



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

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SantaClaraLAFCO.org

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Zach Hilton
Teresa O'Neill

Executive Officer
Neelima Palacherla

ITEM # 6

LAFCO MEETING: June 3, 2026

TO: LAFCO

FROM: Neelima Palacherla, Executive Officer

**SUBJECT: PROPOSED FY 2027 FINAL BUDGET AND
AB 2561 DISCUSSION ON STATUS OF EMPLOYEE
VACANCIES AND RECRUITMENT AND RETENTION
EFFORTS**

STAFF RECOMMENDATIONS

1. Adopt the Final Budget for Fiscal Year 2026-2027.
2. Find that the Final Budget for Fiscal Year 2027 is expected to be adequate to allow the Commission to fulfill its statutory responsibilities.
3. Authorize staff to transmit the Final Budget adopted by the Commission including the estimated agency costs to the cities, the special districts, the County, the Cities Association of Santa Clara County and the Santa Clara County Special Districts Association.
4. Direct the County Auditor-Controller to apportion LAFCO costs to the cities; to the special districts; and to the County; and to collect payment pursuant to Government Code §56381.

REVISIONS TO THE PROPOSED FINAL BUDGET FOR FY 2027

On April 1, 2026, the Commission adopted its preliminary budget for Fiscal Year 2027 as recommended by the Finance Committee. The preliminary budget adopted by the Commission is available as Agenda Item #5 of the April 1, 2026 LAFCO Meeting packet.

Since then, new information has become available for two line-items which require adjustment in the LAFCO budget. Presented below are the proposed line-item revisions:

Object 1: Salaries and Benefits Increased from \$1,088,248 to \$1,179,580

The County has provided updated projections for LAFCO’s position costs. The preliminary budget approved by the Commission in April 2026 included LAFCO’s FY 2027 position costs as \$1,088,248. The new Object 1 amount of \$1,179,580 includes

\$64,972 in increased costs related to salaries and \$26,360 in increased costs related to benefits.

5220200 Insurance Increased from \$8,000 to \$11,623

This item is for purchasing general liability insurance for LAFCO and workers' compensation coverage for LAFCO commissioners from the Special District Risk Management Authority (SDRMA). As reported in the preliminary budget, the SDRMA estimates for FY 2027 were not available until after the publication of the preliminary budget. The proposed amount includes \$10,638 for the property/liability coverage and \$985 for the workers compensation program.

Increase in LAFCO's FY 2027 Expenditures and Operating Expenses

The proposed FY 2027 Final Budget (**Attachment A**) includes the above listed modifications and indicates an increase of 19% (12% in preliminary budget) in FY 2027 overall expenditures and an increase of 20% (13% in preliminary budget) in FY 2027 net operating expenses, compared to the current year budget.

AB 2561 DISCUSSION

AB 2561, which went into effect on January 1, 2025, requires a public agency to present the status of vacancies and recruitment and retention efforts at a public hearing at least once per fiscal year and prior to the adoption of the final budget. It requires the public agency, during the public hearing, to identify any necessary changes to policies, procedures, and recruitment activities that may lead to obstacles in the hiring process. It also entitles the recognized employee organization to be present at the hearing. If the number of job vacancies within a single bargaining unit meets or exceeds 20% of the total number of authorized full-time positions, the bill requires the public agency, upon request of the recognized employee organization, to include specified information during the public hearing.

Santa Clara LAFCO does not have any vacant positions currently and therefore, there are no recruitment efforts. In addition, there are no recommended changes to retention efforts. Lastly, we have not identified any necessary changes to policies, procedures and recruitment activities that may lead to obstacles in the hiring process.

LAFCO ANNUAL BUDGET PROCESS REQUIREMENTS

The Cortese Knox Hertzberg Local Government Reorganization Act of 2000 (CKH Act) which became effective on January 1, 2001, requires LAFCO, as an independent agency, to annually adopt a draft budget by May 1 and a final budget by June 15 at noticed public hearings. Both the draft and the final budgets are required to be transmitted to the cities, the special districts and the County. Government Code §56381(a) establishes that at a minimum, the budget must be equal to that of the previous year unless the Commission finds that reduced staffing or program costs will nevertheless allow it to fulfill its statutory responsibilities. Any unspent funds at the end of the year may be rolled over into the next fiscal year budget. After adoption of the final budget by LAFCO, the County Auditor is required to apportion

the net operating expenses of the Commission to the agencies represented on LAFCO.

LAFCO and the County of Santa Clara entered into a Memorandum of Understanding (MOU) (effective since July 2001), under the terms of which, the County provides staffing, facilities, and services to LAFCO. The associated costs are reflected in the LAFCO budget. LAFCO is a stand-alone, separate fund within the County's accounting and budget system and the LAFCO budget information is formatted using the County's account descriptions/codes.

COST APPORTIONMENT TO CITIES, DISTRICTS AND THE COUNTY

The CKH Act requires LAFCO costs to be split in proportion to the percentage of an agency's representation (excluding the public member) on the Commission. Santa Clara LAFCO is composed of a public member, two County board members, two city council members, and since January 2013 – two special district members. Government Code §56381(b)(1)(A) provides that when independent special districts are seated on LAFCO, the county, cities and districts must each provide a one-third share of LAFCO's operational budget.

Since the City of San Jose has permanent membership on LAFCO, as required by Government Code §56381.6(b), the City of San Jose's share of LAFCO costs must be in the same proportion as its member bears to the total membership on the commission, excluding the public member. Therefore, in Santa Clara County, the City of San Jose pays one sixth and the remaining cities pay one sixth of LAFCO's operational costs. Per the CKH Act, the remaining cities' share must be apportioned in proportion to each city's total revenue, as reported in the most recent edition of the Cities Annual Report published by the Controller, as a percentage of the combined city revenues within a county. Each city's share is therefore based on the 2022/2023 Report – which is the most recent edition available.

Government Code Section 56381 provides that the independent special districts' share shall be apportioned in proportion to each district's total revenues as a percentage of the combined total district revenues within a county. The Santa Clara County Special Districts Association (SDA), at its August 13, 2012 meeting, adopted an alternative formula for distributing the independent special districts' share to individual districts. The SDA's agreement requires each district's cost to be based on a fixed percentage of the total independent special districts' share.

The estimated apportionment of LAFCO's FY 2027 costs to the individual cities and districts is included as **Attachment B**. The final costs will be calculated and invoiced to the individual agencies by the County Controller's Office after LAFCO adopts the final budget.

ATTACHMENTS

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| Attachment A: | Final LAFCO Budget for Fiscal Year 2027 |
| Attachment B: | FY 2027 Costs to Agencies Based on the Final Budget |

FINAL LAFCO BUDGET
FISCAL YEAR 2026- 2027

ITEM #	TITLE	APPROVED BUDGET FY 2026	ACTUALS Year to Date 2/18/2026	PROJECTIONS Year End FY 2026	FINAL BUDGET FY 2027
EXPENDITURES					
Object 1:	Salary and Benefits	\$994,427	\$610,372	\$1,082,821	\$1,179,580
Object 2:	Services and Supplies				
5255100	Intra-County Professional	\$12,000	\$430	\$12,000	\$12,000
5255800	Legal Counsel	\$88,766	\$41,250	\$85,000	\$90,716
5255500	Consultant Services	\$175,000	\$19,100	\$175,000	\$250,000
5285700	Meal Claims	\$1,000	\$0	\$1,000	\$1,000
5220100	Insurance	\$8,000	\$14	\$14	\$11,623
5250100	Office Expenses	\$5,000	\$1,501	\$5,000	\$5,000
5270100	Rent & Lease	\$58,106	\$38,544	\$58,106	\$59,000
5255650	Data Processing Services	\$24,443	\$16,344	\$22,443	\$23,948
5225500	Commissioners' Fee	\$10,000	\$2,300	\$10,000	\$10,000
5260100	Publications and Legal Notices	\$1,000	\$248	\$1,000	\$1,000
5245100	Membership Dues	\$15,000	\$14,793	\$14,793	\$15,300
5250750	Printing and Reproduction	\$1,500	\$0	\$500	\$1,500
5285800	Business Travel	\$21,000	\$10,509	\$21,000	\$21,000
5285300	Private Automobile Mileage	\$1,000	\$0	\$1,000	\$1,000
5285200	Transportation&Travel (County Car Usage)	\$600	\$0	\$600	\$600
5281600	Overhead	\$37,324	\$18,662	\$37,324	\$42,139
5275200	Computer Hardware	\$4,000	\$0	\$2,000	\$4,000
5250800	Computer Software	\$4,000	\$1,254	\$4,000	\$4,000
5250250	Postage	\$500	\$0	\$300	\$500
5252100	Staff/Commissioner Training Programs	\$2,000	\$0	\$1,000	\$2,000
5701000	Reserves	\$0	\$0	\$0	\$0
TOTAL EXPENDITURES		\$1,464,666	\$775,321	\$1,534,901	\$1,735,906
REVENUES					
4103400	Application Fees	\$25,000	\$21,750	\$30,000	\$25,000
4301100	Interest: Deposits and Investments	\$10,000	\$15,938	\$20,000	\$10,000
TOTAL REVENUE		\$35,000	\$37,688	\$50,000	\$35,000
3400150	FUND BALANCE FROM PREVIOUS FY	\$63,997	\$176,483	\$176,483	\$57,251
NET LAFCO OPERATING EXPENSES		\$1,365,669	\$561,150	\$1,308,418	\$1,643,655
3400800	RESERVES Available	\$200,000	\$200,000	\$200,000	\$200,000
COSTS TO AGENCIES					
5440200	County	\$455,223	\$455,223	\$455,223	\$547,885
4600100	Cities (San Jose 50% + Other Cities 50%)	\$455,223	\$455,223	\$455,223	\$547,885
4600100	Special Districts	\$455,223	\$455,223	\$455,223	\$547,885

LAFCO COST APPORTIONMENT: COUNTY, CITIES, SPECIAL DISTRICTS
Estimated Costs to Agencies Based on the Final FY 2027 LAFCO Budget

Net Operating Expenses for FY 2027				\$1,643,655
JURISDICTION	REVENUE PER 2023/2024 REPORT	PERCENTAGE OF TOTAL REVENUE	ALLOCATION PERCENTAGES	ALLOCATED COSTS
County	N/A	N/A	33.3333333%	\$547,885.00
Cities Total Share			33.3333333%	\$547,885.00
San Jose	N/A	N/A	50.0000000%	\$273,942.50
Other cities share			50.0000000%	\$273,942.50
Campbell	\$84,117,149	1.8493084%		\$5,066.04
Cupertino	\$134,270,828	2.9519327%		\$8,086.60
Gilroy	\$143,146,467	3.1470629%		\$8,621.14
Los Altos	\$80,342,217	1.7663168%		\$4,838.69
Los Altos Hills	\$23,050,684	0.5067673%		\$1,388.25
Los Gatos	\$66,479,898	1.4615549%		\$4,003.82
Milpitas	\$234,059,048	5.1457683%		\$14,096.45
Monte Sereno	\$5,050,274	0.1110298%		\$304.16
Morgan Hill	\$141,801,766	3.1174998%		\$8,540.16
Mountain View	\$479,392,872	10.5394115%		\$28,871.93
Palo Alto	\$904,171,284	19.8781287%		\$54,454.64
Santa Clara	\$1,523,014,901	33.4833530%		\$91,725.13
Saratoga	\$43,873,226	0.9645491%		\$2,642.31
Sunnyvale	\$685,802,826	15.0773168%		\$41,303.18
Total Cities (excluding San Jose)	\$4,548,573,440	100.0000000%		\$273,942.50
Total Cities (including San Jose)				\$547,885.00
Special Districts Total Share		(Fixed %)	33.3333333%	\$547,885.00
Aldercroft Heights County Water District		0.06233%		\$341.50
Burbank Sanitary District		0.15593%		\$854.32
Cupertino Sanitary District		2.64110%		\$14,470.19
El Camino Healthcare District		4.90738%		\$26,886.80
North Santa Clara Resource Conservation District		0.04860%		\$266.27
Lake Canyon Community Services District		0.02206%		\$120.86
Lion's Gate Community Services District		0.22053%		\$1,208.25
Loma Prieta Resource Conservation District		0.02020%		\$110.67
Midpeninsula Regional Open Space District		5.76378%		\$31,578.89
Purissima Hills Water District		1.35427%		\$7,419.84
Rancho Rinconada Recreation and Park District		0.15988%		\$875.96
San Martin County Water District		0.04431%		\$242.77
Santa Clara Valley Open Space Authority		1.27051%		\$6,960.93
Santa Clara Valley Water District		81.44126%		\$446,204.44
Saratoga Cemetery District		0.32078%		\$1,757.51
Saratoga Fire Protection District		1.52956%		\$8,380.23
South Santa Clara Valley Memorial District		0.03752%		\$205.57
Total Special Districts		100.00000%		\$547,885.00
Total Allocated Costs				\$1,643,655.00