What's Your "Why"?

Do you know WHY you do what you do? Everyone knows WHAT they do and most can explain HOW they do it. Few fully understand and can articulate WHY they do what they do. This is true for us as individuals, for teams and for organizations. Yet the WHY is what connects the "what" and "how" to the greater purpose of the work and who we are in the world. Individuals who understand and live their WHY are inspiring and motivating and organizations who operate from their WHY are far more successful than those who don't.

In his book *Start With Why*, Simon Sinek shares the concept of the "Golden Circle". Here's the concept: he asserts that every organization and every person's career operates on three levels as shown in the diagram: **What** we



do, **how** we do it and **why** we do it. In our conversations, that is typically the order or flow in which we present that information. We think, act and communicate from the outside in. We start with the clearest and easiest thing to communicate and move to the more difficult and "squishiest" thing. How compelling and inspiring is that?

Yet, it's the "squishy" that creates connection. Inspiring leaders and successful organizations think, act and communicate from the inside out. They start with the WHY. It's not very compelling and inspiring to hear what I do and why you should care...if I spoke first about why I care and compel you to care then talk about the WHAT...what a shift in perspective and interest that would create.

How often do you think – and I mean really think – about WHY you do what you do?

Our WHY is what inspires and motivates us...it's why we get out of bed every day and go to work or make positive contributions in the world. It is our belief, our cause. Our WHY is what connects us with others and to the work we do. It's not "to make money" or "to

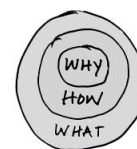
get a promotion" – those are results of our why. Teams that understand their WHY are more easily able to connect their work and how they do it to the greater purpose of the organization and as a result, find greater satisfaction in their work, are more loyal to each other as a team and to the organization. Organizations who know WHY they exist are more successful in fulfilling their vision, mission and purpose.

Do you know what your **WHY** is?

All of us are frequently asked, "What does LAFCo do?" And, how quickly into our response do people's eyes glaze over? It is well before we get to the WHY what we do is important. Imagine if we reversed the order of the response and began with **WHY** the work of LAFCo is important, and move into the how and what...the story would be much more compelling and interesting for people.

Now don't take my word for it...Sinek's Golden Circle concept contains some science about the human brain and how these connections are made. The outer section of the circle, the WHAT, corresponds to the outer section of the brain – the neocortex. This is the part of the brain that controls rational and analytical thought. It helps us to understand facts, figures and controls language.

The middle two sections of the circle, the HOW and WHY, correspond to the middle section of the brain, the limbic system. This part of the brain is what is responsible for our decision making and behaviors. This part of the brain has no capacity for language...therefore this is where "gut feelings" come from.



<<Limbic Brain

<<Neocortex

So, if we want to truly connect with others, we must start with the **WHY**. Only there can we inspire, motivate and create connection.

What's your LAFCo's **WHY**?

What's your **WHY**?



CALAFCO 2019 Annual Report to the Membership

Dear CALAFCO Members:

The CALAFCO Board of Directors is proud to report the highlights of our Association during the past year, which was another full year. CALAFCO continues to be a valuable educational resource to our members and an advocate for LAFCo and LAFCo principles to statewide decision makers. Highlights of the year include our 2019 Annual Conference in Sacramento, Staff Workshop in San Jose, and our continued strong presence across the state as an advocate for LAFCo and LAFCo principles to the Legislature.

We are pleased to report that all 58 member LAFCos have renewed their membership for the 2019-20 fiscal year, and today we have five (5) Gold Associate members and twenty-one (21) Silver Associate members.

Once again this year CALAFCO earned the *GuideStar Exchange Platinum Seal* in recognition of our transparency and completeness in documentation. This is the highest recognition any nonprofit can receive from Guidestar.

Our achievements are the result of the dedicated efforts of the many volunteer LAFCo staff from around the state who contribute their time and expertise. The Board is grateful to the Commissions who support their staff as they serve in the CALAFCO educational and legislative roles on behalf of all LAFCos. We are also grateful to the Associate members and event Sponsors that help underwrite the educational mission of the Association and allow us to keep registration fees as low as possible.

EDUCATIONAL SERVICES AND COMMUNICATION

CALAFCO educational and information sharing-services continue to be the Board's top priority for member services. Under this umbrella, the Association focuses its resources in four areas: the Staff Workshop, Annual Conference, CALAFCO University courses and electronic resources including the web site, quarterly reports and the member list-serves.

2019 Staff Workshop

We continued the tradition of quality education programming with the Staff Workshop held in San Jose in April and the Annual Conference in Sacramento this October. The Workshop, hosted by *Santa Clara LAFCo*, brought together 100 LAFCo staff and guests from around the state, representing 40 LAFCos and four Associate member organizations.

We would like to thank the Program Planning Committee members and Chair *Keene Simonds* (San Diego LAFCo), our host, *Santa Clara LAFCo*, led by *Neelima Palacherla* and all who worked to make this an outstanding Staff Workshop. We also acknowledge and thank the sponsors of this year's Staff Workshop: *Best Best & Krieger; Colantuono Highsmith & Whatley; Open Space Authority of Santa Clara; RSG and De Novo Planning Group*.

All workshop materials were posted to the CALAFCO website prior to the start of the Workshop.

The 2020 Staff Workshop is set for March 25 – 27, 2020 at the beautiful Hyatt Regency Newport Beach John Wayne Airport and will be co-hosted by *Orange and Imperial LAFCos*.

2019 Annual Conference

Approximately 250 LAFCo commissioners, staff and guests are expected at the 2019 Annual Conference in Sacramento as CALAFCO connects California.



The program is rich in content with general and breakout sessions focusing on topics essential to LAFCos as we all continue to tackle the many challenges we face in fulfilling the mission of LAFCo.

We acknowledge and thank the Conference Committee Chair *Anita Paque* (Calaveras), the Program Committee Co-Chairs *Christine Crawford* (Yolo) and *Keene Simonds* (San Diego) and all who worked on the Program Committee to make this an outstanding Conference.

We wish to also thank all of our sponsors for this year's Annual Conference, without whom this special event would not be possible: *Best Best & Krieger; CV Strategies; Streamline; Colanutono, Highsmith & Whatley; Cucamonga Valley Water District; Eastern Municipal Water District; Imperial LAFCo; Irvine Ranch Water District and Western Municipal Water District*.



A special thank you to *CV Strategies* who is sponsoring our first Conference app! They will also be sponsoring the Workshop app for our 2020 Staff Workshop.

Conference presentation materials are posted on the CALAFCO website in advance of the Conference as they are received from presenters. You can find presentation materials for all prior Conferences on the CALAFCO website.

Next year's Conference will be hosted by CALAFCO and held at the *Hyatt Regency Monterey*. Dates are October 21 – 23, 2020.

CALAFCO University



There has been one CALAFCO U course so far this year in Sacramento held on July 15. The topic was *A deep dive into MSRs: One size does not fit all*. A diverse panel of speakers offering varying perspectives of the process, content and value of MSRs was presented.

The next CALAFCO U session is scheduled for January 13, 2020 in Orange County with the topic being *Demystifying legacy costs associated with City and Special District reorganizations*. Once again an all-star panel of experts has been assembled for this session. Registration is open for this unique CALAFCO University course.

Materials for all CALAFCO U sessions can be found on the CALAFCO website.

Accreditations

CALAFCO's educational activities continue to be accredited by the American Planning Association to provide AICP credits for certified planners. This benefit is provided at no cost to LAFCo staff and helps them maintain their certifications. In addition, both the Conference and Workshop have sessions for LAFCo counsel that have been accredited for MCLE credits by the California Bar.

Web Site

The CALAFCO web site is a vital resource for both LAFCos and the community with questions about local government in California. The site consistently attracts between 5,500 and 6,500 visits per week. The vast majority of the visits are for the reference and resource materials found on the site and referral information to member LAFCos.

List-Serves

The list-serves maintained by the Association continue to be an important communication and information sharing tool among LAFCo staff. In total, we maintain eight list serves to help members share information, materials, and expertise. The List-Serves for executive officers, analysts, clerks and counsel discussions remain the most popular and serve to foster the sharing of information and resources. It is important for you to advise CALAFCO when your staff changes so the list serves can be kept up to date.

Special Projects

As a follow up to the 2017 Little Hoover Commission report and recommendations and in light of growing pressure from the Legislature, this year CALAFCO formed a working group to look at potential rewrites of various Protest Provision statutes within CKH. This is a multi-agency and diverse working group with 19 people. CALAFCO member representatives include: *Pamela Miller* (CALAFCO), *José Henriquez* (El Dorado, Central region), *Steve Lucas* (Butte, Northern region), *Kai Luoma* (Ventura, Coastal region), *Paul Novak* (Los Angeles, Southern region), *Holly Whatley* (Colantuono, Highsmith & Whatley), special advisor *Harry Ehrlich* (San Diego), and joint CALAFCO/CSDA Board Member *Jo MacKenzie* (San Diego). Representatives from CSDA include *Anthony Tannehill* and *Mustafa Hessabi* (CSDA staff), *Danielle Coates* (Eastern Municipal Water District), *Christine Compton* (Irvine Ranch Water District), *Lindsey Liebig* (Herald Fire Protection District), *Noelle Mattock* (El Dorado CSD) and *Elliot Mulberg* (Florin RCD & Elk Grove Water District). Other representatives include *Geoff Neill* (CSAC), *Betsy Strauss* (League of CA Cities), *Anton Favorini-Csorba* (Senate Governance & Finance Committee) and *Jimmy MacDonald* (Assembly Local Government Committee).

To date the working group has had two in-person meetings and one phone conference and is in the data gathering stage. The working group is committed to a long process (originally thinking it would be two years). An update on the working group will be provided at the legislative session during the Conference.

LEGISLATIVE PROGRAM

The 2019 legislative year began with excitement and apprehension as we acclimated to a new Governor and new agenda in Sacramento. Of the 2,625 total legislative proposals that were introduced this year, about 40 percent (1,042 bills) made it to Governor Newsom's desk. He signed 870 and vetoed 172.



The CALAFCO Legislative Committee (Committee) began work in October 2018 and met regularly through July 2019.

CALAFCO ended the year tracking a total of twenty-four (24) bills, sponsoring two (2) bills and taking formal positions on nine (9) bills. In addition, we worked closely with authors' offices on several other bills to successfully avoid harmful LAFCo related amendments on bills moving through the Legislature.

CALAFCO also participates on the Department of Water Resources' County Drought Advisory Group (CDAG) and convened the working group on the protest provisions rewrite.

Thorough legislative updates are provided throughout the year via email and are available daily on the CALAFCO website in Capitol Track. In this Annual Report we will summarize the two CALAFCO sponsored bills. A broader legislative discussion on the most critical of bills affecting LAFCo will occur during the Annual Conference – check your program for details. For a complete list of CALAFCO bills, please visit the CALAFCO website Legislation section. Information is updated daily.

On June 26, 2019, the Governor signed **AB 1822**, the Omnibus bill. The bill contained seven (7) updates to CKH. We are grateful for the efforts of Committee member **Sam Martinez** (San Bernardino LAFCo) and Assembly Local Government Committee (ALGC) consultant **Jimmy MacDonald** for their efforts on shepherding this bill, and to all of you who did the work of submitting proposals for insertion into the Omnibus.

The other CALAFCO sponsored bill this year was **AB 1253** (R. Rivas), which provides state funding for LAFCo. Since Governor Brown vetoed **AB 2258** last year, the Board unanimously supported making this a priority again this year. With the potential of \$2 million on the table for LAFCos to study and potentially reorganize service providers with documented known service and governance concerns serving disadvantaged communities and all LAFCos getting reimbursement for the unfunded mandate related to SB 448 (mandatory dissolution of inactive districts), we felt it was important to try again with a new Governor.

Ultimately the funding did not make it into the FY 2019-20 budget and the author decided to hold off one more year and try to secure the funds in the FY 20-21 budget. Additionally, the Department of Conservation expressed an interest in assisting CALAFCO in

securing funds to reimburse LAFCos for the mandated dissolutions in a separate piece of legislation.

The Board decided this will be a priority one last and final time for the 2020 legislative year.

The CALAFCO Board and Executive Director wish to thank everyone who responded to the calls for legislative action throughout the year. Our collective voice really does have an impact and makes a difference in Sacramento.

We also want to thank all of the people who volunteer to be a part of the Legislative Committee and the Legislative Advisory Committee. They work hard for a large portion of the year on behalf of the entire membership.

FINANCIAL POLICIES AND REPORTING

The Board maintains policies and current filings which are in compliance with all federal and state requirements for 501(c)(3) organizations. The CALAFCO Policy Manual, IRS Form 990 and other key Association documents are available on the CALAFCO web site. The Association also maintains its records with the national nonprofit reporting organization, GuideStar (www.guidestar.com). In 2019 CALAFCO earned the *GuideStar Exchange Platinum Seal* in recognition of our transparency and completeness in documentation. This is the highest level of achievement seal an entity can earn from GuideStar.

All financial records are reviewed quarterly by an outside CPA with reports to the Treasurer and the Board. The Board also reviews the annual IRS Form 990 tax filing prepared by the CPA and staff.

2019-20 Budget

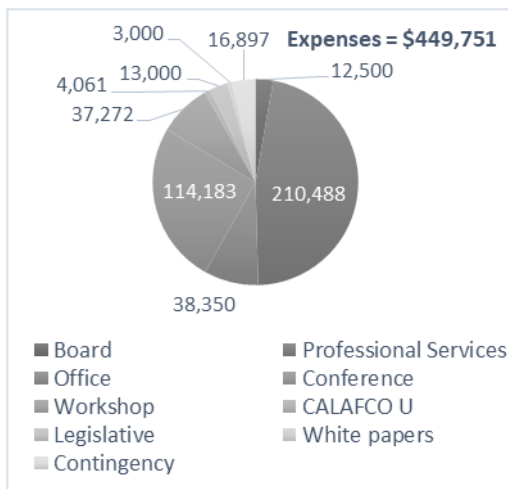
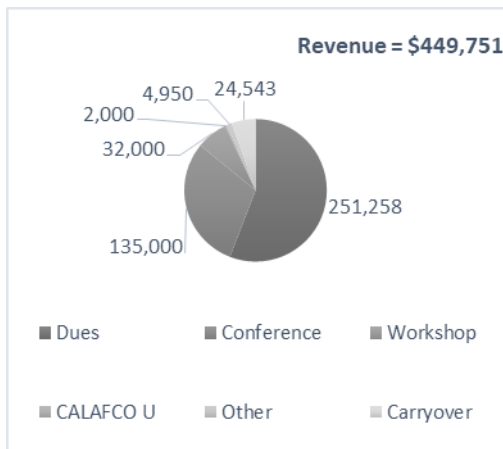
The Board and Executive Director continue to manage the financial resources of the Association closely. As was reported the past two years, we continue to have an unhealthy and unsustainable reliance on the Conference net profit and prior years' net balance to balance the budget. The member dues have never covered the operational costs of the Association and as those costs increase, the increase in dues has not kept pace causing the gap to continue to grow.

In May, the Board adopted a balanced budget. This is due mostly to the large net profit realized for the 2018 Annual Conference (42%), with some savings in the budget realized by staff. As a result of this net profit, we did not have to rely on the \$18,153 of Reserve Funds needed to balance last year's budget. The net surplus allowed us to cover that deficit, cover \$35,591 of the



approx. \$69,000 structural deficit for FY 2019-20, have a surplus carryover balance of \$24,543 and hold almost \$17,000 in the Contingency Fund for FY 2019-20. The remaining portion of the anticipated structural deficit of FY 2019-20 was shared with a one-year cost-sharing increase in member LAFCo dues of 16.25%.

Revenues for FY 2019-20 are budgeted at \$425,208 with an additional \$24,543 in net surplus for a total of \$449,751. Member LAFCo dues comprise \$239,358 of this amount. Expenses are budgeted at \$432,854 with an additional \$16,897 budgeted for Contingency. Total operational expenses are budgeted at \$277,338 (excludes Conference, Workshop and CALAFCO U expenses). This means for FY 2019-20 there is a structural deficit of \$37,980 (difference between member LAFCo dues and operational costs of the Association).



This deficit is being covered by the 15% Conference net profit built into the budget as well as the net surplus. It is the hope of the Board that this year's Conference will realize the budgeted net profit.

The Board spent a great portion of the year discussing the dues structure and the structural deficit, as it promised the membership last year. The financial ad hoc committee did a tremendous amount of work in creating and considering eleven (11) various options of new dues structure before forwarding two to the Board. The Board considered several options over a number of months and in early August presented the membership with a proposal for consideration at the 2019 Annual Business Meeting. Over the past several months, Board members and CALAFCO staff have reached out to our members and made ourselves available to answer questions about the new proposed dues structure. We look forward to this discussion on October 31.

Restricted Fund Reserve

Since 2005 an important goal established by the Board has been to grow and maintain a Fund Reserve to support member services in uncertain economic times and to avoid the need to tap members for additional funds, as had been done in the past. The current balance in our Fund Reserve account is \$162,754, about 58% of the annual operations budget outside of the Conference, Workshop and CALAFCO U. The reserve is not part of the annual budget and requires a vote of the Board to use its funds. The Association has not used the fund reserve since the early 2000s.

CALAFCO maintains its funds with the Local Agency Investment Fund (LAIF). Interest rates have turned and are slowly on the increase.

All financial reports, including budgets and annual tax filings, are available to the membership on the CALAFCO website as well as on GuideStar's website.

ASSOCIATION MANAGEMENT

Earlier this year CALAFCO had to unexpectedly relocate our offices. After eleven years subleasing office space from the Rural County Representatives of California (RCRC), they expanded and needed the space for their own use. With only 45 days to find a new home and move (around the same time as the staff workshop!), staff quickly researched new locations and narrowed the field to several affordable options. Staff presented the information to the Board and a decision was made. The offices were relocated in downtown effective May 1. While there have been numerous challenges associated with the new location, staff continues to work getting settled into the new CALAFCO home.



A FINAL THANK YOU

We wish to recognize the leadership of our Executive Director **Pamela Miller** and Executive Officer **Steve Lucas** (Butte). Added to that is our appreciation for all the contributions of Executive Assistant **Jeni Tickler** in the CALAFCO office, DEOs **Christine Crawford** (Yolo), **Martha Poyatos** (San Mateo) and **Keene Simonds** (San Diego), Legal Counsel **Clark Alsop** (BB&K), and CPA **Jim Gladfelter** (Alta Mesa Group). These people, along with many other volunteers, Associate members and members of the Board have all worked together this year to bring many achievements and a strong Association to you, our member LAFCoS and Associate members.

Sincerely Yours,
The CALAFCO Board of Directors

Making Sense of Reclamation Districts in Yolo County

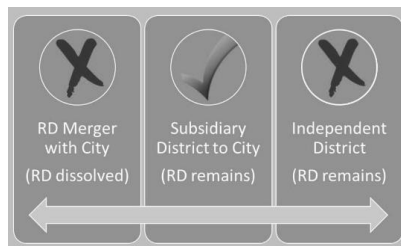
Written by Christine Crawford, Yolo LAFCo

Yolo's fifteen (15) reclamation districts (RDs) were formed roughly 100 years ago back in a time when counties sold an acre of land for a mere \$1 to anyone who was willing to "reclaim" it from the swamps by building up levees. Surprisingly, in Yolo County there have been few governance changes in the last century (except for some previously existing RDs going defunct) despite the significant changes in development and community patterns.

Yolo LAFCo currently has seventeen (17) state and local agencies maintaining portions of the Sacramento River Levee System. With heightened interest after Hurricane Katrina and the State's efforts with the Central Valley Flood Protection Plan, Yolo LAFCo embarked on a comprehensive MSR to

solve this critical governance problem: levees are only as strong as the weakest link and with so many RDs (and some

underperforming), something needed to be done. Therefore, the primary goal of the MSR was to encourage consolidations and determine the best agency to become the lead for each of Yolo's five hydrologic basins.



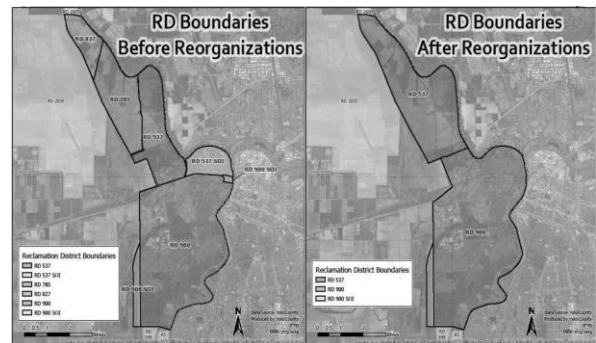
The 2018 MSR resulted in governance recommendations for each of the five hydrologic basins. In particular, the West Sacramento Basin recommendation was controversial with the local reclamation district (RD 900) fighting to retain independent control. However, because the district was completely within City boundaries, LAFCo ultimately recommended in its MSR the district be established as a subsidiary district to the City of West Sacramento. The graphic shows the range of alternatives considered in the MSR.

LAFCo's recommendation was fought by RD 900 and became the subject of a Yolo County Grand Jury investigation with a report issued June 28, 2019, awkwardly, while the proposal application was still pending.

Steadfast in its mission, at its May 23 and July 25, 2019 meetings Yolo LAFCo approved two proposals resulting from the 2018 MSR to achieve what is illustrated in the "before and after" maps below. Four RDs became two, which are now aligned to each hydrologic basin and unique urban versus rural needs. In addition, two areas (one of them disadvantaged) previously not covered by the RD were annexed.

There was no protest filed to the proposal to dissolve and annex the RDs to the north into RD 537 and the protest process for RD 900 concludes on November 13, 2019. Assuming all the terms and conditions are successfully completed, the reorganizations will become effective on July 1, 2020.

I am very proud of the Commission's persistent leadership over the past three years to bring much needed governance changes to ensure critical public safety along the Sacramento River Levee System in Yolo County and a more sensible governance configuration.



Legislature Turns Toward Housing Policy

Continued from front cover

- Apply the funds toward a project
 - with at least 15% affordable units;
 - in an area zoned for mixed-use or residential development;
 - with an average residential density of 30 or more units per acre for a jurisdiction in a metropolitan county.

The Local Government Planning Support Grants Program funds local planning activities to accelerate housing projects and housing element compliance. It authorizes:

- \$125 million for councils of governments; and,
- \$125 million for cities and counties.

The funds may only be used for housing-related planning, including:

- Rezoning and updating planning documents, such as general plans, including housing elements, community plans, specific plans, and sustainable communities strategies;
- Program level CEQA compliance to eliminate the need for project-level review;
- Establishing a Workforce Housing Opportunity Zone (Gov. Code, § 65620 et seq.) or a Housing Sustainability District (Gov. Code, § 66200 et seq.);
- Infrastructure planning, as for sewers, water, transit, roads, or other public facilities to support new housing and residents;
- Partnering with other local entities to identify and prepare excess property for residential development;
- Revamping local planning processes;
- Developing or improving an accessory dwelling unit ordinance; or
- Covering the costs of temporary staffing for these efforts.

HCD will accept applications for Planning Program grants through July 1, 2020.

Housing Elements. Courts may apply a broad range of existing remedies if a city’s or county’s housing element is non-compliant, such as:

- Suspending a city’s or county’s authority to issue building, zoning and map approvals;
- Mandating approval of certain housing projects; or

- Forbidding denial of certain affordable developments.

AB 101 creates a new means to enforce housing element requirements. First, HCD will post on its website and update monthly a list of cities and counties that have not adopted compliant housing elements. Second, HCD will notify the city or county of its non-compliance, offer two opportunities to meet in person or via telephone to discuss the violation, and provide written guidance after the meeting. Then, HCD may:

1. Ask the Attorney General to request a court order directing the city or county to bring its housing element into substantial compliance.
2. If the local agency does not comply within 12 months of the order, the court must impose a fine ranging from \$10,000 to \$100,000 per month to be deposited into SB 2’s Building Homes and Jobs Trust Fund. If the local agency fails to pay its fines, the court may require the State Controller to intercept any state and local funds to cover it.
3. If the local agency does not comply within 3 months of the imposition of the fine, the court may triple the fine.
4. If the local agency does not comply within 6 months of the original fine, the court may increase the fine six-fold or appoint a receiver to bring the agency’s housing element into compliance.



By December 31, 2022, HCD and the Office of Planning and Research will develop a revised RHNA process “that promotes and streamlines housing development and substantially addresses California’s housing shortage.” It is unclear how the revision will affect, if at all, the sixth cycle RHNA allocation plan, which is scheduled to be adopted by the Southern California Association of Governments for its region in October 2020.

Zoning Standards. AB 101 defines a “Low Barrier Navigation Center” facility as a housing-first, low-barrier, service-enriched shelter focused on moving people into permanent housing that provides temporary living facilities while case managers connect homeless people to income, public benefits, health services, shelter, and housing. “housing-first” providers offer services as needed and requested on a voluntary basis and do not make housing contingent on participation in services. A city or county has 30 days to notify a developer proposing such a use that its application is complete, and 60 days to act on a complete application.

Cities and counties must treat this use as a use by right in mixed use and nonresidential zones which allow multi-family uses, approving it on a ministerial, or “over the counter,” basis — without CEQA review. The statute applies to charter cities and expires January 1, 2027.

Conclusion. Housing and homelessness are pressing concerns for Californians and therefore have received sustained legislative attention. Further developments are likely in the next legislative session. In the meantime, there is much for local governments — and the LAFCoS which serve them — to get up to speed on.

Doing More Than Surviving in San Luis Obispo

Written by: David Church, San Luis Obispo LAFCo

Staff Transitions. Life happens, and SLO LAFCo’s Clerk, Ms. Donna Bloyd retired at the end of June. Donna has been the glue of our organization for over 15 years. She wrote procedures, organized the office, worried about the details and took great care to ensure SLO LAFCo achieved its mission. Donna cared deeply about us doing a great job and we wish her well in retirement!

In September, we hired Imelda Marquez as our new Clerk. Imelda came to us via Fresno LAFCo where she was an intern. She has enthusiasm, tenacious curiosity and a Bachelor’s in Geography. In her first month she has clerked a meeting, prepared and sent out the agenda, paid the bills, and basically hit the ground running. It is evident that Imelda also cares deeply about doing great work! Welcome aboard Imelda—we are so thankful for you! Also, thanks to Fresno LAFCo for pointing out Imelda’s outstanding skills and talents.

We also saw the retirement of Ray Biering, our steadfast legal counsel and advocate for almost 20 years. Ray’s excellent public agency experience kept us moving in the right direction. Brian Pierik of Burke, Sorensen and Williams has joined us and has been exceptional over his first year. Welcome Brian!

Opting-In, Opting-Out. The two California Water Districts that were formed to help landowners comply with SGMA in the Paso Robles Groundwater Basin were created on the principal of voluntary participation. In other words, as a landowner you could opt-in to the District and conversely opt-out if you wanted to have the County be your GSA instead. Well, the 140,000 acre Shandon-San Juan Water District, which is a GSA under SGMA, had a 33,000 acre detachment (opt-out/Ranch) in September, 2019. This decreased the funding for the District by around \$7,000

overall. The District, while not excited about the detachment, did not oppose it and LAFCo approved the proposal. Interesting to see how things work out in an impacted and polarized groundwater basin that is under SGMA’s bright light.

Commission Pulls Together. The last couple years our Commission has really done a great job of pulling on the same end of the rope. By that I mean, we have tackled some challenging issues with a respectful and listening attitude towards the public, applicants and each other. This has created a good decision making climate for all parties. Special thanks to our Chair, County Representative, Lynn Compton for running an efficient and civil ship. Kudos to the Commission for giving your patient and thoughtful effort to those involved in the work we do for the County, Cities and Special Districts.

SOI/MSR/MOA Updates. It would be easy to take for granted that we have now, for the third time in 17 years, updated the Spheres of Influence, Municipal Service Reviews and the Memorandum of Agreements for the Cities of Pismo and Atascadero. We started this journey back in 2002 with Pismo Beach and have carried on consistently throughout the years with regular updates and an annual work plan. The updates have not been completed exactly every five years, but they have been done “as needed”. Thank goodness we have some flexibility written into the CKH Act. The key SOI’s now have embedded in them conditions regarding the preservation of prime agricultural land, having a sustainable, adequate and reliable water supply, and we even tackled the negotiated property tax process. We are so appreciative of Mike Prater, Deputy Executive Officer, who expertly manages this program and herds the cats towards the finish line! Great Job Mike!

In Memory of Jim Gray

Placer LAFCo lost a long time Commissioner when Jim Gray passed away August 21. Jim was serving as the Alternate Public Member and had previously served as a City member, having served on the Commission for approximately eleven years. He had attended several CALAFCo Conferences.



Jim had been on the Roseville City Council for nine years, including two terms as Mayor, and was an active Rotarian and volunteer in the community. Jim volunteered his time coaching youth sports and participating in numerous community organizations. Jim was the Personnel Director for Placer County prior to his retirement.



Thank You to All of Our Associate Members

CALAFCO GOLD ASSOCIATE MEMBERS

PROJECT RESOURCE SPECIALISTS
Service First. Service Right.
HARRY EHRLICH, SDA
Principal



Specializing in consulting to local government for organizational and policy development, training assistance and tracking of legislative issues.
40 YEARS OF EXPERIENCE WITH CITIES, SPECIAL DISTRICTS AND NON-PROFIT AGENCIES

Phone
1-760-415-6148
ehrlchprsa@gmail.com

BBK
BEST BEST & KRIEGER
ATTORNEYS AT LAW

COLANTUONO
HIGHSMITH
WHATLEY, PC

CV STRATEGIES
PRECISION IN PERCEPTION™
www.cvstrat.com

meyers | nave
professional law corporation

CALAFCO SILVER ASSOCIATE MEMBERS

*Berkson Associates
City of Fontana
City of Rancho Mirage
County Sanitation Districts of L. A. County
Cucamonga Valley Water District
Dudek
E. Mulberg & Associates
Economic & Planning Systems (EPS)
Goleta West Sanitary District
Griffith & Matsuda, a Professional Law Corp.
HdL Coren & Cone*

*LACO Associates
Lamphier-Gregory
P. Scott Browne
Pacific Gold Agriculture, LLC
Planwest Partners, Inc.
Policy Consulting Associates
QK
Rancho Mission Viejo
Rosenow Spevacek Group (RSG)
Santa Ynez Community Services District*

LOOKING AHEAD....



CALAFCO 2020 Staff Workshop

March 25 - 27

Hyatt Regency Newport Beach, John Wayne Airport
Hosted by Orange & Imperial LAFcos

CALAFCO 2020 Annual Conference

October 21 - October 23

Hyatt Regency
Monterey, CA

The Sphere

CALAFCO Journal

CALIFORNIA ASSOCIATION OF LOCAL AGENCY
FORMATION COMMISSIONS

1020 12th Street, Suite 222
Sacramento, CA 95814

www.calafco.org



CALAFCO provides educational, information sharing and technical support for its members by serving as a resource for, and collaborating with, the public, the legislative and executive branches of state government, and other organizations for the purpose of discouraging urban sprawl, preserving open-space and prime agricultural lands, and encouraging orderly growth and development of local agencies.

Sharing Information and Resources

The Year In Pictures - Scenes from CALAFCO Activities

CALAFCO Annual Conference 2018

Yosemite, CA



CALAFCO Annual Staff Workshop 2019

San Jose, CA



News > [Environment & Science](#) • News

Historic \$93 million deal reached to preserve San Jose's Coyote Valley



Area once planned for world headquarters of Cisco and Apple to be bought for open space



Hay bales on the Brandenburg property on June 4, 2019 in Coyote Valley in South San Jose, Calif. (Sofie Bates/Bay Area News Group)

By **PAUL ROGERS** | progers@bayareanewsgroup.com | Bay Area News Group
PUBLISHED: November 5, 2019 at 5:00 am | UPDATED: November 5, 2019 at 2:34 pm

HISTORIC COYOTE VALLEY LAND DEAL



Source: Peninsula Open Space Trust

BAY AREA NEWS GROUP

Ending more than 35 years of development battles on one of Silicon Valley's most sought-after landscapes, the San Jose City Council on Wednesday is expected to approve a \$93 million deal to purchase 937 acres in Coyote Valley, a rural expanse of farmland and open space on the city's southern edges.

In the 1980s, Apple eyed Coyote Valley as a place to build its world headquarters. In the 1990s, Cisco Systems tried to build a massive campus there. Both were fought by environmental groups, who said the area — currently used by farmers and wildlife — should be left in its natural state.

“This is an opportunity for us to preserve an important part of our past and do so with a clear eye to the future,” said San Jose Mayor Sam Liccardo. “Nobody ever regretted the opportunity to enjoy an open vista of green space. We shouldn't foreclose that for our children and grandchildren.”

Under the deal, the city will pay \$46 million, and the Peninsula Open Space Trust, a non-profit group based in Palo Alto, will pay \$42 million, to complete the purchase from leading Silicon Valley developers Brandeburg Properties and



Hay bales are photographed on the Brandenburg property in Coyote Valley in San Jose, Calif., on Tuesday, June 4, 2019. (Randy Vazquez/Bay Area News Group)

The land, which runs down the western edge of Highway 101 and abuts Bailey Avenue, forms a key connection that allows wildlife — from mountain lions to deer — to move from the Diablo Range to the Santa Cruz Mountains, scientists say. The properties, left undeveloped, also will be used to provide natural flood protection for downtown San Jose, so that when Coyote Creek is flooding, as it did in 2017, causing \$100 million in damage, its waters can be spread over the open area instead of rushing downtown into neighborhoods.

In a broader sense, the deal, which the council is expected to approve, preserves one of the last reminders of San Jose’s rustic agricultural past, when orchards, fields and canneries gave the region the nickname “Valley of Heart’s Delight” before electronics companies, the computer industry, sprawling subdivisions and traffic swallowed much of it up starting in the 1950s.

“This is the last vestige of that absolutely stunning area, Valley of Hearts Delight,” said Walter Moore, president of the Peninsula Open Space Trust. “It’s the last big flat valley in San Jose from that era that hasn’t been paved over.”

The land is currently zoned for light industrial development. The city’s general plan allowed for up to 30,000 jobs there. Those will need to be moved elsewhere, city leaders acknowledge.

“This deal is a good idea, and I’ll be supporting, it, but now we have to look for places where we can put industrial development,” said San Jose City Councilman Johnny Khamis. “It’s going to put us in a little bit of a tough spot, but we’ll work on it. A lot of people are saying we have to build taller. That might work for biz building but it doesn’t work for manufacturing.”

In 2000, Cisco pushed to build a 6.6 million-square foot campus with 20,000 workers on the site, which sits at the northern edge of Coyote Valley. The city council approved the plans, and the Sierra Club and Santa Clara Valley Audubon Society sued unsuccessfully to stop it. Cisco dropped its plans two years later after the tech economy collapsed for several years.

More recently, Brandenburg and Sobrato did not submit development plans.

After the deal closes, San Jose will retain ownership of 296 acres, and the rest will go eventually to the Santa Clara Valley Open Space Authority, a government agency based in San Jose that operates public open space preserves on both sides of Coyote Valley.



Robin Grossinger, scientist at the San Francisco Estuary Institute, walks on a hill above the Laguna Seca region of the Coyote Valley in San Jose, California, on Friday, June 9, 2017. (Gary Reyes/ Bay Area News Group)

The authority will begin organizing docent-led tours for the public in the next

The entire project to renovate the landscape could take 10 years and cost more than \$100 million, she said. That funding is likely to come from private sources, state grants and federal funds.

“This is San Jose’s last great open space,” said Mackenzie. “We are going to do this right. Coyote Valley and the promise that it offers is on par with some of the great natural open spaces in the Bay Area.”

She noted that not only can the area and its wetlands help with flood control, it also sits on a major underground drinking water aquifer that the South Bay needs to be preserved.

And the wildlife is noteworthy. The area is home to numerous rare and endangered species, including the jewel flower, bay checkerspot butterfly, western burrowing owl, tiger salamander, tri-colored blackbird, red-legged frog, and Swainson’s hawk. So far, 224 species of birds have been documented there.

The deal took four years to work out, and funding was complicated.

The city’s share for the purchase will come from Measure T, a \$650 million bond measure approved by San Jose voters last November to upgrade emergency services, pave roads, build bridges, and improve flood control. That measure, which passed with 71 percent support, included up to \$50 million to preserve Coyote Valley.

Measure T, along with two other items on the June, 2018 ballot, Measure B and Measure C — in which voters rejected efforts to change the city’s general plan to allow more development in the Evergreen area — sent a signal, Moore said.

“Those measures showed the will of the people,” Moore said. “The landowners were starting to see that the public wanted a new vision for the area and they were willing to cooperate.”

Brandenburg and Sobrato issued a joint statement echoing that view.

“More times than not, unfortunately, the environmental community and the development community don’t see eye to eye,” the companies said. “This major step in the permanent protection and preservation of a significant portion of the Coyote Valley is an example of a public-private effort where the parties collaboratively and cooperatively persevered with one another in positive spirit to achieve the will of the voters of San Jose.”

For environmental groups, the news has been breathtaking.

“It’s beyond exciting,” said Megan Fluke, executive director of the Committee for Green Foothills. “This has been the biggest issue for the local conservation community in the South Bay for more than a generation. There are plenty of people who worked on this for years who are no longer here. Hopefully they are smiling down on us. There’s just such a feeling of joy that this landscape is being preserved.”

[Report an error](#)

[Policies and Standards](#)

[Contact Us](#)

 **The Trust Project**

SPONSORED CONTENT

Is There an Option to Help Manage My Endo Pain?

By **abbvie**

Want more info on another option to help manage endometriosis pain? Start by clicking here.

Tags: [Business](#), [Commercial Real Estate](#), [Environment](#), [Mayor Sam Liccardo](#), [Parks](#), [PM Report](#), [Regional](#), [San Jose](#), [San Jose City Council](#), [Technology](#), [Wildlife](#)

Paul Rogers Paul Rogers has covered a wide range of issues for The Mercury News since 1989, including water, oceans, energy, logging, parks, endangered species, toxics and climate change. He also works as managing editor of the Science team at KQED, the PBS and NPR station in San Francisco, and has taught science writing at UC Berkeley and UC Santa Cruz.

 [Follow Paul Rogers @PaulRogersSJMN](#)

SUBSCRIBE TODAY!

ALL ACCESS DIGITAL OFFER FOR JUST 99 CENTS!
