SANTA CLARA LAFCO

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

REGULAR MEETING

Board of Supervisors' Chambers, 70 West Hedding Street, First Floor, San Jose

DECEMBER 6, 2023 ▪ 1:15 PM

AGENDA

Chairperson: Russ Melton ▪ Vice-Chairperson: Sylvia Arenas

PUBLIC ACCESS AND PARTICIPATION

This meeting will be held in person at the location listed above. As a courtesy, and technology permitting, members of the public may also attend by virtual teleconference. However, LAFCO cannot guarantee that the public's access to teleconferencing technology will be uninterrupted, and technical difficulties may occur from time to time. Unless required by the Brown Act, the meeting will continue despite technical difficulties for participants using the teleconferencing option. To attend the meeting by virtual teleconference, access the meeting at **https://sccgov-org.zoom.us/j/95747137202** or by dialing **(669) 900-6833** and entering **Meeting ID 957 4713 7202#** when prompted.

PUBLIC COMMENT INSTRUCTIONS

Written Public Comments may be submitted by email to LAFCO@ceo.sccgov.org. Written comments will be distributed to the Commission and posted to the agenda on the LAFCO website as quickly as possible, but may take up to 24 hours.

Spoken public comments may be provided in-person at the meeting. Persons who wish to address the Commission on an item are requested to complete a Request to Speak Form and place it in the designated tray near the dais. Request to Speak Forms must be submitted prior to the start of public comment for the desired item. For items on the Consent Calendar or items added to the Consent Calendar, Request to Speak Forms must be submitted prior to the call for public comment on the Consent Calendar. Individual speakers will be called to speak in turn. Speakers are requested to limit their comments to the time limit allotted.

Spoken public comments may also be provided through the teleconference meeting. To address the Commission virtually, click on the link **https://sccgov-org.zoom.us/j/95747137202** to access the meeting and follow the instructions below:

- You will be asked to enter an email address and name. We request that you identify yourself by name as this will be visible online and will be used to notify you when it is your turn to speak.
- When the Chairperson calls for the item on which you wish to speak, click on "raise hand" icon. The Clerk will activate and unmute speakers in turn. Speakers will be notified shortly before they are called to speak. Call-in attendees press *9 to request to speak, and *6 to unmute when prompted.
- When called to speak, please limit your remarks to the time limit allotted.

NOTICE TO THE PUBLIC

- Pursuant to Government Code §84308, no LAFCO commissioner shall accept, solicit, or direct a contribution of more than $250 from any party, or a party's agent; or any participant or the participant's agent if the commission knows or has reason to know that the participant has a financial interest, while a LAFCO proceeding is pending, and for 12 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 from the time the commissioner knows or should have known, 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 the party's agent, to a LAFCO commissioner. For forms, visit the LAFCO website at www.santaclaralafco.org. No party, or the party's agent and no participant, or the participant's agent, shall make a contribution of more than $250 to any LAFCO commissioner during the proceeding or for 12 months following the date a final decision is rendered by LAFCO.
- 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 totalof $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).
- 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.
- 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.)
- In compliance with the Americans with Disabilities Act, those requiring accommodation for this meeting should notify the LAFCO Clerk 24 hours prior to meeting at (408) 993- 4705.

1. ROLL CALL

2. PUBLIC COMMENTS

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

3. APPROVE CONSENT CALENDAR

The Consent Calendar includes Agenda Items marked with an asterisk (*). The Commission may add to or remove agenda items from the Consent Calendar.

All items that remain on the Consent Calendar are voted on in one motion. If an item is approved on the Consent Calendar, the specific action recommended by staff is adopted. Members of the public who wish to address the Commission on Consent Calendar items should comment under this item.

***4. APPROVE MINUTES OF OCTOBER 4, 2023 LAFCO MEETING**

STUDY SESSION

5. STUDY SESSION: LAFCO LAW – THE CORTESE-KNOX-HERTZBERG LOCAL GOVERNMENT REORGANIZATION ACT OF 2000

ITEMS FOR ACTION / INFORMATION

6. ANNUAL FINANCIAL AUDIT REPORT – JUNE 30, 2023

Recommended Action:

1. Receive a presentation from Chavan & Associates, LLP on LAFCO's Annual Financial Audit Report for FY ending June 30, 2023.
2. Receive and file the Annual Financial Audit Report (June 30, 2023) prepared for Santa Clara LAFCO by Chavan & Associates, LLP.

7. OVERVIEW OF SANTA CLARA LAFCO SERVICE REVIEW PROGRAM

For information only.

***8. ADOPTION OF SCHEDULE OF 2024 LAFCO MEETINGS**

Recommended Action: Adopt the schedule of LAFCO meetings and application filing deadlines for 2024.

9. APPOINTMENT OF 2024 LAFCO CHAIRPERSON AND VICE-CHAIRPERSON

Recommended Action: Appoint a commissioner to serve as Chairperson for 2024 and appoint a commissioner to serve as Vice-Chairperson for 2024.

*10. EXECUTIVE OFFICER'S REPORT

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

10.1 FileMaker Pro Software Support and Development Services

10.2 ECS Imaging's 21st Annual Conference: Laserfiche Training

10.3 Changes to LAFCO Clerk Job Specification

*11. CALAFCO RELATED ACTIVITIES

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

12. COMMISSIONER REPORTS

13. NEWSPAPER ARTICLES / NEWSLETTERS

13.1 The Sphere (October 2023)

14. WRITTEN CORRESPONDENCE

14.1 Letter from the Special District Risk Management Authority regarding the President's Special Acknowledgement Awards (September 26, 2023)

14.2 Email from Gilroy Councilmember Zachary Hilton regarding Gilroy Fire Department Staffing (November 27, 2023)

CLOSED SESSION

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15. PERFORMANCE EVALUATION

Public Employee Performance Evaluation (Government Code §54957)

Title: LAFCO Executive Officer

16. REPORT OUT OF CLOSED SESSION

17. ADJOURN

Adjourn to the regular LAFCO meeting on February 7, 2024 at 1:15 PM in the Board of Supervisors' Chambers, 70 West Hedding Street, San Jose.

ITEM # 4

SANTA CLARA LAFCO

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777 North First Street
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LAFCO MEETING MINUTES
WEDNESDAY, OCTOBER 4, 2023

CALL TO ORDER

The meeting was called to order at 1:58 p.m.

1. ROLL CALL

Commissioners	Alternate Commissioners
Russ Melton, Chairperson	Helen Chapman (Voting for Y. Kishimoto)
Sylvia Arenas, Vice Chairperson	Teresa O'Neill
Jim Beall (Absent)	Mark Turner (Absent)
Rosemary Kamei (Arrived at 2:37 p.m.)	Domingo Candelas (Absent)
Yoriko Kishimoto (Absent)	Cindy Chavez (Absent)
Otto Lee (Absent)	
Terry Trumbull	
LAFCO Staff	
Neelima Palacherla, Executive Officer	Sonia Humphrey, Clerk
Dunia Noel, Asst. Executive Officer	Mala Subramanian, Counsel
Emmanuel Abello, Associate Analyst	

2. PUBLIC COMMENTS

One individual addressed the Commission.

3. APPROVE CONSENT CALENDAR

Motion: Chapman	Second: Trumbull
AYES: Arenas, Chapman, Melton, Trumbull	

Commission Action: The Commission added items #9, #10 and #11 to the consent calendar, and approved the consent calendar, including items #4, #8, #9, #10 and #11.

*4. *APPROVED ON CONSENT:* MINUTES OF AUGUST 2, 2023 LAFCO MEETING

PUBLIC HEARING

5. COUNTYWIDE FIRE SERVICE REVIEW

LAFCO's consultants provided a presentation on the Countywide Fire Service Review Report.

Chairperson Melton opened the public hearing.

3 individuals addressed the Commission.

Chairperson Melton closed the public hearing.

Motion: Chapman	Second: Trumbull
AYES: Arenas, Chapman, Kamei, Melton, Trumbull	

Commission Action:

- Determined that the Countywide Fire Service Review and the recommendations of this staff report are exempt from the requirements of the California Environmental Quality Act (CEQA) under State CEQA Guidelines: §15306 Class 6; §15061(b)(3); §15378(b)(5); and §15320 Class 20.
- Adopted the Countywide Fire Service Review Report – Revised Draft Report including revisions, as directed or as necessary.
- Adopted service review determinations for city fire departments and fire districts, as included in the Service Review Report.
- Reaffirmed sphere of influence (SOI) updates and adopted sphere of influence determinations for each of the four fire districts, as follows:
  - ➢ Reaffirmed existing zero SOI for Saratoga Fire Protection District (SFD) as recommended in the Service Review Report.
  - ➢ Reaffirmed existing SOI for Santa Clara County Central Fire Protection District (CCFD) as depicted in the Service Review Report.
  - ➢ Reaffirmed existing SOI for Los Altos Hills County Fire District (LAHCFD) as depicted in the Service Review Report.
  - ➢ Reaffirmed existing SOI for South Santa Clara County Fire Protection District (SCFD) as depicted in the Service Review Report.
- Directed staff to prepare the Final Report for the Countywide Fire Service Review and distribute the Final Report to all affected agencies.
- Directed staff to facilitate discussions to reach a consensus between affected agencies on the best option for addressing various areas of Santa Clara County that lack an identified local fire provider, as described and analyzed in the

Service Review Report. Directed staff to report back to LAFCO on the outcome of those discussions, including support for the expansion of certain fire districts' SOIs.

- Directed staff to compile all the recommendations included in the Final Report and request a written response from each of the relevant agencies on their plans for implementing these recommendations, including if they do not plan to implement a recommendation. Directed staff to report back to LAFCO on each agency's written response.

6. STUDY SESSION: LAFCO LAW – THE CORTESE-KNOX-HERTZBERG LOCAL GOVERNMENT REORGANIZATION ACT OF 2000

The Chairperson, there being no objection, ordered that the Study Session be continued to a future meeting date.

ITEMS FOR ACTION / INFORMATION

7. COMPREHENSIVE REVIEW AND UPDATE OF LAFCO POLICIES

Motion: Melton	Second: Arenas
AYES: Arenas, Chapman, Kamei, Melton, Trumbull	

Commission Action: Established an Ad-Hoc Committee composed of Chairperson Melton, Vice-Chairperson Arenas and Alternate Commissioner Chapman, to assist LAFCO staff in conducting a comprehensive review and update of LAFCO Policies, for public review and comment, prior to the full commission's consideration and adoption.

*8. *APPROVED ON CONSENT:* NEW SERVICES AGREEMENT BETWEEN LAFCO AND COVIVE LLC FOR WEBSITE HOSTING AND MAINTENANCE AND ADDITIONAL PAYMENT UNDER EXISTING AGREEMENT

Commission Action:

- Approved a new services agreement with Covive for website hosting and maintenance.
- Authorized an additional $800 to cover additional costs in the calendar year 2023 under the existing service agreement with Covive for website hosting and maintenance.

9. *APPROVED ON CONSENT:* POSITION LETTER SUBMITTED ON AB 399

For information only.

10. *APPROVED ON CONSENT:* FY 2022-2023 ANNUAL REPORT

Commission Action: Accepted the FY 2022-2023 Annual Report.

11. *APPROVED ON CONSENT:* EXECUTIVE OFFICER'S REPORT

Commission Action: Accepted the report.

11.1 New Clerk Welcome & Training

11.2 Pre-Application Meeting for a Proposed Cemetery in the Unincorporated Area

11.3 Meeting with State Water Resources Control Board Staff and County Staff on Small Water Systems

11.4 Meeting with San Jose Staff on Time Limits for Recording a Certificate of Completion for Annexations/Reorganizations

11.5 Meeting with Cupertino Staff on Potential Boundary Changes

11.6 Special Districts Association Meeting

11.7 Inter-Jurisdictional GIS Working Group Meeting

12. COMMISSIONER REPORTS

13. NEWSPAPER ARTICLES / NEWSLETTERS

14. WRITTEN CORRESPONDENCE

15. ADJOURN

The Commission adjourned at 3:32 p.m., to the next regular LAFCO meeting on December 6, 2023, at 1:15 p.m., in the Board of Supervisors' Chambers, 70 West Hedding Street, San Jose.

Approved on December 6, 2023.

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Russ Melton, Chairperson
Local Agency Formation Commission of Santa Clara County

By: ________________________________

Sonia Humphrey, LAFCO Clerk

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LAFCO MEETING:	**December 6, 2023**
TO:	**LAFCO**
FROM:	**Neelima Palacherla, Executive Officer** **Mala Subramanian, Legal Counsel** **Dunia Noel, Asst. Executive Officer**
SUBJECT:	**STUDY SESSION: LAFCO LAW – THE CORTESE-KNOX-HERTZBERG LOCAL GOVERNMENT REORGANIZATION ACT OF 2000**

PRESENTATION BY LAFCO COUNSEL

From time to time, LAFCO holds study sessions to provide pertinent information to commissioners on subjects of great importance to LAFCO and to allow commissioners to discuss and ask any questions on these subjects.

For example, at the February 1, 2023 LAFCO meeting, the Commission received an hour-long presentation from Don Weden, retired Principal Planner for the County of Santa Clara, on the history of LAFCO and the origins of the Urban Development Policy in Santa Clara County; how LAFCO and the Countywide Urban Development Policies have shaped Santa Clara County; and emerging trends, including challenges and opportunities for LAFCO.

LAFCOs are governed by and tasked with administering the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code §§ 56000 et seq.) ("CKH Act"). The CKH Act gives LAFCOs numerous powers and requires LAFCO to operate within a set of state-mandated parameters encouraging planned, well-ordered, efficient urban development patterns, the preservation of open-space lands, and the discouragement of urban sprawl. Further, the CKH Act establishes procedures for LAFCO review of local government changes of organization, including city incorporations, annexations to a city or special district, and city and special district consolidations.

Santa Clara LAFCO has special provisions within the CKH Act that reflect the long standing Countywide Urban Development policies adopted jointly by LAFCO, the County and the cities in Santa Clara County. Furthermore, the CKH Act is updated almost every year to address emerging issues, changing circumstances, and to clarify and improve the existing legislation.

It is important that the Commission have a good understanding of the various provisions in LAFCO law that are applicable to Santa Clara LAFCO. Mala Subramanian, LAFCO Counsel, will provide the Commission with a presentation on key provisions in the CKH Act as it relates to Santa Clara LAFCO. LAFCO staff will also be available to answer questions, as appropriate.

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SANTA CLARA LAFCO STUDY SESSION
CORTESE-KNOX-HERTZBERG LOCAL GOVERNMENT REORGANIZATION ACT OF 2000 OVERVIEW

Mala Subramanian, LAFCO Counsel

December 6, 2023

History of LAFCO

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Need for LAFCO Arises

- Post World War II, California experienced dramatic population and economic growth
- New local agencies were created to provide the resultant demand for public services
- Many of these new agencies were created without a lot of analysis or thought
- The hodgepodge of agencies often times provided services without coordination, sometimes without adequate planning, and often times provided services already provided by other overlapping agencies
- California also experienced premature conversion/loss of California's agricultural and open-space lands

LAFCO Law

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1959: Gov. Brown, Sr. appointed the Commission on Metropolitan Area Problems

The Commission studied and made recommendations on the “misuse of land resources” and the growing complexity of local governmental jurisdictions

The Commission’s recommendations on local governmental reorganization were introduced in the Legislature in 1963

1963: Local Agency Formation Commissions (“LAFCOs”) are created by the resulting adoption of the Knox-Nisbet Act

As of 2000, with the formation of San Francisco LAFCO, there is a LAFCO in each of California’s 58 counties

LAFCO Law

1997-2000: Commission on Local Governance in the 21st Century was formed by the Legislature, the recommendations from which were the basis for the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act) (Gov. Code § 56000 et seq.)

- Mandated greater independence for LAFCOs
- Provides further clarification of purposes and mission of LAFCOs
- Requirement for service reviews, expanded factors for proposals, and ability for streamlined island annexations
- LAFCOs are required to adopt local policies and procedures

Santa Clara LAFCO Policies

LAFCOs shall adopt local policies and procedures that encourages and provides planned, well-ordered, efficient urban development patterns with appropriate consideration of preserving open space and ag lands (Gov. Code § 56300)

- Boundary Agreement
- Sphere of Influence
- Urban Services Area
- Annexation
- Urban Growth Boundaries and Other Long-Term Boundaries
- Out of Agency Contract for Services
- Gilroy AG Land Areas

Santa Clara LAFCO Policies

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- Agricultural Mitigation Policies
- Island Annexation Policies
- Incorporation Policies
- Service Review Policies
- Policies and Procedures Affecting More than One County
- Procedures for Preparing and Processing Environmental Documents
- Indemnification Policy
- Countywide Urban Development Policies
- Administrative Policies

Commission Composition

<u>Most</u>:

- 2 Representatives from the Board of Supervisors
- 2 Representatives from the City Councils in that county
- 1 Representative from the General Public appointed by the Commission
- Alternate members for each of the above categories

<u>Some</u>:

- Have the representatives listed above, as well as 2 representatives from Independent Special Districts in that county

<u>Santa Clara LAFCO (Gov. Code § 56327 and § 56327.3)</u>:

- One councilmember appointed by the city having the largest population (San Jose) with the ability to be enlarged by 2 special district members

LAFCO's Purpose

- LAFCOs are often referred to as the "Watchdog" of the Legislature
- LAFCOs are charged with furthering the State's policy of:
  - Discouraging Urban Sprawl
  - Preserving Open Space and Prime Agricultural Lands
  - Encouraging the Efficient Provision of Government Services
  - Encouraging the Orderly Formation and Development of Local Governmental Agencies

(Gov. Code § 56301)

LAFCO's Functions

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- Develop and update Spheres of Influence for Cities and Districts (Gov. Code § 56425)
- Prepare Service Reviews for all local agencies within the County (Gov. Code § 56430)
- Prepare other studies as needed (Gov. Code § 56378)
- Adopt local policies and procedures and exercise its powers consistent with those policies that encourages and provides planned, well-ordered, efficient urban development patterns with appropriate consideration of preserving open space and ag lands

(Gov. Code § 56300)

LAFCO’s Functions

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LAFCOs serve as a Regulatory Agency

- LAFCOs oversee modification of existing agencies and creation of new agencies
- LAFCOs regulates boundary changes
- Santa Clara LAFCO regulates Urban Service Areas
- Regulates Extension of Services (Out of Agency)

Navigating LAFCO's Interconnected Functions

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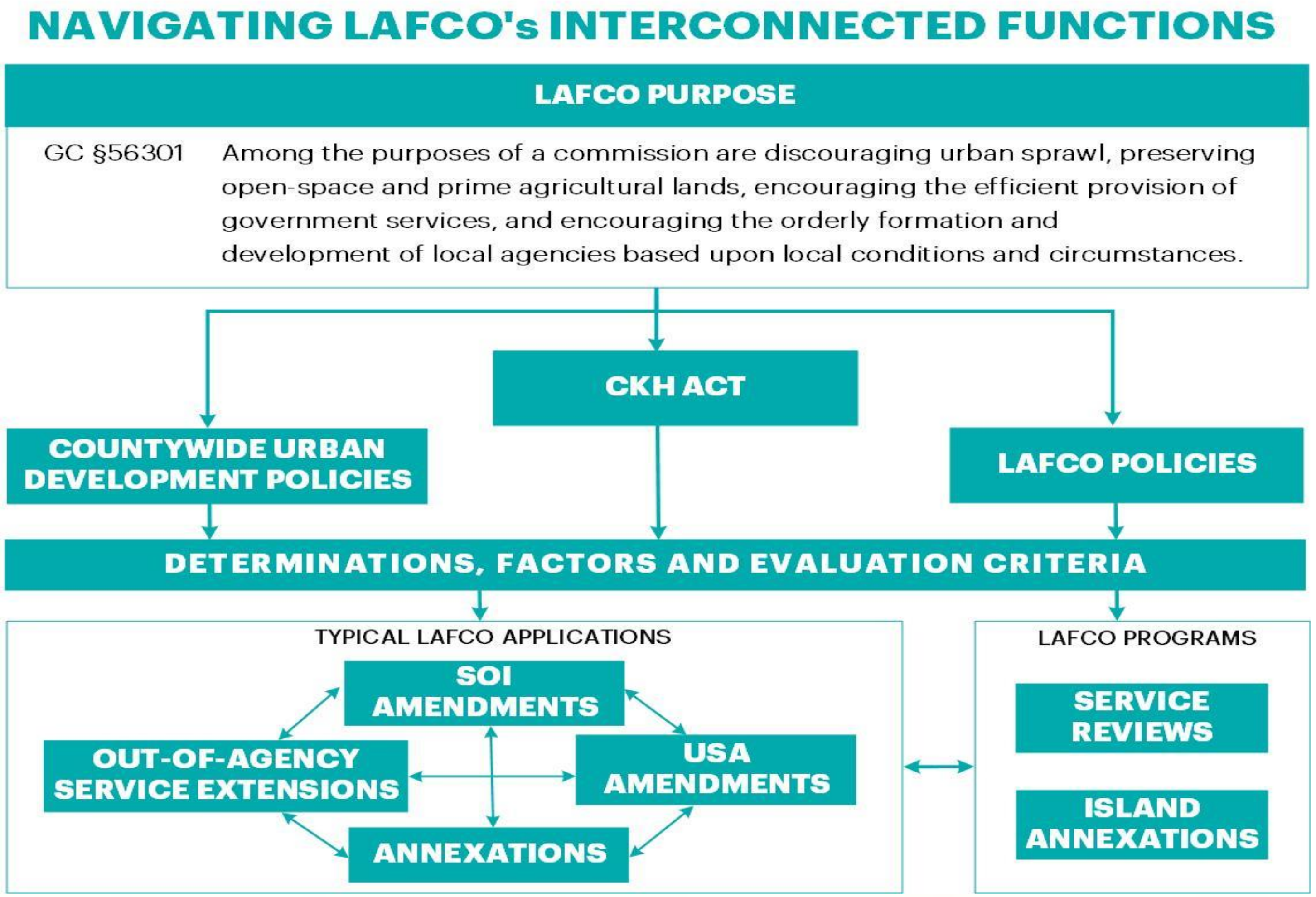

Sphere of Influence and Urban Service Area

Sphere of Influence

- For cities and special districts

Urban Service Area

- Only for cities in Santa Clara County
- Is the critical boundary for a city
- Must be consistent with the SOI

Spheres of Influence

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What is a Sphere of Influence?

- The CKH Act defines a Sphere of Influence as:

  "a plan for the probable physical boundaries and service area of a local agency, as determined by the Commission" (Gov. Code § 56076)

- Spheres of Influence are important because LAFCOs cannot take actions that are inconsistent with a Sphere of Influence

Spheres of Influence

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- LAFCOs must develop and determine the sphere of influence of each city and special district within the county and enact policies designed to promote the logical and orderly development of areas within the sphere (Gov. Code § 56425)
- LAFCO must update each sphere every five years, as necessary
- LAFCOs must also consider and prepare a written statement of certain determinations
- LAFCOs may recommend reorganization of agencies when determining spheres of influence

Sphere of Influence

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Sphere of Influence Determinations (Gov. Code § 56425(e))

- Present and planned land uses in the area, including ag and open space
- Present and probable need for public facilities and services in the area
- Present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide
- Existence of any social or economic communities of interest in the area, if relevant
- Present and probable need for public facilities or services related to sewers, municipal and industrial water, or structural fire protection of any disadvantaged unincorporated communities within the existing SOI

Urban Service Areas

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Definition of Urban Service Area:

> Developed, undeveloped, or ag land either incorporated or unincorporated, within the SOI of a city, which is served by urban facilities, utilities, and services or which are proposed to be served by them during the first 5 years of an adopted CIP of the city, if the city adopts that type of program.
>
> (Gov. Code § 56080)

In Santa Clara County urban services areas delineate areas currently annexed and provided with urban services or areas that a city intends to annex in order to develop and provide urban services within 5 years.

City Conducted Annexations

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Once SC LAFCO approves an USA, it shall not review an annexation that is within the City's USA, if the City makes certain findings:

- The area is within the USA adopted by the Commission
- The County Surveyor has determined the boundaries are definite and certain and in compliance with the road annexation policies of the Commission
- Does not split lines of assessment or ownership
- Does not create islands or areas that are difficult to provide services
- Consistent with the adopted general plan of the city
- Contiguous to existing city limits
- Complied with conditions imposed by LAFCO on the USA (Gov. Code § 56757)

Change of Organization

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Change of Organization Proposals include:

- Incorporation
- District Formation
- Annexation
- Detachment
- Consolidation
- Merger
- Disincorporation
- Dissolution
- Establishment of a Subsidiary District
- Exercise of New or Different Functions or Services or Divestiture of Powers for Special Districts

Change of Organization Factors
Gov. Code § 56668

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Factors to consider for a change of organization shall include, but are not limited to:

1. Population and population density; land area and land use, AV, topography, natural boundaries and drainage basins, proximity to other populated areas, and the likelihood of significant growth in the area and adjacent areas over next 10 years
2. The need for organized services, the present cost and adequacy of services and controls in the area, probably future needs for those services and controls, and probably effect of the proposal and alternative action on the cost and adequacy of services and controls in the area and adjacent areas

Change of Organization Factors
Gov. Code § 56668

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Factors to consider for a change of organization shall include, but are not limited to:

3. Effect of the action and alternative action on adjacent areas, on mutual social and economic interest, and on the county
4. Conformity of both the proposal and its anticipated effects on the adopted Commission’s polices on providing planned, orderly, efficient patterns of urban development and the policies and priorities in Section 56377 (preservation of open-space land and development within jurisdiction)
5. Effect of the proposal on maintaining the physical and economic integrity of ag lands

Change of Organization Factors
Gov. Code § 56668

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Factors to consider for a change of organization shall include, but are not limited to:

6. Definiteness and certainty of the boundaries, nonconformance of proposed boundaries with assessment and ownership lines, creation of islands or corridors of unincorporated territory
7. A regional transportation plan
8. Consistency with city or county general and specific plans
9. SOI of any local agency that may be applicable to the proposal
10. Comments of any affected local agency or other public agency

Change of Organization Factors
Gov. Code § 56668

Factors to consider for a change of organization shall include, but are not limited to:

11. Ability of the newly formed or receiving entity to provide the services that are the subject of the application to the areas, including sufficiency of revenues for the services following the proposed boundary change
12. Timely availability of water supplies adequate for projected needs
13. Extent the proposal will affect a city or county in achieving their RHNA
14. Info or comment from landowners, voters, or residents of the affected territory

Change of Organization Factors
Gov. Code § 56668

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Factors to consider for a change of organization shall include, but are not limited to:

15. Info relating to existing land use designations
16. Extent to which the proposal will promote environmental justice
17. Info contained in a: local hazard mitigation plan; safety element of a general plan, and any maps that identify lands as VHFHZ, if relevant to the proposal area

Out of Agency Services
Gov. Code § 56133

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A City or District can only provide new or extended services outside of its boundaries if it first receives written approval from LAFCO.

LAFCO can only approve if:

- The services will be provided within the SOI in anticipation of a later change of organization

  OR

- The services will be provided outside the SOI to respond to an existing or impending threat to the public health or safety of the residents of the affected territory

Out of Agency Services

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Exceptions to Gov. Code § 56133(e):

- Agreements solely involving two or more public agencies where:
  - The service to be provided is an alternative to, substitute for, public services already being provided by an existing public service provider AND
  - The level of services to be provided is consistent with the level of services contemplated by the existing service provider

Out of Agency Services

Exceptions to Gov. Code § 56133(e):

- Provision of surplus water to ag lands and facilities, including but not limited to, incidental residential structures, for projects that serve conservation purposes or that directly support ag industries. Prior to extending surplus water to any project that will support or induce development, the city or district shall first request and receive written approval from LAFCO.
- Transfer of nonpotable or nontreated water
- Out of agency services provided on or before January 1, 2001
- Local publicly owned electric utility
- Fire protection contracts as defined in Gov. Code § 56134(a)

Service Reviews

- A service review is a comprehensive study designed to better inform LAFCO, local agencies, and the community about the provision of municipal services (Gov. Code § 56430)
- Service reviews attempt to:
  - Capture and analyze information about the governance structures and efficiencies of service providers
  - Identify opportunities for greater coordination and cooperation between providers
- The service review must be done before, or in conjunction with, but no later than time the Commission considers the SOI

Service Review

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Service Review Determinations (Gov. Code § 56430(a))

- Growth and population projections
- Location and characteristics of any disadvantaged unincorporated communities (DUC) within or contiguous to the SOI
- Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any DUC within or contiguous to the SOI

Service Review

BBK
BEST BEST & KRIEGER LLP
ATTORNEYS AT LAW

Service Review Determinations (Gov. Code § 56430(a))

- Financial ability of agencies to provide services
- Status of, and opportunities for, shared facilities
- Accountability for community service needs, including governmental structure and operational efficiencies
- Any other matter, related to the effective or efficient service delivery, as required by Commission policy

Questions?

Mala Subramanian

LAFCO General Counsel

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ITEM # 6

SANTA CLARA LAFCO

Local Agency Formation Commission of Santa Clara County

777 North First Street
Suite 410
San Jose, CA 95112

SantaClaraLAFCO.org

LAFCO MEETING: **December 6, 2023**

TO: **LAFCO**

FROM: **Neelima Palacherla, Executive Officer**
Emmanuel Abello, Associate Analyst

SUBJECT: **ANNUAL FINANCIAL AUDIT REPORT – JUNE 30, 2023**

STAFF RECOMMENDATION

1. Receive a presentation from Chavan & Associates, LLP on LAFCO's Annual Financial Audit Report for FY ending June 30, 2023.
2. Receive and file the Annual Financial Audit Report (June 30, 2023) prepared for Santa Clara LAFCO by Chavan & Associates, LLP.

BACKGROUND

The independent auditing firm of Chavan & Associates, LLP has prepared the LAFCO financial audit for FY 2023, ending on June 30, 2023 (**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, 2023.

Key financial highlights from the audit for the Fiscal Year ending June 30, 2023 are as follows:

- Total assets decreased by $103,349, an 11% decrease from the prior year.
- The net OPEB liability increased by $76,142, a 53% increase from the prior year. This increase was mostly from investment returns having been less than estimated in the actuarial studies.
- Total net pension liabilities increased by $484,598, a 76% increase from the prior year. This increase was mostly from investment returns having been less than estimated in the actuarial studies.
- Current liabilities decreased by $54,313, a 33% decrease from the prior year. This decrease was mostly due to the decrease in unearned revenue.

- Noncurrent liabilities increased by $591,011, a 52% decrease from the prior year. This increase was mostly due to the increase in the net pension liability of $484,598.

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

Provided for the Commission's information are additional documents, entitled the Management Letter and the Commission Letter dated October 26, 2023 (see **Attachments B** and **C**), which provide information relating to the audit, according to auditor's professional standards, on the auditor's responsibilities with regard to the audit of Santa Clara LAFCO.

Prior to FY 2018, LAFCO's financials were reported as a special revenue fund, together with other funds, in the County of Santa Clara's Comprehensive Annual Financial Report. In August 2018, LAFCO retained Chavan & Associates, LLP through an RFP process to audit LAFCO's financial statements and prepare its General Purpose Financial Statements for Fiscal Years ending 2018, 2019, 2020 and 2021 at a cost of $40,000. LAFCO, at its December 2021 meeting, extended the agreement to January 1, 2024, to include audits for Fiscal Years ending 2022 and 2023, and included an additional $25,500 in the contract, for a total contract amount not to exceed $65,500.

Chavan and Associates has audited LAFCO's financial statements from FY2018 up to the recently concluded FY2023, and it has now done so for six consecutive years. Under State law (Government Code §12410.6[b]), "commencing with the 2013-14 fiscal year, a local agency shall not employ a public accounting firm to provide audit services to a local agency if the lead audit partner or coordinating audit partner having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, performed audit services for the local agency for six consecutive fiscal years."

Staff will bring back for the Commission's consideration at the February 7, 2024 LAFCO meeting, recommendations on the issuance of a Request for Proposals (RFP) for an independent Certified Public Accounting firm to audit LAFCO's financial statements and prepare its General Purpose Financial Statements for FY 2024 onwards.

ATTACHMENTS

Attachment A:	Annual Financial Audit Report (June 30, 2023)
Attachment B:	Management Letter dated October 26, 2023
Attachment C:	Letter to the Commission dated October 26, 2023

ITEM # 6
Attachment A

Local Agency Formation Commission of Santa Clara County

Annual Financial Audit Report

June 30, 2023

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

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Local Agency Formation Commission of Santa Clara County

Table of Contents

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Local Agency Formation Commission of Santa Clara County (LAFCO), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental-type activities of the Local Agency Formation Commission of Santa Clara County, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAGAS will always

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detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2023 on our consideration of LAFCO's internal control over financial reporting and on our tests of its

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

C & A LLP

October 26, 2023
Morgan Hill, California

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info@cnallp.com • www.cnallp.com

Management's Discussion and Analysis

INTRODUCTION

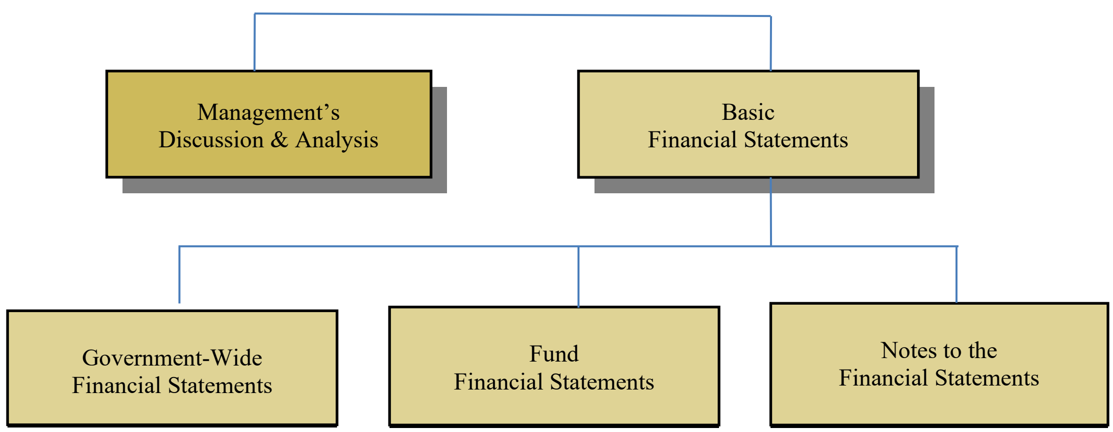
The Management's Discussion and Analysis (MD&A) is a required section of LAFCO's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of LAFCO's financial performance during the fiscal year that ended on June 30, 2023. This report will (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 2022 - 2023?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2023 were as follows:

- Total assets decreased by $103,349, a 11% decrease from the prior year.

- The net OPEB liability increased by $76,142, a 53% increase from the prior year. This increase was mostly from investment returns having been less than estimated in the actuarial studies.

- Total net pension liabilities increased by $484,598, a 76% increase from the prior year. This increase was mostly from investment returns having been less than estimated in the actuarial studies.

- Current liabilities decreased by $54,313, a 33% decrease from the prior year. This decrease was mostly due to the decrease in unearned revenue.

- Noncurrent liabilities increased by $591,011, a 52% increase from the prior year. This increase was mostly due to the increase in the net pension liability of $484,598.

REPORTING LAFCO'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental Funds

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

LAFCO AS A WHOLE

Recall that the Statement of Net Position provides the perspective of LAFCO as a whole. Table 1 provides a summary of LAFCO's net position as of June 30, 2023 as compared to June 30, 2022:

Table 1 - Summary of Statement of Net Position

Description	2023	2022	Change	Percentage Change
Assets				
Current Assets	$ 668,822	$ 720,192	$ (51,370)	-7.13%
Right of Use Assets - Net	199,255	251,234	(51,979)	-20.69%
Total Assets	$ 868,077	$ 971,426	$ (103,349)	-10.64%
Deferred Outflows	$ 355,312	$ 122,465	$ 232,847	190.13%
Liabilities				
Current Liabilities	$ 111,892	$ 166,205	$ (54,313)	-32.68%
Noncurrent Liabilities	1,735,396	1,144,385	591,011	51.64%
Total Liabilities	$ 1,847,288	$ 1,310,590	$ 536,698	40.95%
Deferred Inflows	$ 72,184	$ 324,158	$ (251,974)	-77.73%
Unrestricted Net Position	$ (696,083)	$ (540,857)	$ (155,226)	-22.30%

The decrease to current assets was a decrease to cash, which was mostly the result of increases to employee costs and professional services for the year. Current liabilities decreased by $54,313 mostly because of a decrease in unearned revenue of $41,630. Noncurrent liabilities reflect a net increase of $591,011 mostly because of increases in LAFCO's net pension liability and net OPEB liability which was attributed actual investment income having been lower than estimated and a decrease to the discount rate used in the actuarial studies. The increases and decreases to deferred outflows and inflows can be directly attributed to changes in assumptions and benefit plan changes and lower than expected investment returns.

Table 2 shows the changes in net position for fiscal year 2023 as compared to 2022.

Table 2 - Summary of Changes in Net Position

Description	2023	2022	Change	Percentage Change
Revenues				
Program revenues:				
Operating grants and contributions	$ 985,974	$ 901,364	$ 84,610	9.39%
Charges for services	19,642	26,811	(7,169)	-26.74%
General revenues:				
Investment income	25,402	7,832	17,570	224.34%
Total Revenues	1,031,018	936,007	95,011	10.15%
Program Expenses				
General government	1,179,361	783,432	395,929	50.54%
Interest expense	6,883	1,289	5,594	433.98%
Total Expenses	1,186,244	784,721	401,523	51.17%
Change in Net Position	(155,226)	151,286	(306,512)	-202.60%
Beginning Net Position	(540,857)	(692,143)	151,286	27.97%
Ending Net Position	$ (696,083)	$ (540,857)	$ (155,226)	-22.30%

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

LAFCO'S FUND BALANCE

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

Table 3 - Summary of Fund Balance

Description	2023	2022	Change	Percentage Change
General Fund	$ 607,582	$ 610,027	$ (2,445)	-0.40%

LAFCO'S NONCURRENT LIABILITIES

Table 4 summarizes LAFCO's noncurrent liabilities as of June 30, 2023 as compared to the prior fiscal year.

Table 4 - Summary of Noncurrent Liabilities

Description	2023	2022	Change	Percentage Change
Net OPEB Liability	$ 219,131	$ 142,989	$ 76,142	53.25%
Net Pension Liability	1,120,461	635,863	484,598	76.21%
Office Lease	202,689	250,557	(47,868)	-19.10%
Compensated Absences	243,767	171,016	72,751	42.54%
Total Noncurrent Liabilities	$ 1,786,048	$ 1,200,425	$ 585,623	48.78%

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 2022/2023 original budget to the final budget are detailed in the required supplementary information section along with a comparison to actual activity for the year ended. The original and final budgeted revenue was $1,021,974. The original and final budgeted expenditures and other uses of funds were $1,260,990 and $1,221,856, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Commission adopted its FY 2024 Budget at the June 7, 2023, LAFCO meeting. The budget includes appropriations totaling $1,296,000 which is approximately 6% higher than that of FY 2023. The budget assumes a roll-over of $366,814 in fund balance from the previous fiscal year and anticipates no change in application fees from the previous year.

CONTACTING LAFCO'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Local Agency Formation Commission of Santa Clara County

Statement of Net Position

June 30, 2023

		Governmental Activities
Assets		
Current assets:		
Cash and investments	$	662,566
Interest receivable		6,256
Total current assets		668,822
Noncurrent assets:		
Right of use assets:		
Office space lease		259,897
Accumulated amortization		(60,642)
Total right of use assets, net		199,255
Total Assets	$	868,077
Deferred Outflows of Resources		
OPEB adjustments	$	53,471
Pension adjustments		301,841
Total Deferred Outflows of Resources	$	355,312
Liabilities		
Current liabilities:		
Accounts payable	$	25,180
Accrued liabilities		13,395
Unearned revenue		22,665
Current portion of lease payable, office space		50,652
Total current liabilities		111,892
Noncurrent liabilities:		
Net OPEB liability		219,131
Net pension liability		1,120,461
Lease payable, office space		152,037
Compensated absences		243,767
Total noncurrent liabilities		1,735,396
Total Liabilities	$	1,847,288
Deferred Inflows of Resources		
OPEB adjustments	$	71,295
Pension adjustments		889
Total Deferred Inflows of Resources	$	72,184
Net Position		
Unrestricted	$	(696,083)
Total Net Position	$	(696,083)

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, 2023

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental activities:				
General government	$ 1,179,361	$ 19,642	$ 985,974	$ (173,745)
Interest expense	6,883	-	-	(6,883)
Total governmental activities	$ 1,186,244	$ 19,642	$ 985,974	(180,628)
General revenues:				
Investment income				25,402
Change in net position				(155,226)
Net position July 1, 2022				(540,857)
Net position ending June 30, 2023				$ (696,083)

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, 2023

		General Fund
ASSETS		
Cash and investments	$	662,566
Interest receivable		6,256
Total Assets	$	668,822
LIABILITIES		
Accounts payable	$	25,180
Accrued liabilities		13,395
Unearned revenue		22,665
Total Liabilities		61,240
FUND BALANCE		
Unassigned		607,582
Total Fund Balance		607,582
Total Liabilities and Fund Balance	$	668,822

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, 2023

Total fund balance - governmental funds		$ 607,582
Amounts reported in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Right of use assets	$ 259,897	
Accumulated amortization	(60,642)	199,255
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		(71,295)
Difference between actual and expected earnings		11,797
Change in assumptions		22,592
Contribution subsequent to measurement date		19,082
Pension adjustments:		
Difference between actual and expected experience		64,825
Difference between actual and expected earnings		37,806
Change in assumptions		101,447
Contribution subsequent to measurement date		96,874
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	$ 219,131	
Net pension liability	1,120,461	
Leases payable	202,689	
Compensated absences	243,767	(1,786,048)
Total net position - governmental activities		$ (696,083)

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, 2023

	General Fund
Revenues:	
Intergovernmental	$ 985,974
Charges for services	19,642
Investment income	25,402
Total revenues	1,031,018
Expenditures:	
Current:	
Employee services	697,700
Professional services	243,464
Commission fees	4,500
Facilities	53,172
Insurance	7,042
Supplies	2,898
Memberships	12,921
Miscellaneous	6,791
Total expenditures	1,033,463
Net change in fund balance	(2,445)
Fund balance - July 01, 2022	610,027
Fund balance - June 30, 2023	$ 607,582

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, 2023

Total net change in fund balance - governmental funds	$	(2,445)
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation or amortization expense.		
Amortization expense		(51,979)
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.		(75,919)
The governmental funds report leases issued as an other financing source, while repayment of the lease principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of leases and related items is as follows:		
Principal lease payments		47,868
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.		(72,751)
Change in net position of governmental activities	$	(155,226)

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. General

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

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

B. Reporting Entity

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

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

Accordingly, for the year ended June 30, 2023, LAFCO does not have any component units but is a blended component unit of the County of Santa Clara.

C. Accounting Principles

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

D. Basis of Presentation

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

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

E. Basis of Accounting

Government-Wide Financial Statements:

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

Governmental Fund Financial Statement:

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

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

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

Deferred Outflows/Deferred Inflows of Resources:

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

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

Unearned Revenue:

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

Expenses/Expenditures:

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

F. Fund Accounting

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

G. Budgets and Budgetary Accounting

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

H. Cash and Equivalents

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

I. Cash and Investments

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

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

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

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

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

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

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

J. Prepaid Expenditures

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

K. Capital Assets

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

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

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

L. Compensated Absences

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

M. Noncurrent Liabilities

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

N. Leases (Lessee)

LAFCO is a lessee for a noncancellable lease of $202,689. LAFCO recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

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

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

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

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

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

O. Accounting Estimates

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

P. Fund Balance Classifications

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

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

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

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

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

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

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

Q. Net Position

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

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

R. Pensions

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

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

Valuation Date (VD)..June 30, 2021
Measurement Date (MD)................................June 30, 2022
Measurement Period (MP)..............................June 30, 2021 to June 30, 2022

S. Other Postemployment Benefits Other Than Pensions (OPEB)

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

T. Upcoming Accounting and Reporting Changes

GASB Statement No. 100, Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62, effective fiscal 2024.

This statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. GASB 100 also requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. And, GASB 100 addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI).

GASB Statement No. 101, Compensated Absences, effective fiscal 2025.

Updates the recognition and measurement guidance for compensated absences by:

1. Aligning the recognition and measurement guidance under a unified model
2. Amending certain previously required disclosures
3. Amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability
4. Supersedes GASB 16

NOTE 2 - CASH AND INVESTMENTS

Summary of Cash and Investments

LAFCO maintained cash with the Santa Clara County Treasurer's commingled pool totaling $662,566 as of June 30, 2023.

Fair Value Measurements

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

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

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

Cash in Santa Clara County Treasury

The fair value of LAFCO's investment in the county pool is reported at amounts based on LAFCO's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. Santa Clara County investment pool funds were available for withdrawal on demand and had an average weighted maturity of 648 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 $7.2 billion as of June 30, 2023.

b) Credit Risk

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

c) Custodial Credit Risk

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

d) Concentration of Credit Risk

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

NOTE 3 - NONCURRENT LIABILITIES

The following summarized LAFCO's noncurrent liabilities as of June 30, 2023:

Description	Balance July 01, 2022	Additions	Adjustments & Deletions	Balance June 30, 2023	Due Within One Year
Net Pension Liability	$ 635,863	$ 777,078	$ 292,480	$ 1,120,461	$ -
Net OPEB Liability	142,989	193,878	117,736	219,131	-
Office Lease	250,557	-	47,868	202,689	50,652
Compensated Absences	171,016	150,432	77,681	243,767	-
Total Noncurrent Liabilities	$ 1,200,425	$ 1,121,388	$ 535,765	$ 1,786,048	$ 50,652

NOTE 4 - LEASES AND RIGHT OF USE ASSETS

LAFCO has a five-year lease agreement for building space at 777 North First Street, San Jose, California, that commenced on May 1, 2022. The base rent ranges from $3,674 to $4,963 which includes a 3% increase on the first of April every year. The net present value of the lease liability, at a rate of 3% over the five years, was $259,897 as of June 30, 2023. The calculated annual principal and interest payments totaled $56,040. The calculated principal and interest for the fiscal year was $49,157 and $6,883, respectively. The District recorded an associated right of use asset of $259,897. After netting the accumulated amortization of $60,642, the net book value of the office space lease right of use asset was $199,255. The following summarizes the principal and interest requirements to maturity:

Year Ending June 30	Principal Payments	Interest Payments	Total
2024	$ 50,652	$ 5,388	$ 56,040
2025	52,193	3,847	56,040
2026	53,780	2,260	56,040
2027	46,064	636	46,700
	$ 202,689	$ 12,131	$ 214,820

NOTE 5 - DEFINED BENEFIT PENSION PLAN

Plan Description

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

Benefits Provided

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

The Plans' provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Miscellaneous	
	Classic	PEPRA
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%
Required employee contribution rates	7.44%	6.75%
Required employer contribution rates	9.74%	9.74%

Employees Covered

As of June 30, 2023, 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, 2023, the contributions were as follows:

Contributions - employer	$	96,874
Contributions - employee		13,502
Total	$	110,376

Pension Liabilities

As of June 30, 2023, LAFCO reported a net pension liability of $1,120,461. LAFCO's net pension liability for the Plan is measured at a .020% proportionate share of the County of Santa Clara's miscellaneous pension plan's net pension liability, based on contributions made during the fiscal year. The net pension liability of the Plan is measured as of June 30, 2022, 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, 2021 rolled forward to June 30, 2022 using standard update procedures. LAFCO's proportion of the net pension liability was based on a projection of LAFCO's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. LAFCO's net pension liability for its agent multiple employer plan is measured as the total pension liability less the fiduciary net position for each plan. The change in the net pension liability for the plan is as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net pension liability
Balance at June 30, 2022	$ 3,430,990	$ 2,795,127	$ 635,863
Service cost	79,022	-	79,022
Interest	216,292	-	216,292
Changes of assumptions	98,409	-	98,409
Differences between expected and actual experience	44,632	-	44,632
Benefit payments	(146,756)	-	(146,756)
Employer contributions	-	111,272	(111,272)
Employee contributions	-	34,436	(34,436)
Net investment income	-	(190,408)	190,408
Benefit payments	-	(146,756)	146,756
Administrative expense	-	(1,559)	1,559
Other	-	16	(16)
Net change	291,599	(192,999)	484,598
Balance at June 30, 2023	$ 3,722,589	$ 2,602,128	$ 1,120,461

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

For the year ended June 30, 2023, LAFCO recognized pension expense of $192,281. As of June 30, 2023, 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	$ 64,825	$ -
Differences between Expected and Actual Experience	38,695	889
Differences between Projected and Actual Investment Earnings	101,447	-
Pension Contributions Made Subsequent to Measurement Date	96,874	-
	$ 301,841	$ 889

LAFCO reported $110,376 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending

June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30	Miscellaneous
2023	$ 49,528
2024	43,510
2025	34,244
2026	76,796
	$ 204,078

Actuarial Assumptions

The total pension liabilities in the June 30, 2021 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.900%
Inflation	2.500%
Payroll Growth	2.750%
Projected Salary Increase	(1)
Investment Rate of Return	7.00% (2)
Mortality	(3)

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

Discount Rate

The discount rate used to measure the total pension liability was 6.90 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 6.90 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 6.90 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

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

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

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

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

Sensitivity of the Net Pension Liability to Changes in the Discount

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

	Miscellaneous
1% Decrease	5.90%
Net Pension Liability	$ 1,229,508
1% Decrease	6.90%
Net Pension Liability	$ 1,120,461
1% Increase	7.90%
Net Pension Liability	$ 532,716

Pension Plan Fiduciary Net Position

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

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

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

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

Benefits Provided

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

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

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

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

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

Employees Covered by Benefit Terms

As of June 30, 2023, the benefit terms covered 4 active employees:

Contributions

LAFCO makes contributions based on an actuarially determined rate and are approved by the authority of LAFCO's Commission through the annual budget adoption. Total contributions during the year were $18,293. Total contributions included in the measurement period were $19,206. The actuarially determined contribution was $22,362. LAFCO's contributions were 5.42% of covered employee payroll during the year.

Actuarial Assumptions

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

Valuation Date:	June 30, 2020
Measurement Date:	June 30, 2022
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	2.30%
Wage Inflation	2.80%
Salary Increases	Miscellaneous: 9.01% to 3.34%, vary by service, including wage inflation. Safety: 15.18% to 4.27%, vary by service, including wage inflation.
Investment Rate of Return	7%, Net of investment expenses
Medical Cost Trend Rates:	
Non-Medicare medical plan	7.25% graded down to an ultimate of 4.50% over 11 years
Medicare medical plan	6.50% graded down to an ultimate of 4.50% over 8 years
Medicare Part B	4.5%

Discount Rate

The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability (TOL) as of June 30, 2022, the measurement date, for the fiscal year ended June 30, 2023.

Long-Term Expected Rate of Return

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

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

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

Net OPEB Liability

LAFCO's net OPEB liability was measured as of June 30, 2022 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 (valuation date) for the fiscal year ended June 30, 2023. The following summarizes the changes in the net OPEB liability during the year ended June 30, 2023, for the measurement date of June 30, 2022:

Fiscal Year Ended June 30, 2023 (Measurement Date June 30, 2022)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2022	$ 408,130	$ 265,140	$ 142,990
Service cost	10,986	-	10,986
Interest in Total OPEB Liability	27,427	-	27,427
Employer contributions	-	18,293	(18,293)
Employee contributions	-	1,426	(1,426)
Changes of benefit terms	2,875	-	2,875
Difference between actual and exp experience	(39)	-	(39)
Proportionate share changes	(19,392)	(12,597)	(6,795)
Changes in assumptions	29,396	-	29,396
Difference between actual and exp earnings	-	(34,552)	34,552
Administrative expenses	-	(523)	523
Benefit payments	(16,105)	(16,105)	-
Implicit subsidy fullfilled	-	3,065	(3,065)
Net changes	35,148	(40,993)	76,141
Balance at June 30, 2023	$ 443,278	$ 224,147	$ 219,131

Covered Employee Payroll	$ 337,824
Total OPEB Liability as a % of Covered Employee Payroll	131.22%
Plan Fid. Net Position as a % of Total OPEB Liability	50.57%
Service Cost as a % of Covered Employee Payroll	3.25%
Net OPEB Liability as a % of Covered Employee Payroll	64.87%

Deferred Inflows and Outflows of Resources

At June 30, 2023, 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	$ -	$ 71,295
Difference between actual and expected earnings	11,797	-
Change in assumptions	22,592	-
OPEB contribution subsequent to measurement date	19,082	-
Totals	$ 53,471	$ 71,295

Of the total amount reported as deferred outflows of resources related to OPEB, $19,082 resulting from LAFCO contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2024	$ (14,204)
2025	(10,842)
2026	(12,470)
2027	1,554
2028	(3,473)
Thereafter	2,529
Total	$ (36,906)

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2023:

Service cost	$ 10,986
Interest in TOL	27,427
Expected investment income	(17,893)
Change in benefit terms	2,875
Other	(3,065)
Change in proportionate shares	635
Employee contributions	(1,426)
Difference between actual and expected experience	(21,790)
Difference between actual and expected earnings	926
Change in assumptions	2,473
Administrative expenses	523
OPEB Expense	**$ 1,671**

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2023:

Net OPEB liability ending	$	219,131
Net OPEB liability begining		(142,990)
Change in net OPEB liability		76,141
Changes in deferred outflows		(34,265)
Changes in deferred inflows		(59,011)
Employer specific changes in proportionate share		(2,553)
Employer contributions and implict subsidy		21,359
OPEB Expense	**$**	**1,671**

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)	$ 285,573	$ 219,131	$ 165,036

Sensitivity to Changes in the Healthcare Cost Trend Rates

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

	Trend Rate		
	(1% Decrease)	**(Current Rate)**	**(1% Increase)**
Net OPEB Liability (Asset)	$ 159,312	$ 219,131	$ 294,390

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Litigation

LAFCO may be exposed to various claims and litigation during the normal course of business. However, management believes there were no matters that would have a material adverse effect on LAFCO's financial position or results of operations as of June 30, 2023.

NOTE 8 - RISK MANAGEMENT

LAFCO is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. LAFCO is a member of the Special District Risk Management Authority (SDRMA). During the fiscal year ended June 30, 2023, LAFCO had the following coverages subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage from SDRMA:

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

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

NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated all subsequent events from the statement of financial position date of June 30, 2023, through the date the financial statements were available to be issued, October 26, 2023.

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, 2023

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
Revenues:				
Intergovernmental	$ 985,974	$ 985,974	$ 985,974	$ -
Charges for services	30,000	30,000	19,642	(10,358)
Investment income	6,000	6,000	25,402	19,402
Total revenues	1,021,974	1,021,974	1,031,018	9,044
Expenditures:				
Current:				
Employee services	844,239	810,419	697,700	112,719
Professional services	307,117	296,405	243,464	52,941
Commission fees	10,000	10,000	4,500	5,500
Facilities	47,784	53,182	53,172	10
Insurance	8,500	8,500	7,042	1,458
Supplies	15,500	15,500	2,898	12,602
Memberships	12,500	12,500	12,921	(421)
Travel	12,350	12,350	4,975	7,375
Miscellaneous	3,000	3,000	6,791	(3,791)
Total expenditures	1,260,990	1,221,856	1,033,463	188,393
Net change in fund balance	(239,016)	(199,882)	(2,445)	197,437
Fund balance beginning	610,027	610,027	610,027	-
Fund balance ending	$ 371,011	$ 410,145	$ 607,582	$ 197,437

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, 2023

Fiscal Year Ended	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actuarially Determined Cont. (ADC)	$ 50,865	$ 56,192	$ 64,817	$ 72,514	$ 77,923	$ 84,621	$ 90,788	$ 81,926	$ 96,874
Contributions in Relation to ADC	50,865	56,192	64,817	72,514	77,923	84,621	90,788	81,926	96,874
Contribution Deficiency (Excess)	-	-	-	-	-	-	-	-	-
Covered Payroll	**$ 322,075**	**$ 335,288**	**$ 356,470**	**$ 381,587**	**$ 421,278**	**$ 390,298**	**$ 414,272**	**$ 364,104**	**$ 382,484**
Cont. as % of Covered Payroll	**15.79%**	**16.76%**	**18.18%**	**19.00%**	**18.50%**	**21.68%**	**21.92%**	**22.50%**	**25.33%**

Notes to Schedule:

Valuation Date: June 30, 2022

Assumptions Used: Entry Age Normal

Inflation Assumed at 2.5%.

Investment Rate of Returns set at 7.25%.

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

Asset valuation methis is Market Value of Assets.

Payroll growth 2.75%.

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

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

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016, and then decreased from 7.65% to 7.15% in fiscal year 2018, and then from 7.15% to 6.90% in fiscal year 2023.

The CalPERS mortality assumptions were adjusted in fiscal year 2021.

Local Agency Formation Commission of Santa Clara County

Schedule of Changes in Net Pension Liability

For the Fiscal Year Ended June 30, 2023

Fiscal Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total pension liability									
Service cost	$ 54,769	$ 54,109	$ 56,283	$ 66,427	$ 72,114	$ 66,827	$ 68,852	$ 70,813	$ 79,022
Interest	162,515	171,403	180,987	189,609	206,148	198,109	194,627	204,051	216,292
Changes of assumptions	-	(42,028)	-	158,690	(28,601)	-	-	-	98,409
Diff. expected and actual experience	-	(3,558)	3,559	(2,638)	19,945	39,404	22,186	(1,869)	44,632
Benefit payments	(94,224)	(101,138)	(108,619)	(116,090)	(130,376)	(126,340)	(125,902)	(135,654)	(146,756)
Net change in Total Pension Liability	123,060	78,787	132,210	295,998	139,230	178,000	159,763	137,341	291,599
Total pension liability - beginning	2,186,600	2,309,660	2,388,448	2,520,658	2,816,656	2,955,886	3,133,886	3,293,649	3,430,990
Total pension liability - ending	$ 2,309,660	$ 2,388,448	$ 2,520,658	$ 2,816,656	$ 2,955,886	$ 3,133,886	$ 3,293,649	$ 3,430,990	$ 3,722,589
Plan fiduciary net position									
Employer contributions	$ 50,865	$ 56,192	$ 64,817	$ 72,514	$ 77,923	$ 84,621	$ 90,788	$ 104,817	$ 111,272
Employee contributions	27,292	26,336	28,002	29,734	31,795	31,754	32,010	33,537	34,436
Net investment income	266,077	39,872	9,509	199,967	174,067	130,885	97,705	459,658	(190,408)
Benefit payments	(94,224)	(101,138)	(108,619)	(116,090)	(130,376)	(126,340)	(125,902)	(135,654)	(146,756)
Net plan to resource movement	-	(156)	47	(28)	3	(8)	33	-	-
Administrative expense	-	(2,032)	(1,099)	(2,651)	(3,199)	(1,414)	(2,750)	(2,041)	(1,559)
Other	-	-	-	-	(6,074)	5	-	-	16
Net change in plan fiduciary net position	250,011	19,074	(7,342)	183,446	144,139	119,503	91,884	460,317	(192,999)
Plan fiduciary net position - beginning	1,534,095	1,784,106	1,803,180	1,795,838	1,979,284	2,123,423	2,242,926	2,334,810	2,795,127
Plan fiduciary net position - ending	$ 1,784,106	$ 1,803,180	$ 1,795,838	$ 1,979,284	$ 2,123,423	$ 2,242,926	$ 2,334,810	$ 2,795,127	$ 2,602,128
Net pension liability	$ 525,555	$ 585,268	$ 724,820	$ 837,372	$ 832,463	$ 890,960	$ 958,839	$ 635,863	$ 1,120,461
Plan fiduciary net position as % of the total pension liability	77.25%	75.50%	71.24%	70.27%	71.84%	71.57%	70.89%	81.47%	69.90%
Covered payroll	312,413	322,075	335,288	356,470	381,587	421,278	390,298	414,272	364,104
NPL as a % of covered payroll	168.22%	181.72%	216.18%	234.91%	218.16%	211.49%	245.67%	153.49%	307.73%
TPL as a % of covered payroll	739.30%	741.58%	751.79%	790.15%	774.63%	743.90%	843.88%	828.20%	1022.40%

Fiscal year 2015 was the first year of implementation, therefore only eight years are shown.
The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016, and then decreased from 7.65% to 7.15% in fiscal year 2018, and then from 7.15% to 6.90% in fiscal year 2023.
The CalPERS mortality assumptions were adjusted in fiscal year 2020.

Local Agency Formation Commission of Santa Clara County

Schedule of Contributions for OPEB Plans
For the Fiscal Year Ended June 30, 2023

Fiscal Year Ended	2018	2019	2020	2021	2022	2023
Actuarially determined contribution (ADC)	$ 29,697	$ 29,697	$ 30,704	$ 27,601	$ 23,723	$ 22,362
Less: actual contribution in relation to ADC	(34,427)	(24,639)	(25,852)	(22,766)	(19,206)	(18,293)
Contribution deficiency (excess)	$ (4,730)	$ 5,058	$ 4,852	$ 4,835	$ 4,517	$ 4,069
Covered employee payroll	$ 349,612	$ 397,559	$ 402,829	$ 399,011	$ 369,855	$ 337,824
Contrib. as a % of covered employee payroll	9.85%	6.20%	6.42%	5.71%	5.19%	5.42%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	June 30, 2020
Measurement Date:	June 30, 2022
Actuarial Cost Method:	Entry-Age Actuarial Cost Method
Amortization Method:	30-Year Closed Amortization, Level Percent of
Amortization Period:	30 years
Asset Valuation Method:	Market Value
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.30%
Wage Inflation	2.80%
Salary Increases	Miscellaneous: 9.01% to 3.34%, vary by service, including wage inflation. Safety: 15.18% to 4.27%, vary by service, including wage inflation.
Investment Rate of Return	7%, Net of investment expenses
Medical Cost Trend Rates:	
Non-Medicare medical plan	7.25% graded down to an ultimate of 4.50% over
Medicare medical plan	6.50% graded down to an ultimate of 4.50% over 8
Medicare Part B	4.5%

Other Notes

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

There were no changes in benefit terms.

There were no changes in discount rates

Inflation decreased from 2.50% to 2.30% in fiscal year 2023

Wage inflation increased from 2.75% to 2.80% in fiscal year 2023

Local Agency Formation Commission of Santa Clara County

Schedule of Changes in Net OPEB Liability

For the Fiscal Year Ended June 30, 2023

Fiscal Year Ended	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Total OPEB liability						
Service cost	$ 14,472	$ 13,122	$ 14,930	$ 14,091	$ 11,037	$ 10,986
Interest	34,597	20,649	35,501	32,617	26,639	27,427
Changes of benefit terms	-	-	-	-	-	2,875
Differences between expected and actual experience	(40,235)	(3,650)	(30,126)	(19,223)	4,409	(39)
Changes of assumptions	(9,061)	3,835	4,159	(13,776)	4,479	29,396
Benefit payments	(16,867)	(8,877)	(19,358)	(18,090)	(15,912)	(16,105)
Proportionate share changes	-	21,414	(2,209)	(46,108)	(79,049)	(19,391)
Other	-	(13,486)	-	-	-	-
Net change in Total OPEB Liability	(17,095)	33,007	2,897	(50,489)	(48,397)	35,149
Total OPEB Liability - beginning	488,207	471,112	504,119	507,016	456,527	408,130
Total OPEB Liability - ending	$ 471,112	$ 504,119	$ 507,016	$ 456,527	$ 408,130	$ 443,279
Plan fiduciary net position						
Employer contributions	$ 28,891	$ 44,336	$ 23,466	$ 23,598	$ 18,824	$ 18,293
Proportionate share changes	-	8,578	(9,847)	(22,638)	-	-
Employee contributions	1,325	-	1,453	1,520	1,505	1,426
Net investment income	16,679	1,156	14,662	8,058	56,099	(34,552)
Difference between estimated and actual earnings	-	-	-	-	(41,968)	(12,597)
Benefit payments	(16,867)	(8,877)	(19,358)	(18,090)	(15,912)	(16,105)
Implicit subsidy fullfilled	-	-	5,503	1,538	4,874	3,065
Other	-	(126)	(733)	-	-	-
Administrative expense	(563)	-	-	(546)	(655)	(523)
Adjustments	3,999	-	-	-	-	-
Net change in plan fiduciary net position	33,464	45,067	15,146	(6,559)	22,767	(40,993)
Plan fiduciary net position - beginning	155,257	188,721	233,788	248,934	242,374	265,141
Plan fiduciary net position - ending	$ 188,721	$ 233,788	$ 248,934	$ 242,374	$ 265,141	$ 224,148
Net OPEB liability (asset)	$ 282,391	$ 270,331	258,082	214,153	142,989	219,131
Plan fiduciary net position as a percentage of the total OPEB liability	40.06%	46.38%	49.10%	53.09%	64.96%	50.57%
Covered Employee Payroll	$ 339,998	$ 349,612	$ 397,559	$ 402,829	$ 399,011	$ 337,824
Net OPEB liab. as a % of cov. Emp. payroll	83.06%	77.32%	64.92%	53.16%	35.84%	64.87%
Total OPEB liab. as a % of cov. Emp. payroll	138.56%	144.19%	127.53%	113.33%	102.29%	131.22%

Other Notes

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

There were no changes in benefit terms.

There were no changes in discount rates

Inflation decreased from 2.50% to 2.30% in fiscal year 2023

Wage inflation increased from 2.75% to 2.80% in fiscal year 2023

OTHER INDEPENDENT AUDITOR'S REPORTS

Chavan and Associates, llp
Certified Public Accountants

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of LAFCO as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements, and have issued our report thereon dated October 26, 2023.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether LAFCO's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

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

Purpose of this Report

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

C & A LLP

October 26, 2023
Morgan Hill, California

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ITEM # 6
Attachment B

Chavan and Associates, llp
Certified Public Accountants

Local Agency Formation Commission of Santa Clara County
777 North First Street, Suite 410
San Jose, California

In planning and performing our audit of the financial statements of Local Agency Formation Commission of Santa Clara County as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered Local Agency Formation Commission of Santa Clara County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Local Agency Formation Commission of Santa Clara County's internal control. Accordingly, we do not express an opinion on the effectiveness of Local Agency Formation Commission of Santa Clara County's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible:* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable*: The future event or events are likely to occur.

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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The following is a summary of new accounting pronouncements from the Governmental Accounting Standards Board:

GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62, effective fiscal 2024*.

This statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. GASB 100 also requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. And, GASB 100 addresses how information that is affected by a

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change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI).

GASB Statement No. 101, *Compensated Absences, effective fiscal 2025*.

Updates the recognition and measurement guidance for compensated absences by:

1. Aligning the recognition and measurement guidance under a unified model
2. Amending certain previously required disclosures
3. Amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability
4. Supersedes GASB 16

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. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Respectfully,

C & A LLP

October 26, 2023
Morgan Hill, California

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Chavan and Associates, llp
Certified Public Accountants

To the Commission of the
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, 2023, and have issued our report thereon dated October 26, 2023. 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 Commission'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 does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

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

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Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We did not identify any significant risks that required special audit consideration.

Qualitative Aspects of the Commission'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, 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

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

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

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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 and long-term liabilities.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. No significant unusual transactions were identified as a result of our audit procedures that required the attention of management.

Identified or Suspected Fraud

We did not identify nor obtain information that indicates that fraud may have occurred.

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 misstatements that were brought to the attention of management as a result of our audit procedures. There were no material, corrected 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.

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Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. There were no circumstances that affect the form and content of our auditor's report.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated October 26, 2023.

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 Matters, 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.

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

C & A LLP

October 26, 2023
Morgan Hill, California

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Chavan and Associates, llp
Certified Public Accountants

LAFCO of Santa Clara County

Audit Results

June 30, 2023

General Audit

We documented internal control processes over significant transactions classes.

We performed substantive and compliance tests following GAAS and GAGAS.

Management appears cognizant of current events that could impact LAFCO, such as revenue calculations, Cash management, deferrals and expenditures.

Management was well prepared for the Audit. The items we have requested were provided timely and accurately.

	Total Pension Liability	Plan Fiduciary Net Position	Net pension liability
Balance at June 30, 2022	$ 3,430,990	$ 2,795,127	$ 635,863
Service cost	79,022	-	79,022
Interest	216,292	-	216,292
Changes of assumptions	98,409	-	98,409
Differences between expected and actual experience	44,632	-	44,632
Benefit payments	(146,756)	-	(146,756)
Employer contributions	-	111,272	(111,272)
Employee contributions	-	34,436	(34,436)
Net investment income	-	(190,408)	190,408
Benefit payments	-	(146,756)	146,756
Administrative expense	-	(1,559)	1,559
Other	-	16	(16)
Net change	291,599	(192,999)	484,598
Balance at June 30, 2023	$ 3,722,589	$ 2,602,128	$ 1,120,461

GASB 68 - Pensions

Fiscal Year Ended June 30, 2023 (Measurement Date June 30, 2022)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2022	$ 408,130	$ 265,140	$ 142,990
Service cost	10,986	-	10,986
Interest in Total OPEB Liability	27,427	-	27,427
Employer contributions	-	18,293	(18,293)
Employee contributions	-	1,426	(1,426)
Changes of benefit terms	2,875	-	2,875
Difference between actual and exp experience	(39)	-	(39)
Proportionate share changes	(19,392)	(12,597)	(6,795)
Changes in assumptions	29,396	-	29,396
Difference between actual and exp earnings	-	(34,552)	34,552
Administrative expenses	-	(523)	523
Benefit payments	(16,105)	(16,105)	-
Implicit subsidy fullfilled	-	3,065	(3,065)
Net changes	35,148	(40,993)	76,141
Balance at June 30, 2023	$ 443,278	$ 224,147	$ 219,131

Covered Employee Payroll	$ 337,824
Total OPEB Liability as a % of Covered Employee Payroll	131.22%
Plan Fid. Net Position as a % of Total OPEB Liability	50.57%
Service Cost as a % of Covered Employee Payroll	3.25%
Net OPEB Liability as a % of Covered Employee Payroll	64.87%

GASB 75 - OPEB

Description	2023	2022	Change	Percentage Change
Assets				
Current Assets	$ 668,822	$ 720,192	$ (51,370)	-7.13%
Right of Use Assets - Net	199,255	251,234	(51,979)	-20.69%
Total Assets	$ 868,077	$ 971,426	$ (103,349)	-10.64%
Deferred Outflows	$ 355,312	$ 122,465	$ 232,847	190.13%
Liabilities				
Current Liabilities	$ 111,892	$ 166,205	$ (54,313)	-32.68%
Noncurrent Liabilities	1,735,396	1,144,385	591,011	51.64%
Total Liabilities	$ 1,847,288	$ 1,310,590	$ 536,698	40.95%
Deferred Inflows	$ 72,184	$ 324,158	$ (251,974)	-77.73%
Unrestricted Net Position	$ (696,083)	$ (540,857)	$ (155,226)	-22.30%

Net Position

Description	2023	2022	Change	Percentage Change
Revenues				
Program revenues:				
Operating grants and contributions	$ 985,974	$ 901,364	$ 84,610	9.39%
Charges for services	19,642	26,811	(7,169)	-26.74%
General revenues:				
Investment income	25,402	7,832	17,570	224.34%
Total Revenues	1,031,018	936,007	95,011	10.15%
Program Expenses				
General government	1,179,361	783,432	395,929	50.54%
Interest expense	6,883	1,289	5,594	433.98%
Total Expenses	1,186,244	784,721	401,523	51.17%
Change in Net Position	(155,226)	151,286	(306,512)	-202.60%
Beginning Net Position	(540,857)	(692,143)	151,286	27.97%
Ending Net Position	$ (696,083)	$ (540,857)	$ (155,226)	-22.30%

Change in Net Position

Audit Results

- No Control Deficiencies
- No Exceptions in Audit Opinions
- No Material Weaknesses
- No Disagreements with Management
- No Passed on Adjustments

ITEM # 7

SANTA CLARA LAFCO

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

LAFCO MEETING: **December 6, 2023**

TO: **LAFCO**

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

SUBJECT: **OVERVIEW OF SANTA CLARA LAFCO SERVICE REVIEW PROGRAM**

FOR INFORMATION ONLY

BACKGROUND

What is a Service Review?

A service review is a comprehensive review of services in a designated geographic area and includes steps to obtain information about services, evaluate provision of services, and recommend actions, when necessary, to promote the efficient provision of those services.

In Santa Clara County, service reviews have helped:

- Enhance transparency and public accountability of districts,
- Inform LAFCO's decisions on boundary change or service extension proposals,
- Showcase best practices and generate ideas/options for efficient service provision and governance,
- Clarify purpose/functions and relevance of districts,
- Identify and discourage duplication of services,
- Identify options for improved services and better governance,
- Identify opportunities for shared services, and
- Identify unapproved service connections outside boundaries.

LAFCO is not required to initiate boundary changes based on service reviews. However, LAFCO, local agencies or the public may subsequently use the service reviews to pursue changes in jurisdictional boundaries or spheres of influence.

Service Review and Sphere of Influence Requirements

The Cortese Knox Hertzberg Local Government Reorganization Act (CKH Act) mandates that LAFCO conduct service reviews prior to, or in conjunction with, sphere of influence updates [Government Code § 56430]. It also requires that LAFCO review and update the sphere of influence of each city and special district once every five years, as necessary [Government Code § 56425].

The mandate for LAFCOs to conduct service reviews was enacted as part of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 and is based on the recommendation contained in Growth Within Bounds – a Report of the Commission on Local Governance for the 21st Century. The Report noted that for LAFCOs to achieve their fundamental purposes they must have a comprehensive knowledge of the services available within the county, the current efficiency of providing service within various areas of the county, future needs for each service, and expansion capacity of each service provider. The Report identified service reviews as an opportunity for LAFCOs to gain that knowledge and promote efficient service delivery to meet future growth and development needs in the county.

State law does not specify how LAFCOs should conduct service reviews and instead defers to each LAFCO to determine how best to meet this mandate. However, as part of a service review, State law [Government Code § 56430(a)] requires LAFCOs to include an analysis and written statement of determinations for each of the following seven categories:

- Growth and population projections for the affected area;
- Location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence;
- Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence;
- Financial ability of agencies to provide services;
- Status of, and opportunities for, shared facilities;
- Accountability for community service needs, including governmental structure and operational efficiencies; and
- Any other matter related to effective or efficient service delivery, as required by commissions.

State law [Government Code § 56425(e)] requires LAFCOs, as part of the sphere of influence review and update, to prepare an analysis and written statement of determinations for each agency regarding each of the following:

- Present and planned land uses in the area, including agricultural and open-space lands;
- Present and probable need for public facilities and services in the area;
- Present capacity of public facilities and adequacy of public service that the agency provides or is authorized to provide;

- Existence of any social or economic communities of interest in the area if the Commission determines these are relevant to the agency; and
- Present and probable need for water, wastewater, and structural fire protection facilities and services of any DUCs within the existing sphere of influence.
- In the case of special districts, the nature, location, and extent of any functions or classes of services provided by existing districts.

SANTA CLARA LAFCO'S SERVICE REVIEW POLICIES

On December 11, 2002 LAFCO adopted Service Review Policies to provide guidance to the Commission and LAFCO staff in the preparation and implementation of service reviews. These Policies described how service reviews would be conducted and the factors to be evaluated and were intended to be used along with State Office of Planning and Research's Final Service Review Guidelines. These Policies were last amended on October 14, 2009 to reflect the specific changes in the categories that LAFCO is legally required to make a written statement of determinations on, as part of a service review, and to note that the legal deadline for completing the first set of service reviews was extended from January 1, 2006 to January 1, 2008.

Attachment A is a list of the agencies (27 special districts and 15 cities) subject to service reviews in Santa Clara County. As applicable, LAFCO includes other agencies, entities, or private service providers in the service reviews. For example, LAFCO's recent Countywide Fire Service Review included the County of Santa Clara, the Santa Clara County FireSafe Council, volunteer fire companies; and LAFCO's 2012 Countywide Water Service Review included private water companies, mutual water systems, and the Bay Area Water Supply and Conservation Agency, among others.

FIRST ROUND SERVICE REVIEWS: COMPLETED FROM 2004 TO 2007

The first round of service reviews began in 2004 and concluded in 2007. These service reviews focused on developing relationships with cities and special districts; collecting basic information on agencies, particularly smaller agencies; and developing accurate boundary maps of special districts that could be maintained and updated in a Geographic Information System (GIS). At the time, information on some local agencies was outdated or non-existent and LAFCO lacked electronic maps of special district boundaries. LAFCO's First Round Service Reviews included:

1. Countywide Fire Service Review (Adopted April 7, 2004)

A countywide review of all fire service providers, including the 4 fire districts, the city fire departments, and other fire service providers such as CALFIRE and volunteer fire companies.

2. Countywide Water Service Review (Adopted June 8, 2005)

A countywide review of all water service providers in Santa Clara County, including the 5 water districts, the 2 resource conservation districts, the city water departments, private water purveyors, and other water service providers such as the Bay Area Water Supply and Conservation Agency.

3. South Central Santa Clara County Service Review (Adopted August 9, 2006)

A sub-regional review of all cities and special districts located within the southern and central parts of the county, excluding districts and services (i.e., fire service and water service) that were already covered in prior first round service reviews.

4. Northwest Santa Clara County Service Review (Adopted October 3, 2007)

A sub-regional review of all cities and special districts located within the northern and western parts of the county, excluding districts and specific services (i.e., fire and water) that were already covered in the prior first round service reviews.

Please see **Attachment B** for a complete listing of agencies and entities covered in each of the First Round Service Reviews.

SECOND ROUND SERVICE REVIEWS: COMPLETED FROM 2010 TO 2015

LAFCO's second round of service reviews began in 2009 and concluded in 2015. These service reviews focused on collecting more detailed information on special districts and cities; identifying and analyzing issues related to public accountability, transparency, and service efficiency and effectiveness; providing recommendations to address these issues; raising public awareness about potential solutions to these issues and working with agencies to implement service review recommendations. This effective approach is now the model for future service reviews and SOI updates. LAFCO's Second Round Service Reviews included:

1. Countywide Fire Service Review (Adopted December 15, 2010)

A countywide review of all fire service providers, including the 4 fire districts, the city fire departments, and other fire service providers such as CALFIRE and volunteer fire companies.

2. Countywide Water Service Review (Adopted December 7, 2011)

A countywide review of all water service providers in Santa Clara County, including the 5 water districts, the 2 resource conservation districts, the city water departments, private water companies, and other water service providers such as the San Francisco Public Utilities Commission, Bay Area Water Supply and Conservation Agency, and Small Community Water Systems.

3. Audit and Service Review of El Camino Hospital (Adopted August 1, 2012)

An audit and service review of the El Camino Hospital District (later renamed El Camino Healthcare District). This service review was designed to answer specific questions related to the El Camino Hospital District's governance structure; its financial relationship to the El Camino Hospital Corporation and affiliated non-profit organizations; the financial condition of the District and Corporation; the availability of reserves; the source and use of taxpayer funds used for hospital operations, capital improvements and the acquisition of the Los Gatos Hospital campus; and other related topics.

4. Special Districts Service Review – 2 Phases

Phase 1 (Adopted June 5, 2013) & Phase 2 (Adopted December 4, 2013)

A review of special districts that were not included in prior second round service reviews. This review was conducted in two consecutive phases. Phase 1 included special districts that provide the following services: vector control, lighting, transportation, recreation and park, and veteran's memorial. Phase 2 included the following types of special districts: sanitary/sanitation, open space, and community service districts.

5. Saratoga Fire Protection District Special Study (Adopted May 9, 2014)

A LAFCO initiated special study in response to the service review determinations for the Saratoga Fire Protection District (SFD) contained in LAFCO's 2010 Countywide Fire Service Review. The service review determinations stated that "Administrative costs could be reduced by dissolving the district and consolidating with the Santa Clara County Central Fire Protection District (CCFD)." The study analyzed this governance option to assist LAFCO in evaluating whether or not it can make the required determinations to initiate a reorganization.

6. Cities Service Review (Adopted December 2, 2015)

A countywide review of all 15 cities, and other unincorporated communities (i.e., Moffett Field, San Martin, and Stanford University). The review excluded all services such as fire and water, already covered in prior second round service reviews.

Please see **Attachment B** for a listing of the agencies and entities covered in each of the Second Round Service Reviews.

THIRD ROUND SERVICES REVIEWS: CURRENTLY IN-PROGRESS

On April 3, 2019, LAFCO established a workplan for completing its third round of service reviews and SOI updates, with a specific structure and priorities, considering the findings of LAFCO's prior service reviews, current studies and discussions that were already underway at other local agencies, and more recent questions and complaints brought forward to LAFCO concerning certain local agencies. LAFCO's Third Round Service Reviews are proceeding as follows:

Rancho Rinconada Recreation and Park District Special Study – Public Review Draft Report (January 29, 2020)

In July 2019, LAFCO began its third round of service reviews, with the preparation the Rancho Rinconada Recreation and Park District (RRRPD) Special Study to identify the reorganization process and evaluate the potential fiscal impacts (costs/benefits analysis) of the following two alternative governance structure options: (1) merger of the RRRPD with the City of Cupertino; and (2) establishing the RRRPD as a subsidiary of the City of Cupertino, as identified in LAFCO's 2013 Service Review for RRRPD.

The Draft Report for the Special Study was released for public review and comment in late January 2020 and is available on the LAFCO website. The consultant presented the Draft Report to LAFCO, the Cupertino Parks and Recreation Commission, and the Cupertino City Council in February 2020. In March 2020, the project was suspended because of the COVID-19 Shelter in Place order but resumed in August 2020. In March 2021, the Cupertino City Council discussed the Draft Report and voted to delay consideration of the merger of RRRPD with the City to allow for engagement in long-term planning for aquatic facilities in the city and to allow the RRRPD Board to complete their strategic visioning and outreach processes and make a recommendation on the merger. The Draft Report outlines the reorganization process and LAFCO staff remain available to answer questions or to respond to any proposals from the City or RRRPD.

Countywide Fire Service Review (Adopted October 4, 2023)

On December 2, 2020, LAFCO revised its work to prioritize the Countywide Fire Service Review over other service reviews, given recent issues and questions that have arisen around fire service throughout the county. On October 4, 2023, LAFCO adopted the Final Report for the Countywide Fire Service Review and completed SOI updates for each of the four fire districts. As directed by the Commission, LAFCO staff will be contacting each of the relevant agencies and requesting a written response on their plans for implementing these recommendations in the Report, including if they do not plan to implement a recommendation. LAFCO staff will report back to LAFCO on each agency's written response.

Countywide Water and Wastewater Service Review (Start Date TBD)

Per LAFCO's service review workplan, LAFCO will study water service and wastewater service next, within a single countywide service review due to the connections that exist between the two services. Such a study will provide greater insight into the entire water use cycle (i.e., from drinking water source all the way through to wastewater treatment and release back into the environment). Such a review may identify new issues and provide new recommendations concerning these two important services.

Miscellaneous Special Districts Service Review (Start Date TBD)

In general, LAFCO's past Special Districts Service Review resulted in many positive changes occurring at various special districts, particularly with respect to increasing public accountability and transparency. However, since the last service review, LAFCO staff has received some complex questions and/or complaints from the public concerning certain special districts which can best be addressed as part of a new service review. Per LAFCO's service review workplan, this service review will include all special districts, except fire districts, water districts, and sanitary/sanitation districts, which were already covered or are anticipated to be covered in a prior service review, as discussed above. The following districts will be included in this Miscellaneous Special Districts Service Review:

Resource Conservation Districts

- Loma Prieta Resource Conservation District

- North Santa Clara County Resource Conservation District (formerly named "Guadalupe Coyote Resource Conservation District")

Open Space Districts

- Midpeninsula Regional Open Space District
- Santa Clara Valley Open Space Authority

Community Services Districts

- Lake Canyon Community Services District
- Lions Gate Community Services District

Miscellaneous Districts

- El Camino Healthcare District
- Rancho Rinconada Recreation and Park District
- Santa Clara County Lighting Service Area
- Santa Clara County Vector Control District
- Santa Clara Valley Transportation Authority
- Saratoga Cemetery District
- South Santa Clara Valley Memorial District

Cities Service Review (Start Date TBD)

Per LAFCO's service review workplan, the Cities Service Review will cover a range of services (not already addressed in the abovementioned Service Reviews) provided in the 15 cities and in the unincorporated communities, including parks and recreation, streets, stormwater management, law enforcement, library services, lighting, animal control, gas & electricity, broadband, and planning/building.

Please see **Attachment B** for a listing of specific agencies and entities that have been or will be covered in the Third Round Service Reviews.

ATTACHMENTS

Attachment A:	Agencies Subject to Service Reviews in Santa Clara County
Attachment B:	Agencies and Entities Included in Each Round of Service Reviews

ITEM # 7
Attachment A

AGENCIES SUBJECT TO SERVICE REVIEWS IN SANTA CLARA COUNTY

The 27 special districts and 15 cities in Santa Clara County that are subject to LAFCO's service review requirement are as follows:

27 SPECIAL DISTRICTS

Fire Districts

1. Los Altos County Fire District
2. Santa Clara County Central Fire Protection District
3. Saratoga Fire Protection District
4. South Santa Clara County Fire Protection District

Sewer Districts

5. Burbank Sanitary District
6. County Sanitation District 2-3
7. Cupertino Sanitary District
8. West Bay Sanitary District*
9. West Valley Sanitation District

Water Districts

10. Aldercroft Heights County Water District
11. Pacheco Pass Water District*
12. Purissima Hills Water District
13. San Martin County Water District
14. Santa Clara Valley Water District

Resource Conservation Districts

15. Loma Prieta Resource Conservation District
16. North Santa Clara County Resource Conservation District (formerly named "Guadalupe Coyote Resource Conservation District")

Open Space Districts

17. Midpeninsula Regional Open Space District
18. Santa Clara Valley Open Space Authority

Community Services Districts

19. Lake Canyon Community Services District
20. Lions Gate Community Services District

Miscellaneous

21. El Camino Healthcare District
22. Rancho Rinconada Recreation and Park District
23. Santa Clara County Lighting Service Area
24. Santa Clara County Vector Control District
25. Santa Clara Valley Transportation Authority
26. Saratoga Cemetery District
27. South Santa Clara Valley Memorial District

*lies principally outside Santa Clara County

15 CITIES

1. City of Campbell
2. City of Cupertino
3. City of Gilroy
4. City of Los Altos
5. Town of Los Altos
6. Town of Los Gatos
7. City of Milpitas
8. City of Monte Sereno
9. City of Morgan Hill
10. City of Mountain View
11. City of Palo Alto
12. City of San Jose
13. City of Santa Clara
14. City of Saratoga
15. City of Sunnyvale

AGENCIES AND ENTITIES INCLUDED IN EACH ROUND OF SERVICE REVIEWS

FIRST ROUND SERVICE REVIEWS: COMPLETED FROM 2004 TO 2007

1. Countywide Fire Service Review (Adopted April 7, 2004)

- Gilroy Fire Department
- Los Altos Hills County Fire District
- Milpitas Fire Department
- Moffett Field Fire Department
- Mountain View Fire Department
- Palo Alto Fire Department
- San Jose Fire Department
- Santa Clara Fire Department
- Santa Clara County Central Fire Protection District
- Saratoga Fire Protection District
- South Santa Clara County Fire Protection District
- Sunnyvale Public Safety Department
- Volunteer Fire Companies

2. Countywide Water Service Review (Adopted June 8, 2005)

- Santa Clara Valley Water District
- Aldercroft Heights Community Water District
- Purissima Hills Water District
- San Martin County Water District
- Pacheco Pass Water District
- Guadalupe-Coyote Resource Conservation District
- Loma Prieta Resource Conservation District
- Cities: Gilroy, Milpitas, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, and Sunnyvale
- Private Water Purveyors: California Water Service Company, Great Oaks Water Company, San Jose Water Company, Stanford University, and West San Martin Water Works
- San Francisco Public Utilities Commission
- Bay Area Water Supply and Conservation Agency

3. South Central Santa Clara County Service Review (Adopted August 9, 2006)

- Cities: Gilroy, Milpitas, Morgan Hill, San Jose, and Santa Clara
- San Martin
- Special Districts:
  - Burbank Sanitary District
  - County Sanitation District 2-3
  - Lion's Gate Community Services District
  - County Library Services Area
  - Santa Clara County Lighting Service Area
  - Santa Clara County Open Space Authority
  - Santa Clara County Vector Control District

   - South County Memorial Services District
   - Sunol Sanitary District

4. **Northwest Santa Clara County Service Review (Adopted October 3, 2007)**
   - Cities: Campbell, Cupertino, Los Altos, Los Altos Hills, Los Gatos, Monte Sereno, Mountain View, Palo Alto, Saratoga, and Sunnyvale
   - Moffett Field
   - Special Districts:
     - Cupertino Sanitary District
     - El Camino Hospital District
     - Lake Canyon Community Services District
     - Midpeninsula Regional Open Space District
     - Rancho Rinconada Recreation and Park District
     - Santa Clara Valley Transportation Authority
     - Saratoga Cemetery District
     - West Bay Sanitary District
     - West Valley Sanitation District

SECOND ROUND SERVICE REVIEWS: COMPLETED FROM 2010 TO 2015

1. **Countywide Fire Service Review (Adopted December 15, 2010)**
   - Gilroy Fire Department
   - Los Altos Hills County Fire District
   - Milpitas Fire Department
   - Mountain View Fire Department
   - Palo Alto Fire Department
   - San Jose Fire Department
   - Santa Clara Fire Department
   - Santa Clara County Central Fire Protection District
   - South Santa Clara County Fire Protection District
   - Saratoga Fire Protection District
   - Sunnyvale Public Safety Department
   - CAL FIRE and Volunteer Fire Companies
2. **Countywide Water Service Review (Adopted December 7, 2011)**
   - Santa Clara Valley Water District
   - Aldercroft Heights Community Water District
   - Purissima Hills Water District
   - San Martin County Water District
   - Pacheco Pass Water District
   - Guadalupe-Coyote Resource Conservation District
   - Loma Prieta Resource Conservation District
   - Cities: Gilroy, Milpitas, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, and Sunnyvale
   - Private Water Companies: San Jose Water Company, California Water Service Company, Great Oaks Water Company, and West San Martin Water Works
   - Stanford University

- San Francisco Public Utilities Commission
- Bay Area Water Supply and Conservation Agency
- Small Community Water Systems

3. **Audit and Service Review of El Camino Hospital District (Adopted August 1, 2012)**
   - El Camino Hospital District (later renamed El Camino Healthcare District)
4. **Special Districts Service Review – 2 Phases**

   Phase 1 (Adopted June 5, 2013)
   - Rancho Rinconada Recreation and Park District
   - Santa Clara County Lighting Service Area
   - Santa Clara County Vector Control District
   - Saratoga Cemetery District
   - South Santa Clara Valley Memorial District
   - Santa Clara Valley Transportation Authority

   Phase 2 (Adopted December 4, 2013)
   - Burbank Sanitary District
   - County Sanitation District 2-3
   - Cupertino Sanitary District
   - Lake Canyon Community Services District
   - Lion's Gate Community Services District
   - Midpeninsula Regional Open Space District
   - Santa Clara Valley Open Space Authority
   - West Bay Sanitary District
   - West Valley Sanitation District
5. **Saratoga Fire Protection District Special Study (Adopted May 9, 2014)**
6. **Cities Service Review (Adopted December 2, 2015)**
   - All 15 Cities (excluding services already addressed in prior second round service reviews)
   - Moffett Field
   - San Martin
   - Stanford University

THIRD ROUND SERVICE REVIEWS: COMPLETED & ANTICIPATED

1. **Rancho Rinconada Recreation and Park District Special Study (January 29, 2020)**
2. **Countywide Fire Service Review (Adopted October 4, 2023)**
   - Gilroy Fire Department
   - Milpitas Fire Department
   - Morgan Hill
   - Mountain View Fire Department
   - Palo Alto Fire Department
   - San Jose Fire Department
   - Santa Clara Fire Department
   - Sunnyvale Public Safety Department
   - Los Altos Hills County Fire District

- Santa Clara County Central Fire Protection District
- Saratoga Fire Protection District
- South Santa Clara County Fire Protection District
- CAL FIRE and Volunteer Fire Companies
- Santa Clara County Fire Safe Council

3. Countywide Water and Wastewater Service Review (Start Date TBD)

- Santa Clara Valley Water District
- Aldercroft Heights Community Water District
- Purissima Hills Water District
- San Martin County Water District
- Pacheco Pass Water District
- Guadalupe-Coyote Resource Conservation District
- Loma Prieta Resource Conservation District
- Burbank Sanitary District
- County Sanitation District 2-3
- Cupertino Sanitary District
- West Bay Sanitary District
- West Valley Sanitation District
- Cities: Gilroy, Milpitas, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, and Sunnyvale
- Private Water Companies: San Jose Water Company, California Water Service Company, Great Oaks Water Company, and West San Martin Water Works
- Stanford University
- San Francisco Public Utilities Commission
- Bay Area Water Supply and Conservation Agency
- Small Community Water Systems

4. Special Districts Service Review (Start Date TBD)

- El Camino Healthcare District
- Rancho Rinconada Recreation and Park District
- Santa Clara County Lighting Service Area
- Santa Clara County Vector Control District
- Saratoga Cemetery District
- South Santa Clara Valley Memorial District
- Santa Clara Valley Transportation Authority
- Lake Canyon Community Services District
- Lion's Gate Community Services District
- Midpeninsula Regional Open Space District
- Santa Clara Valley Open Space Authority

5. Cities Service Review (Start Date TBD):

- All 15 Cities (excluding services already addressed in prior third round service reviews)
- Moffett Field
- San Martin
- Stanford University

ITEM # 8

2024 SCHEDULE OF LAFCO MEETINGS AND APPLICATION FILING DEADLINES

LAFCO MEETING	DEADLINE TO FILE APPLICATION
February 7, 2024	December 7, 2023
April 3, 2024	February 8, 2024
June 5, 2024	April 4, 2024
August 7, 2024	June 6, 2024
October 2, 2024	August 8, 2024
December 4, 2024	October 3, 2024

TIME OF MEETINGS	1:15 PM
LOCATION OF MEETINGS	Board of Supervisors' 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

ITEM # 9

SANTA CLARA LAFCO

Local Agency Formation Commission of Santa Clara County

777 North First Street
Suite 410
San Jose, CA 95112

SantaClaraLAFCO.org

LAFCO MEETING: **December 6, 2023**

TO: **LAFCO**

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

SUBJECT: **APPOINTMENT OF 2024 LAFCO CHAIRPERSON AND VICE-CHAIRPERSON**

STAFF RECOMMENDATION

Appoint a commissioner to serve as Chairperson for 2024 and appoint a commissioner to serve as Vice-Chairperson for 2024.

BACKGROUND

Pursuant to the LAFCO Bylaws, the rotation schedule for Chairperson and Vice Chairperson 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

However, the Commission has deviated from the adopted chair rotation schedule in the past to allow new commissioners adequate time to gain knowledge and experience on LAFCO matters, before serving as LAFCO Chairperson.

Appointment of the LAFCO Chairperson and Vice-Chairperson is typically made on a calendar year basis, usually at the December LAFCO meeting. However, the appointment of a 2023 Chairperson and Vice-Chairperson was delayed to the April 5, 2023 LAFCO Meeting to allow for LAFCO to have a fully seated Commission.

On April 5, 2023, LAFCO appointed Russ Melton, Cities Member, as Chairperson for the remainder of 2023 (a partial term), and appointed Sylvia Arenas, County Member, as Vice-Chairperson for the remainder of 2023 (a partial term).

ITEM # 10

SANTA CLARA LAFCO

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

TO: LAFCO

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

SUBJECT: EXECUTIVE OFFICER'S REPORT

STAFF RECOMMENDATION

Accept report and provide direction, as necessary.

10.1 FILEMAKER PRO SOFTWARE SUPPORT AND DEVELOPMENT SERVICES

In 2008, LAFCO created FileMaker Pro databases to (1) easily maintain contact information for LAFCO Commissioners, elected officials and staff of affected agencies, and interested parties for public notification purposes; and (2) automate the processing and tracking of applications for boundary changes of cities and special districts in Santa Clara County. These databases are essential to LAFCO's day-to-day operations.

On December 8, 2020, EO Palacherla authorized services from Richard Carlton Consulting Inc., to update LAFCO's FileMaker Pro software and migrate the LAFCO Database to a new server, in the amount of $700. The update and migration were required as the County's Technology Support Services (TSS) was updating its servers, including the one that hosts LAFCO's databases, which use FileMaker Pro software. TSS requested that LAFCO seek technical support from Richard Carlson Consulting Inc. to implement the software update and server migration, as the vendor has the necessary expertise in FileMaker Pro software and is working for TSS on the FileMaker Pro databases of other County departments.

On October 24, 2023, EO Palacherla authorized additional services from Richard Carlson Consulting, Inc. to provide the new LAFCO Clerk with administrator level access to LAFCO's databases and to ensure that other LAFCO staff have standard access to these critical databases on their new laptops.

Please see **Attachment A** for a copy of the scope of services and cost for the service. The FY 2024 LAFCO budget contains sufficient funds in the Consultant Services (GL # 5255500) line item to cover this cost.

At its April 3, 2019 meeting, the Commission adopted Resolution No. 2019-03, delegating authority to the LAFCO Executive Officer for execution of small contracts not to exceed $5,000 with prior LAFCO Counsel review and provided sufficient funds are contained in the appropriate line item in the LAFCO budget. Upon execution of such small contracts, the Executive Officer is required to report such action to the Commission at the next LAFCO Meeting.

10.2 ECS IMAGING'S 21ST ANNUAL CONFERENCE: LASERFICHE TRAINING

LAFCO Clerk Humphrey attended the 2023 ECS Annual Conference for Laserfiche training which was hosted at the City of Dublin on October 25th and 26th.

Since 2010, LAFCO has maintained copies of its official records in an electronic format using a Laserfiche records management system. LAFCO has a licensing and technical support agreement with ECS Imaging to maintain LAFCO's Laserfiche system. This system is integral to the LAFCO's day-to-day operations. The Conference was a timely opportunity for new LAFCO Clerk Humphrey to learn more about this technology and about additional training opportunities that ECS offers free to its clients, as part of the service agreement.

10.3 CHANGES TO LAFCO CLERK JOB SPECIFICATION

In late August 2023, County Employee Services (ESA) made some minor changes to the LAFCO Clerk job specification for overall clarity and emphasis on certain skills, at LAFCO staff's request.

As LAFCO staff reported in its June 7, 2023 update on the LAFCO Clerk recruitment, staff received a smaller qualified applicant pool for the LAFCO Clerk position than anticipated. Upon further review, it appeared that some otherwise qualified applicants who demonstrated competencies in other critical areas of the job did not have experience or training in "extensive use of graphics software" (as required in the job specifications), and therefore were deemed unqualified. This was a major concern because such training and experience, though beneficial, is not essential for the LAFCO Clerk position and is not typically prevalent in our field. LAFCO staff worked with ESA staff to remove this requirement from the job specification and remove related typical tasks and knowledge. These changes should lead to a larger qualified applicant pool in the future.

ATTACHMENT

Attachment A: Richard Carlton Consulting Inc., Scope of Services

Richard Carlton Consulting Inc.
1941 Rollingwood Drive, Fairfield, CA 94534
www.RCConsulting.com • 408-492-9701

Time and Material Proposal for County of Santa Clara (LAFCO)

Filemaker Support And Development Services By Richard Carlton Consulting, Inc.

This document sets forth a contractual agreement of providing FileMaker Support And Development Services by Richard Carlton Consulting, Inc. for the client, County of Santa Clara (LAFCO) or its representatives by Richard Carlton Consulting, Inc. (RCC), the vendor. This agreement expires 10/2/2024. This agreement supersedes any prior oral discussions and/or written agreements between RCC and County of Santa Clara (LAFCO) or its representatives.

Scope of Work

Richard Carlton Consulting Inc will provide FileMaker support services for County of Santa Clara (LAFCO). Work will be performed by RCC on a time and materials basis. This project does NOT contain a fixed cost, or a fixed set of features to be developed. County of Santa Clara (LAFCO) agrees to pay RCC for all time at a rate of $250.00/hr (USD). This includes travel time as well.

RCC may work under this agreement ONLY after receiving faxed or e-mailed document from Client with instruction to proceed with specified work. The instructions should also specify a maximum number of hours not to exceed.

Training for Customer Staff

Richard Carlton Consulting may provide training as requested, also on a time and materials basis.

Communications

Outside the initial consultation, all meeting time, including phone calls, face-to-face meetings, and screen sharing meetings, are billable.

Bug Corrections and Fixes

The discovery of "bugs" (either by RCC staff, or Client staff) and their associated correction by RCC staff is part of the normal and expected software development process. Time spent by RCC staff in fixing any identified bugs is billable, as part of an overall software development process.

Client Testing

While good customer communications is the cornerstone of RCC's business processes, having a good quality database is important as well. It is a well-known fact that software engineers cannot develop bug-free software by themselves, and a good testing process outside of the individual developer is needed. In fact, software engineers are frequently unable to even see bugs in their own code, even when these errors are obvious to anyone else who reviews their work.

There are two established methods for bug testing, the first being Client based testing, and the second being RCC based testing with a separate testing team.

This proposal stipulates that the Client has chosen to save development money by providing "front line" bug testing, versus, contracting with separate RCC staff to provide bug testing services.

Client Responsibilities

The project's nature may demand significant involvement by Client Staff, such as:

1. Assemble any needed documents needed by the consultant to complete the project. For example, critical emails, reports, forms, etc.

2. Make staff available for any needed meetings. Timely client response of phone calls and emails is extremely important.

3. Provide appropriate access to facilities and equipment to implement, test, and install the project.

4. Provide Richard Carlton Consulting with any updated information or document changes that may arise throughout the project.

5. Provide bug testing effort, with bugs being reported to RCC for correction.

Payment Terms

All payments are due Net 30. If payment has not been received by 30 days after the submission of the invoice, all development processes will be halted. If work is halted, any deadlines listed in this document or in change orders, will be automatically extended to cover the time work has been halted. Payments made by Credit Card or Paypal, will incur a 5% charge. All payment is to be made in USD.

Project Start

After receiving a signed purchase order (or this agreement signed), and deposit (if applicable), Richard Carlton Consulting will commence project work.

Invoicing will occur every two weeks.

Project Termination

Both parties reserve the right to terminate this agreement at any time, with or without cause. Both parties agree to notify the other of its intent to terminate this agreement. All rights and obligations under this agreement will terminate at that time. Any nondisclosure agreement will remain intact.

Notwithstanding such termination, this contract is valid until the expiration date previously listed.

Closing

Richard Carlton Consulting sincerely appreciates the opportunity to assist the County of Santa Clara (LAFCO) with its needs. If the foregoing is in accordance with County of Santa Clara (LAFCO)'s understanding, please sign and return the following: signed purchase order, or this signed agreement. Upon receipt of the above, we will immediately commence engagement activities.

Sincerely,

Richard Carlton
CEO, Senior Engineer

DocuSigned by:
Neelima Palacherla
1EFC8BFB3D724BB...

Neelima Palacherla

Approval Signature (County of Santa Clara (LAFCO))

Executive Officer 10/24/2023

Title Date

APPENDIX A: Communications Protocols:

1. The engineer working this project is Kristian Olsen and is best contacted during the hours of 9AM to 5PM at 805-242-2081. If difficulty in contacting staff occurs, please call the main RCC office at (707) 422-4053. An alternate staff may be assigned if the RCC staff listed above becomes unavailable. Additional staff may also be assigned to assist the primary engineer.

2. Client must specify a primary contact for the project, and the preferred method of communications, Phone, Fax, or Email. RCC assumes clients have the ability to open and view PDF documents, i.e. Adobe acrobat Documents as well as Microsoft Word documents.

3. As a default, all invoices are sent to the main point of contact for the project. If the client has a specific accounting person, team or email address for the invoice to be sent to in addition to themselves, please notify your engineer so invoices can go out to the proper person for prompt payment.

ITEM # 11

SANTA CLARA LAFCO

Local Agency Formation Commission of Santa Clara County

777 North First Street
Suite 410
San Jose, CA 95112

SantaClaraLAFCO.org

LAFCO MEETING: **December 6, 2023**

TO: **LAFCO**

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

SUBJECT: **CALAFCO RELATED ACTIVITIES**

STAFF RECOMMENDATION

Accept report and provide direction, as necessary.

REPORT ON THE 2023 CALAFCO ANNUAL CONFERENCE

Commissioners Arenas, Kamei, Kishimoto, Lee, Melton, and Alternate Commissioner O'Neill; and EO Palacherla and Assistant EO Noel, attended this year's CALAFCO Annual Conference which was held at the Hyatt Regency in Monterey from October 18 – October 20. The annual conference's theme was *Celebrating 60 years of LAFCOs 1963-2023* 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.

Chairperson Melton Participates on Session Panel

Chairperson Melton served as a panelist on a Breakout Session entitled "LAFCO Dynamics" which focused on five keys to success for your LAFCO Commission. Chairperson Melton discussed the first key, the importance of commissioners understanding the LAFCO mission/purpose/role, and more specifically the purpose of LAFCO in the community, the power of a commissioner, and what are the key responsibilities of the Commission.

Commissioner Kishimoto Participates on Session Panel

Commissioner Kishimoto served as a panelist on a Breakout Session entitled "Your Community's Fire Service: Top Notch or Ticking Time Bomb?" Commissioner Kishimoto shared Santa Clara LAFCO's recent experience from the Countywide Fire Service Review. Commissioner Kishimoto discussed what commissioners expect from service reviews, how technical advisory committees can help with service reviews, strategies for identifying and engaging stakeholders and the public effectively, and common misconceptions about service review requirements.

Summary of Conference Program

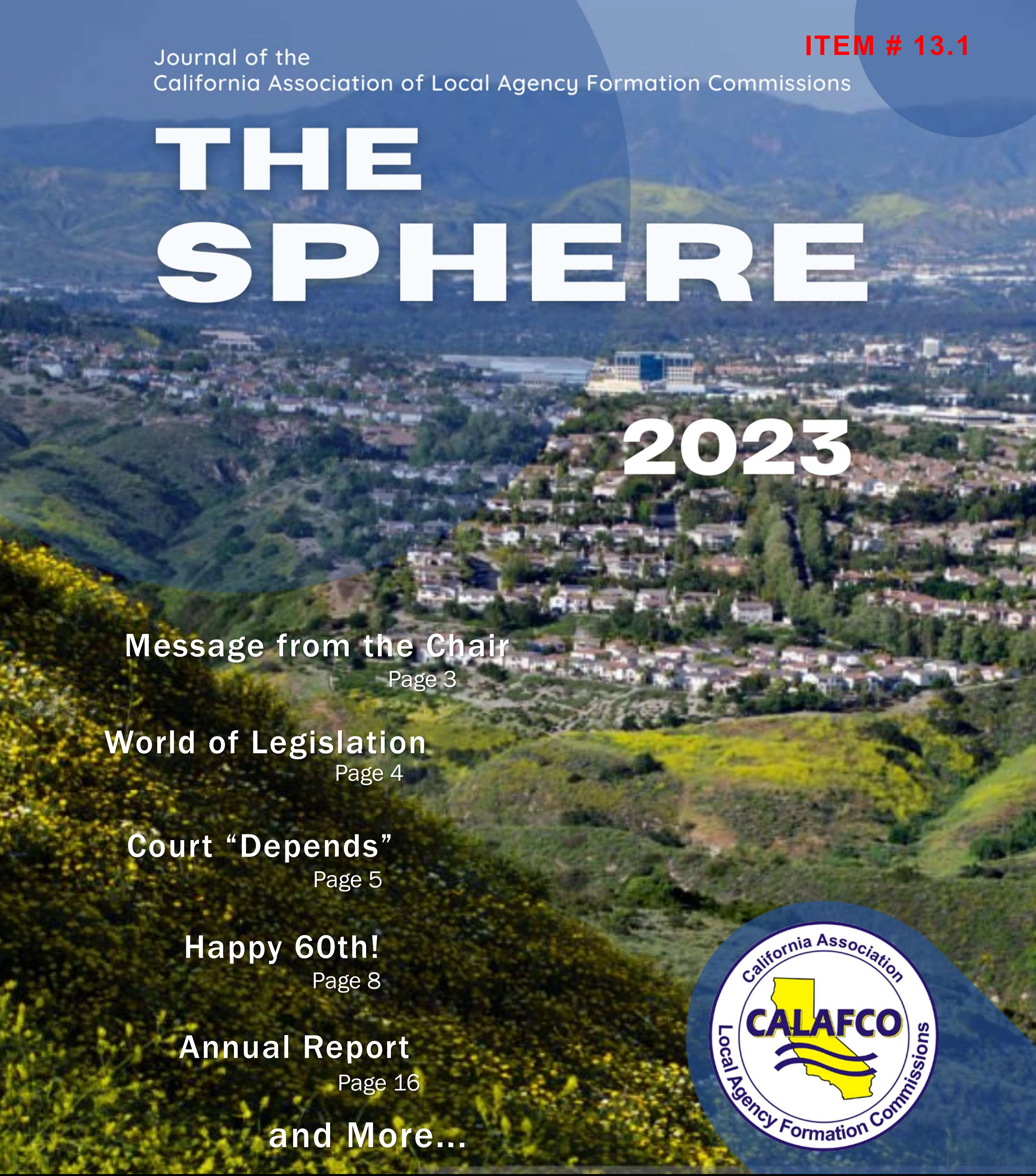
In addition to the pre-conference session entitled "LAFCo 101: Building on the Basics of LAFCo"; the program for the first day of the conference included two general sessions entitled "What's New with New or Extended Services Outside Jurisdictional Boundaries?"; and "Disaster Recovery: It's Everyone's Business."

Thursday's program included regional caucus meetings and elections, commissioner and staff roundtable discussions organized by region, and breakout sessions including "When the Crystal Ball Hits the Wall"; and "Guiding Adrift Agencies Back on Course." Thursday's Keynote Speaker was Jeannette Tuitele-Lewis, President and CEO of the Big Sur Land Trust. Ms. Lewis discussed the important roles that land trusts can play in our community and how the Big Sur Land Trust works to support healthy lands, people, and communities.

Friday's program included general sessions on "Municipal Services in the 21st Century"; and "LAFCos and Special Districts: A Look at the History, Current Challenges, and Future Opportunities Among These Agencies." CALAFCO has posted all conference presentation materials and handouts on its website at www.calafco.org.

The 2024 CALAFCO Annual Conference is scheduled for October 16-18, 2024 at the Tenaya Lodge at Yosemite in Fish Camp, California.

ITEM # 13.1



Journal of the
California Association of Local Agency Formation Commissions

THE SPHERE

2023

A CALAFCO publication
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THE SPHERE

CALAFCO Journal

October, 2023

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

1451 River Park Drive, Suite 185
Sacramento, CA 95815
916-442-6536
www.calafco.org

Articles, announcements, comments or other materials noteworthy to LAFCo commissioners and staff, may be submitted to the Editor at 916-442-6536 or info@calafco.org.

California Association of Local Agency Formation Commissions CALAFCO

contents

CALAFCO MISSION

The mission of CALAFCO is to promote efficient and sustainable government services based on local community values through legislative advocacy and education.

A Message From
The Chair of
CALAFCO

BILL CONNELLY
Chair of the Board

A Busy Year

This past year flew by as CALAFCO and each LAFCo continues to evolve and adapt!

One consistent factor in our success is YOU! It is with your support and raw talent that we have had real accomplishments. However, to prepare for the future, we must reflect on the past fifty-two years of our existence and ask ourselves, are we where we want to be?

CALAFCO was formed as a volunteer organization to support each of you in providing an indispensable public service. LAFCo's are the organization that is out in front, promoting rational growth and seeking sustainability for future generations of Californians. With professionalism and non-bias, fact based actions, we should be the resource the Governor and legislature depend on rather subverting our mission when our decisions become uncomfortable. Here are some of our accomplishments.

Most recently we were a part of a coalition that united partners to push back against the power grab known as AB399 (County Water Authorities). We made a valiant effort in the legislature and brought a good many legislators around to the LAFCo cause but fell short against the big money water interests that control the legislature. It now sits with the Governor and even if we fail to get his veto, it was the right thing to do for all the right LAFCo reasons! Circumventing the law is never good when it comes to legislating around LAFCo's and local control. The win...we gained new respect and new partners on this issue.

We can also build on our legislative victory with SB938 (Protest Provisions) that consolidated the protest provisions and gave LAFCo's greater options to reorganize under-performing local agencies. It is now up to individual LAFCo's to exercise this hard won goal and use our MSRs to not only evaluate local agencies but to bring about change in our local communities.

At our CALAFCO biannual retreat we focused on rebranding the association with a fresh and forward-looking approach to our goals, policies and practices. CALAFCO's new mission is: "*To promote efficient and sustainable government services based on local community values through legislative advocacy and education*." This is a proactive mission and it will require once again, our awesome LAFCo volunteers to be the change we seek!

So here is my challenge to all of you, are you ready…

To build on our new found momentum and make your LAFCo all that it can be?

To face threats to local control and direct attacks on LAFCO authority with a proactive agenda while exercising your independence while serving the public?

To leave the safe space of the status quo and become a proactive force for change?

To close, it was my humble privilege to serve as CALAFCO Chair and represent all of you - *our volunteers* - and be routinely impressed by such a dedicated group of professionals who bring forth new, and ever greater opportunities for CALAFCO's future.

The Wild and Wacky World of California Legislation

Written by: René LaRoche, Executive Director

Welcome to the Golden State, where the sun always shines, traffic never moves, and the legislative process is as bewildering as trying to parallel park in San Francisco. If you've ever wondered how laws are made in California, you're not alone. Get ready for a rollercoaster ride through the zany world of the California legislative process!

Who the Heck Makes Up These Crazy Laws?

In California, the State Legislature is composed of two houses: the Senate and the Assembly. There are 40 Senators and 80 Assembly Members who are elected to represent all of the people of the State of California. These two houses work in parallel but they also serve as a check against the other's authority.

While some states have a legislature that only meets every other year, California's Legislature is considered a full-time legislature. Its Legislative cycle is two years, and runs from January to August or September, depending on whether it is an odd or even year. Of course, it should probably come as no surprise that a process as important and expansive as state legislation has multiple deadlines to meet and the legislative calendar is posted online prior to each year.

The Idea

So, now it's time to begin our journey, and the first step begins with a brilliant idea. Picture this: a group of Californians sitting around, probably at a trendy coffee shop somewhere, sipping almond milk lattes and brainstorming ideas for new laws. They may be legislators or their staff, constituents, local government officials, associations, lobbyists, or a whole host of sources. Their ideas may seem strange to some, but all are considered important by the proposer.

The Bill

Once an idea is hatched, it's time to turn it into a bill. In California, bills are like the Kardashians – they come in all shapes and sizes. It's like a legislative fashion show as about 3,000 bills per year strut their stuff down the assembly and senate runways. But beware, not all bills make the cut. Some are deemed too ridiculous, too ambitious, too impractical, too costly, or simply too controversial.

Only legislators can author a bill. However, they can carry a bill for someone else, in which case they become the Author while the proposer is the Sponsor. That is an important distinction because, in the end, the bill belongs to the Author to do with as they will.

Legislative Counsel

With a bill, or an idea for one, in hand, the Author's first step is to submit the bill to Legislative Counsel prior to the January deadline. Leg Counsel, as it's fondly known, is literally the legislature's law firm. It is here that bills and amendments get drafted, among a host of other duties. If you think of it as a huge box filled with 100 attorneys, then you'll understand why the finished bills that pop out may bear little resemblance to what was submitted.

If the bill is backed – meaning a legislator has agreed to carry it – it will come out with the legislator's name attached to it, as well as a bill number prefixed with AB for Assembly Bill, or SB for Senate Bill. The bill will then be introduced in the appropriate house, which counts as the First of Three Readings needed to pass a bill. After introduction, the bill must wait 30 days before it can be acted upon. During this time, it gets sent to the Office of State Printing

Unbacked bills sit at the ready should a legislator later decide to run with it.

Policy Committee Time

The first stop for every bill is the Rules Committee of that house. In Rules, the bill's content is considered and referrals are made to the appropriate policy committee. Once that occurs, the bill will be scheduled in that committee where a lot of the real action will happen.

At this point, bills face two important deadlines: the deadline to pass out of the policy committee, and the deadline to

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Court "Depends" on LAFCO's Conditions of Approval

Written by: Holly O. Whatley, Colantuono, Highsmith & Whatley, PC

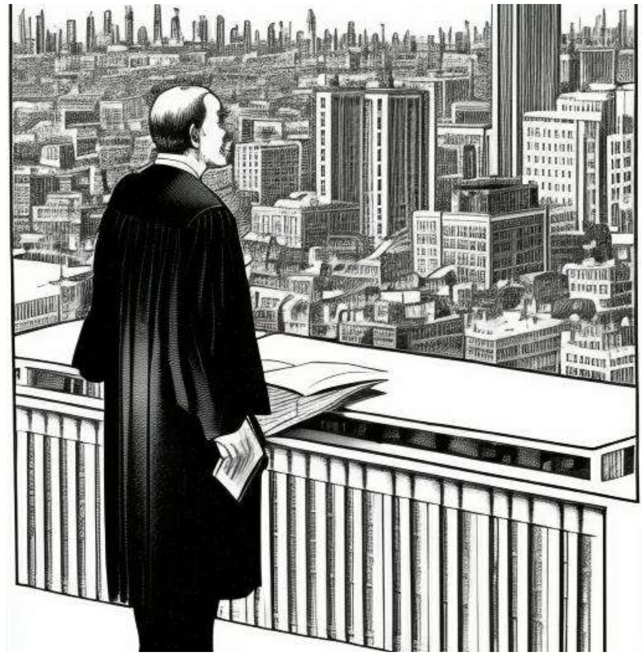
Introduction

Can a dissolved district be sued on the theory it must still "wind up" its affairs? In Barajas v. Sativa L.A. County Water District (Barajas), the Second District Court of Appeal gave a typically lawyerly answer: It depends.[1] Barajas represents the likely final chapter in the long running saga of the Sativa Los Angeles County Water District (Sativa), which struggled for decades to reliably provide adequate healthful potable water to the disadvantaged unincorporated community it served, Willowbrook, along with parts of Compton. The Court ultimately concluded in Barajas that Sativa could not be sued after Los Angeles LAFCO dissolved it, resting its holding squarely on LAFCO's discretion to impose terms and conditions on the dissolution different than Cortese-Knox-Hertzberg's (CKH) standard statutory ones. The decision affirms the broad discretion LAFCO's possess when imposing conditions on their approvals, which is good news for all LAFCO's.

Background

For over twenty years, Sativa, created in 1938, failed to comply with monitoring and reporting requirements regarding its water services, which culminated in a June 2018 compliance order from the State Water Resources Control Board (Board). That order found the district had failed to provide safe, reliable potable water and failed to comply with applicable rules about source capacity and minimum pressure requirements. The Board ordered Sativa to provide a corrective action plan, which the Board ultimately found inadequate.

Shortly after the Board's order issued, Los Angeles LAFCO adopted a resolution to



initiate proceedings to dissolve the District, just days after a putative class action was filed against Sativa alleging it was liable to its customers for its failure to provide potable water. In September 2018, before LAFCO could complete the dissolution proceedings, the Legislature stepped in and enacted AB 1577, an urgency measure that gave the Board the power to dissolve Sativa's board of directors and to designate an entity to administer the District. AB 1577 extended statutory immunity to the designated administrator, in recognition that without such immunity, the Board could not find an entity willing to take on the administrator duties.[2] The Legislature also "reaffirmed" Los Angeles LAFCO's power to dissolve the District and designate a successor agency and created procedures enabling Los Angeles LAFCO to expedite the process.[3]

Just over a month later, the Board formally dissolved Sativa's board, appointed the County of Los Angeles to serve as administrator for the District and contracted with the County for it to

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COURT DEPENDS

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assume full managerial and fiscal control. In December 2018, Los Angeles LAFCO gave notice of a February 2019 public hearing regarding Sativa's dissolution, at which the Commission approved the dissolution. Among other conditions it imposed, it designated the County as the successor agency including for purposes of "winding up the affairs" of the District.

Meanwhile, Barajas' class action suit proceeded, but this question arose: If the District and its board are dissolved, can the lawsuit proceed? The Court of Appeal found no bright line rule to apply, but rather held the answer turned on LAFCO's conditions of approval.[4]

CKH and LAFCO's Power to Condition Approvals

CKH provides that when a commission's approval of dissolution is effective, the district "shall be dissolved, disincorporated, and extinguished, its existence . . . terminated. . . and all of its corporate powers . . . cease."[5] CKH permits LAFCO's to choose either to designate the dissolved district to wind up its own affairs[6] or it may designate a successor agency to do so.[7] If LAFCO designates a successor agency, CKH provides further details regarding the powers and duties of such successor.[8] Importantly, as the *Barajas* court recognized, LAFCO has the power to impose terms and conditions that differ from CKH's default terms.[9]

The class action plaintiffs in *Barajas* argued that CKH's standard dissolution provisions permit a dissolved district to continue to operate to wind up its affairs.[10] They claimed this option meant a dissolved district *always* continues to exist to permit it to wind down. In other words, the urged the Court to conclude LAFCO did not have the power to condition dissolution on another entity performing the wind-down tasks. The Court rejected this claim, noting that CKH's provision permitting a dissolved district to wind up its own affairs, such term was CKH's default provision and that LAFCO's generally have the power to specify terms and conditions different than CKH's default provisions.[11] Here, Los Angeles LAFCO had designated the County as the successor agency responsible for winding up the dissolved agency's affairs. The Court noted that if a dissolved agency necessarily continued to exist despite LAFCO's condition of approval to the contrary, it would create an untenable situation of two agencies purporting to wind up the affairs, with only the one designated by LAFCO having actual control over the agency's assets.[12] The Court found such a construction of CKH to be "nonsensical."[13]

"The class action plaintiffs in Barajas argued that CKH's standard dissolution provisions permit a dissolved district to continue to operate to wind up its affairs."

The Court conceded that the Legislature's grant of immunity to the designated administrator, the County, paired with LAFCO's condition designating the County as the successor agency for winding up Saliva's affairs, left Barajas with no entity to sue. The District no longer existed as a legal entity capable of suing or being sued, and the County was statutorily immune. But the Court rejected plaintiff's argument that CKH *must* be construed to permit the lawsuit to proceed regardless. Given AB 1577's express provisions granting immunity to the administrator and permitting LAFCO to dissolve the District using expedited procedures and appoint a successor to wind up the affairs, the Court determined the Legislature knew the result could be plaintiff's lawsuit would be extinguished. But such result was no reason to "rewrite" CKH or otherwise limit LAFCO's broad powers to impose terms

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Diary of a Rookie EO: What I Learned About Incorporations

Written by: J.D. Hightower, Executive Officer, San Joaquin LAFCo

Dear Diary: From a ski bum/delta rat/baseball nut that supports his incredibly bad golf habit as being the San Joaquin LAFCo Executive Officer, some random thoughts on incorporation. Although I need to preface that I am jones-ing from not getting enough rounds in lately, primarily because I couldn't take a backswing without looking like Charles Barkley because of a nervous twitch that began when we started the second CFA for Mountain House.

SJ LAFCo was lucky to have a great team working on the incorporation – Paula de Souza with BB&K and Jim Simon with RGS, as well as the entire BB&K/ RGS team. Paula and Jim played the course flawlessly. Like Bobby Jones said, "Golf is the closest game to the game we call life. You get bad breaks from good shots; you get good breaks from bad shots– but you have to play the ball as it lies." They got a bad break with a rookie EO and despite that played the course superbly with about a two-foot putt for a birdie and a 10 under round. Reconsideration and CEQA challenges may cause the ball to break 5 feet but currently sitting on top of the leader board.

Leaning on my previous professional experiences, the Project Delivery Team (PDT) model that Caltrans uses was employed. The PDT meetings really proved Winston Churchill right when he said, "Let our advance worrying become advance thinking and planning." We learned that the incorporation resources available on the CALAFCO website are priceless. Also, the ability to call upon the network of other EO's, especially Gary Thompson and the Riverside LAFCo team with their experience with the most previous incorporations, advanced the Mountain House effort. Luckily for Mountain House, the PDT was an all-star line-up and my job was to watch and back the best. As Yogi Berra said, "You can observe a lot just by watching."

Everything that was put on the back burner until the incorporation hearing is now on the front burner along with all the detailed follow-through with the incorporation – finalizing non-substantive edits to the resolution and exhibits, filing NOD and NOE, and taking some needed time-off. Such is life for an EO of a LAFCo with a total of 2.5 FTE, including myself. Looking back through the looking glass, hiring a project manager for the incorporation would have added cost but

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Santa Clara LAFCO Celebrates its 60th Anniversary

On June 7, 2023, six decades of current and former Santa Clara LAFCO Commissioners and staff, elected officials and government staff, and friends—nearly 80 people—came together to celebrate the 60th anniversary of Santa Clara LAFCO. They shared stories of Santa Clara LAFCO's illustrious history and accomplishments, honored the dedicated individuals who have shaped the agency, and expressed optimism for Santa Clara LAFCO's bright future.

Special guest speakers included former State Assemblymember Dominic Cortese (Commissioner 1969-1979), former County Board of Supervisor Blanca Alvarado (Commissioner 1994-2008), and former LAFCO Commissioner Susan Vicklund Wilson (Commissioner 1995-2023). In recognition of this momentous occasion, Santa Clara LAFCO received a Resolution of Commendation from Congresswoman Zoe Lofgren (Commissioner 1982-1994), a Joint Certificate of Recognition from State Senator Dave Cortese and Assemblymember Ash Kalra (Commissioner 2015-2016), and a Commendation from the Santa Clara County Board of Supervisors.

UPCOMING EVENTS

2024 CALAFCO Staff Workshop
April 23-26
Pleasanton, California
Hosted by Alameda LAFCo

2024 CALAFCO Annual Conference
October 16-18
Tenaya Lodge, Fish Camp, California

2025 CALAFCO Staff Workshop
March, 2025
TBD: Southern Region
Hosted by Riverside LAFCo

Fresh Ideas and Energy Abound at Napa LAFCo

By Stephanie Pratt

In the heart of Napa County, where the picturesque vineyards meet the rolling hills, changes are afoot at LAFCo where they recently welcomed three new Commissioners. In addition to these appointments, staff has also had some exciting changes, bringing fresh perspectives and new energy.

Anne Cottrell, LAFCo's Vice Chair, was elected District 3 Supervisor in 2022 and hails from St. Helena. With a Yale undergrad and UC Berkeley law degree, she has a diverse background, including Oregon's Attorney General's Office and land use law. Her extensive community involvement includes the Napa County Planning Commission, Climate Action Plan, and various advisory roles. Vice Chair Cottrell also co-chaired St. Helena's General Plan update and served on multiple boards. She values stewardship of District 3's resources and enjoys outdoor activities in the area during her free time. Anne's long-standing connections to the Napa Valley community allows her to bring a diverse and relevant background to LAFCo.

Belia Ramos, a Napa County native, has been on the Board of Supervisors since 2017 (District 5). Prior to serving on LAFCo and the Board of Supervisors, Belia was a law professor, operated her own company, and served as a member of the American Canyon City Council. As a community activist, she is committed to improving Napa County. She has been crucial in advocating for fire readiness, addressing congestion, and representing Napa County regionally. Governor Brown also appointed her to the 25th Agricultural District Board.

Joelle Gallagher, a lifelong Napa resident, was appointed as an alternate County member in 2022 to complete an unexpired term, with her current term 2021-2025. She was elected District 1 Supervisor in 2022, becoming the first woman to hold that position. Joelle has deep roots in Napa since 1992 and a strong track record of community service, including leadership roles at First 5 Napa County and Cope Family Center, as well her time serving as the County Planning Commissioner. Joelle has also contributed to agricultural and civic organizations serving as the Executive Director of the Napa County Farm Bureau and the Napa Valley Grape Growers Association, where she collaborated with industry and government to protect and promote agricultural resources.

With the addition of the new Commissioners, Napa LAFCo is off to a strong start and committed to working together to create greater efficiencies addressing the challenges facing Napa County - including climate change, water, and wastewater - while remaining committed to transparency and accountability.

The new leadership joins a diverse and committed LAFCo Commission that is excited to work with the community to create a better future for Napa County. They believe that by working together, they can make Napa County a more sustainable and livable community for all, particularly in areas such as agricultural preservation, service delivery , and efficiency. The Commission is also poised to tackle the thorny issues such as, climate change, drought, fire prevention and housing needs.

But these changes don't limit themselves to the Commission, Napa also has exciting changes within their staff. Dawn Mittleman Longoria has

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Happy Trails to Susan Vicklund Wilson

(Santa Clara LAFCO Commissioner 1995-2023)

On June 7, 2023, Santa Clara LAFCO presented former LAFCO Commissioner Susan Vicklund Wilson with a resolution of appreciation for her 28 years of distinguished service (June 1995 to May 2023). Several local representatives including Congresswoman Zoe Lofgren, bestowed her with commendations, further underscoring the significance of her contributions.

During her impactful tenure, Susan served as LAFCO Chairperson for 7 years, on the Finance Committee for 3 years, on Technical Advisory Committees for a variety of service reviews, and on two subcommittees that helped develop LAFCO's groundbreaking policies for Gilroy Agricultural Lands Area and LAFCO's Agricultural Mitigation Policies.

She also served on the CALAFCO Executive Board for 11 years, including as Chairperson in 2011; and on the CALAFCO Legislative Committee for 9 years. She attended nearly all of CALAFCO's Annual Conferences since 1995, often participating as a speaker or moderator for panels generously sharing her experience and expertise in LAFCO matters.

LAFCo

TRACKS AROUND THE STATE

BYRON DAMIANI, Amador LAFCo Executive Officer/Legal Counsel

On July 20, 2023, Byron Damiani Jr. was appointed as the new Executive Officer and Legal Counsel for Amador LAFCo. He replaces Roseanne Chamberlain, who is attempting retirement again after more than 16 years as the LAFCo Executive Officer. Byron comes to Amador LAFCo with an extensive background. He has practiced law for over 30 years, including more than 21 years working for the California Legislature as a Deputy Legislative Counsel. He has also served as the Alternate Public Member Commissioner on LAFCo since June 2007.

DAWN MITTLEMAN LONGORIA, Promoted to Napa LAFCo Assistant Executive Officer

On February 8, 2023, Napa LAFCo announced that Dawn Mittleman Longoria was promoted to the position of Napa LAFCo Assistant Executive Officer. Dawn has extensive experience as a LAFCO EO, consultant, and commissioner. Dawn also previously served as a special district board member and CALAFCO board member. She joined Napa LAFCO in January 2019 as the Analyst II and has recently been pulling double duty as the Interim Clerk. In addition to all that, Dawn currently serves as a CALAFCO Deputy Executive Officer serving the coastal region.

PRISCILLA MUMPOWER, Promoted to San Diego LAFCo Assistant Executive Officer

On June 9 , 2023, San Diego LAFCo announced that Priscilla Mumpower was promoted to the position of San Diego LAFCo Assistant Executive Officer. Priscilla has been with San Diego LAFCo since 2020 and previously held the Local Government Analyst position.

CLAIRE DEVEREUX, Joins Marin LAFCo as New Clerk/Junior Analyst

Claire Devereux joined the Commission in July, 2023. As a Marin native, she brings an in-depth understanding of the area. She recently graduated with a B.S. in Public Policy, Planning, and Management and a Minor in Sustainable Business. Claire's experience and education in the public sector will make her a great addition to the Marin LAFCo team.

DIARY OF A ROOKIE EO
(Continued from page 7)

would have allowed me more time to look at bigger picture issues as well as manage the day-to-day operations. However, having a great staff to support the effort was critical to project delivery. Mitzi and Claudia here in the SJ LAFCo supported the effort all the way and their "git 'er done" attitude proved every day that Yogi Berra was right again when he said, "Nobody can be all smiley all the time, but having a good positive attitude isn't something to shrug off."

The whole experience of being an EO reinforces the lesson learned in my very first class in graduate school 38 years ago. The first words uttered by Professor Tokmakian at Fresno State was to raise your hands if you like arguing. Now being a Hightower means lively family gatherings. Each of us must take a side of an argument and make our case, regardless of whether we actually believe in that argument. Think of it like a family debate club. Nothing says a Hightower holiday like entering a debate on religion. Raising my hand immediately in that first class of grad school, Professor Tokmakian went on to explain that if we didn't like arguing, then we were in the wrong program as everyone wants to argue with your decisions as a planner. (His suggestion for those who didn't raise their hand was to go to the engineering or dental school.)

He taught that planning involves constructing a logical argument as a professional and that there are no absolutes. Absolutes are the realm of engineering, medical doctors, and dentists. My job as a planner is to construct an argument using the codes and policies of the agency that I am working for. Those words have stood out in my memory for my entire planning career, especially now being the EO of a LAFCo and more especially since going through a process that last took place in

the state over 15 years ago.
What they didn't teach me at Fresno State was the precarious path of politics, often a trail along steep cliffs, in presenting your case to both internal and external customers. This was brought home during the incorporation hearing. At the hearing, an evening hybrid live/zoom workshop in Mountain House, no one spoke against incorporation. However, the MHCSD board member with the most seniority presented a letter of "concerns." This was the same member who voted to request LAFCo to initiate proceedings for incorporation 2.5 years ago and again a year and half ago which proves, again, that there are no absolutes in planning and everyone wants to present an argument. Let them play, "Let's Make a Deal." My deal is based on what the codes and policies state.

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Wild and Wacky
(Continued from page 4)

move out of the originating house. If a bill fails to make either of those deadlines, it becomes a 2-year bill if it is the first year of the legislative cycle, or it dies if it is the second year.

Once in committee, the committee members will delve into the finer points of the bill. A staff analysis is drafted and public testimony is considered. The process is often like a reality TV show, complete with drama, alliances, and surprise twists. Will your bill make it out of committee alive or will it be voted off the legislative island? Often, the committee will insist on changes to the bill. However, once finally approved, it goes back to the floor for its Second and Third Readings.

Once on the floor, legislators have the opportunity to debate the bill. Sometimes, debates get heated (especially late in the day) but for the most part it is a very civil process. Occasionally, a protestor will yell something from the gallery, and proceedings will be recessed until the disruption can be controlled. Proceedings are streamed live but, if you're into reruns, recordings can also be found in the media archive.

Gut and Amends: The Zombie Bills

So, you've been following a particular bill and it missed the critical deadline to move out of the house of origin. Crisis averted! Time to put your feet up and grab a cold one, right? **Cue the lightning and scary music** Not so fast! Just like something from a zombie apocalypse movie, bills can rise again through a gut and amend process.

As the name implies, the process takes a bill that successfully passed out of the house of origin and now sits in the second house, and completely removes the old text (the gut), and replaces it with new language (the amend.) The end result can be a previously unseen bill or, more likely, a little monster bill that didn't make the deadlines but which now rises from the dead! In 2023, there were 1,121 of these zombie bills.

Once they pass the second house, gut and amends are usually referred back to the policy committees of the originating house. However, the legislature can also waive those rules if it so chooses, making gut and amends the fodder of nightmares!

Second Verse, Same as the First

Assuming that your bill of interest has moved on to the second house, then it must go through a process similar to the first house that includes policy committees, readings, and floor votes.

If a bill gets off the floor of the second house unchanged, then this part of the process is pretty much done. However, if any amendments were made in the second house, then the changed bill has to go back to the originating house to agree to the changes – a process known as concurrence. If concurrence cannot be reached, the bill is referred to a two house conference committee composed of three members from each house to resolve differences. If a compromise is reached, the bill is again returned to both houses for a vote. If not, the bill **gasp** dies.

Engrossing and Enrolling

Consider for a moment an imaginary bill that traveled a twisted path to the end. Perhaps it had six or seven amendments before traveling to the floor, where more last-minute amendments were piled on. Who makes sure that the final version that goes to the Governor for signature is the correct one?

Well, like most government offices, the overworked and seldom seen clerks do that in a process known as Engrossing and Enrolling. It is the Engrossing and Enrolling Clerk who guarantees the integrity of the measures, and who will transmit the final version of the legislation to the Governor and the Secretary of State after it has passed both houses.

TAH DAH! The Governor's Desk

If your bill manages to make it through all of that then, congratulations! You've won the legislative lottery. But don't pop the champagne just yet – there's one more hurdle to clear. Your bill has to make it past the governor's desk.

By law, the governor has 12 days to take action on a bill. Action can be to sign the bill, veto it, or do nothing. If the governor signs the bill it, of course, becomes law (effective immediately on bills that carry an urgency clause, or at the first of the year for those that do not.) If the governor vetoes the bill, it does not become law; however, the veto can be overridden by a two-thirds vote in each house. Lastly, if the governor does nothing, the bill becomes law by default. It's like a game of legislative roulette where you hope that the ball lands on the right number!

So, there you have it – the wild and wacky world of the California legislative process. It's a bit like trying to surf a tsunami while juggling flaming swords but, hey, that's just how we roll in the Golden State. Regardless of the topic of the bill, the California legislative process is an adventure unto itself. Check it out some time!

Fresh Ideas

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been promoted to Assistant Executive Officer with a LAFCo career spanning over four decades. Her diverse experience in different roles within LAFCo provide her with a deep understanding of the organization's goals and operations. Her progression from intern to commissioner demonstrates that she not only excelled in her work but also contributed significantly to LAFCo's objectives. Her participation with CALAFCO underscores her adaptability and desire to contribute meaningfully to LAFCo operations and the broader CALAFCO community. Her work on the revisions to CKH contributed to the revival of LAFCo's relevance and effectiveness.

Dawn's accomplishments and work as a consultant for various LAFCos and fire districts validate her expertise in facilitating local government improvements. Her journey reflects her commitment to supporting LAFCo's mission throughout her career, underscoring her lasting impact on the organization and the broader community.

Napa has also hired a new Clerk/Jr. Analyst bringing a wealth of private sector experience along with a previous LAFCo role in Marin. Stephanie Pratt brings her passion for research, a background in government, along with a Bachelor of Science in Business Administration coupled with a minor in Journalism. Calling herself a "Solution Provider", she possesses an ability to wear many hats and take a proactive, creative approach to problem-solving proving to be invaluable in an organization that constantly faces complex challenges.

These traits are paramount when it comes to LAFCo's mission of overseeing local government boundary changes and ensuring the efficient delivery of municipal services. Her stellar communication skills are essential for liaising with various stakeholders, ensuring that LAFCo's objectives are met with precision. Her organizational prowess guarantees that the office runs like a well-oiled machine even when daily logistics and priorities shift. As she continues to grow in her role as Jr. Analyst, there is no doubt that her contributions and positive impact will continue to assist LAFCO's mission in Napa County toward greater efficiency and precision.

Court Depends

(Continued from page 6)

and conditions, even those that may differ from the Act's default terms.[14]

The Court's holding that LAFCO's have discretion on the conditions to impose, including those with terms different than CKH's default ones, while simply consistent with current statutory language, is nevertheless a welcome affirmance of LAFCO's broad powers as a "watchdog" for reorganizations within its county, including those initiated on its own.[15] And for those curious about the current status of the former district, Los Angeles County made significant infrastructure investments and repairs to the system in the years after it took over as administrator, ultimately enabling the delivery of reliable, clean potable water to customers. In January of 2023, the County transferred the rehabilitated system to a privately owned utility regulated by the California Public Utilities Commission.

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[1] (2023) 91 Cal.App.5th 1213, review denied (August 9, 2023).
[2] *Id*. at p. 1230.
[3] *Id.* at p. 1220.
[4] *Id.* at p. 1218.
[5] Gov. Code § 57470.
[6] Gov. Code §§ 56035, 57450.
[7] Gov. Code §§ 56035, 57451, 56078.5.
[8] Gov. Code §§ 57452, 57453, 57463.
[9] 91 Cal.App.5th at 1227.
[10] Gov. Code §§ 56035, 57450
[11] 91 Cal.App.5th at 1228.
[12] *Id.* at p. 1229.
[13] *Ibid*.
[14] *Id.* at p. 1230.
[15] *Id.* at p. 1225.

DIARY OF A ROOKIE EO
(Continued from page 11)

The eight-page letter of concerns centered around the concern that, as a City, the homogenous income level of the community may be at risk. Over $6,000,000+ in affordable housing fees have been collected by the County from Mountain House developers. This fee was set-up specifically for Mountain House, intended to be spent for projects within Mountain House. Yet the letter stated concerns about actually spending those funds for affordable housing in their community. The perception was that the funds collected could go to projects anywhere in San Joaquin County. Could NIMBY-ism be alive and well in the proposed City? We will see how this plays out with the registered voters. In this sense, incorporation has brought to light a timely debate on what type of community Mountain House wants to be: a fully integrated city, or an enclave of "like-minded" and incomed county residents.

The community pays more in property taxes than any other city in the county with $14,000,000 collected annually by special taxes for Roads, Public Safety, Parks and Public Works. The MHCSD provides a high level of services, including CC&R enforcement. The incorporation transfers all powers of the MHCSD to the City except CC&R enforcement which will remain with the MHCSD. As such, MHCSD will be a subsidiary district to the City. The strength of the community lies in the built environment which has a great hometown feel because the CSD stuck to the plan. It has a town with a center for civic uses (town hall and second largest library in San Joaquin County) and park, with walkable and shaded streets. In fact, the first streets constructed around 30 years ago have a complete tree canopy. Being a Lorax, speaking for the trees, this helps make Mountain House a great place to call home.

Learning the CKH has not been like learning Municipal Codes. Through my years, I have prided myself on being able to find answers in Municipal Codes usually within 10 minutes. It never mattered which city; just knowing how the codes are constructed was enough. The CKH is not constructed like muni-codes and every day I continue to refer to the index. I now know the approximate place on the document page ruler on the right-hand side that gets me to the approximate place where I will find the answer. Yet, after one year, I really don't know how the CKH is constructed. While my guesses to the questions posed on the EO listserve are usually right in principle, I am usually clueless as to where the answer is located. However, all of the EO questions and answers have proved to me another Yogi-ism: "In theory there is no difference between theory and practice. In practice there is." In theory, the success of the Mountain House incorporation hearing is due in part to all of our collective day to day practices and the willingness to share. The great learning opportunities in the form of CALAFCO University courses, participating in the listserve, and attending the conferences have been invaluable. It truly takes a village to provide the knowledge needed for a rookie EO to make a recommendation regarding an incorporation effort.

Practicing and knowing the code is important as it prepares you to win an argument. As Coach Bear Bryant put it, "It's not the will to win that matters— everybody has that. It's the will to prepare to win that matters." Coupled

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DIARY OF A ROOKIE EO

(Continued from page 14)

with this was my experience in Escalon, where the building inspector/ official had a sign over her desk that said, “Arguing with a Building Inspector is like wrestling with a pig in the mud. Sooner or later, you realize the pig likes it.” Same thing as a planner turned LAFCo EO - everyone wants to argue a point, especially during the incorporation process. Practicing and knowing the code is paramount to providing great customer service as a LAFCo EO. That’s my value added, tips gladly accepted 😊. My practice is that findings and statements of facts (WHEREAS) are the stuff of resolutions. The main content of the staff report was finding that all factors in CKH Section 56668 were considered and that the incorporation was consistent with each factor.

After mind numbing hours of finding consistency with CKH factors and prescribed measures, the CFA became internalized. Case in point, during the initial information gathering for the CFA, the County initially constructed an argument that annual baseline law enforcement costs were $9,000,000. Knowing that this was too high and would likely have severe negative consequences for the County, RSG developed a methodology showing costs around $2,000,000 with the result of showing a de minimus financial impact on the County. Once the County figured out that the lower the baseline cost, the better their fiscal outcome, their argument construct evolved to show baseline law enforcement costs dropping to approximately $141,000 with two (2) officers total. Obviously, it’s important to know the methodology behind your numbers and to believe in your answers. The CFA is a plan for the future City. Coach Bear Bryant said it best: “Have a plan. Follow the plan, and you’ll be surprised how successful you can be.”

KISSing (Keep it Simple, Stupid) the issue of the law enforcement expenditure delta allowed the issue to be settled. Having put together shift bids for transit operations in a previous life, we broke the issue down to shift coverage. Breaking it down to the shifts per week gained the necessary support. With 21 law enforcement shifts per day, and each officer capable of covering 5 shifts, there is a need for at least 5 officers at one per shift. With 27,000 Mountain House residents, and a General Plan goal of one sworn officer per 1,000 residents, the cost of 27 officers on a seven days a week 24 hours a day basis would have led to severe financial impacts to the County as related to law enforcement. In these types of discussions, it is important to listen to all sides and keep in mind that everyone is serving the public interest. That was illustrated in one of our last meetings when it was agreed that, while the methodologies were different, the final fiscal results were pretty much the same.

A final thought on incorporations. My favorite author, Ernest Hemingway, once said “When people talk, listen completely. Most people never listen.” On October 14, the end of the reconsideration and CEQA challenge period will in large part tell if the bell tolls for me as a LAFCo EO.

ANNUAL REPORT 2023

FISCAL YEAR 2022-2023

California Association of Local Agency Formation Commissions
CALAFCO
Sharing information and resources

1451 River Park Drive, Suite 185, Sacramento, California 95815
(916) 442-6536

CALAFCO LEADERSHIP

June 30, 2023

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STAFF

René LaRoche, *Executive Director*
Clark Alsop, *Legal Counsel*
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Steve Lucas, *Executive Officer*
José Henriquez, *Deputy Executive Officer*
Dawn Mittleman Longoria, *Deputy Executive Officer*
Gary Thompson, *Deputy Executive Officer*

California Association of Local Agency Formation Commissions
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(916) 442-6536

MESSAGE FROM THE
BOARD TREASURER

Acquanetta Warren

Back to Normal. With the pandemic receding further back in our rearview mirrors and people returning to offices and events, CALAFCO has returned to some of its normal rhythms. October, 2022, saw our first Annual Conference since 2019 — an event that was much welcomed by all! The Newport Beach weather was glorious as we learned some new information to help us in our roles as LAFCo commissioners while getting reacquainted with old friends.

Of course, the conference was followed by the Staff Workshop in April, 2023 — which was also three years in the making! It, too, was well-attended and seems to have been enjoyed by everyone there. Together, the two events brought both revenue and expenses that we haven't seen in our financial reports for awhile, but which account for upticks in the year-to-year comparison figures that follow.

Total revenues (including from events) for FY 22-23 posted 68.4% higher than last year, while total expenses (also including events) were 29.8% higher. Narrowing down to regularly occurring revenue categories we see a 4.9% increase in Member Dues, and a 309% increase in Other Revenues, mostly due to bank interest.

Conversely, operational expenses (which are all expenses except the event expenses) posted a 9.7% decrease from the prior period despite runaway inflation for much of the fiscal year. That could have been a different story had we not been proactive about cost savings measures as well as implementing new technologies to automate some processes. In the end, we ended the fiscal year with a surplus of over seventy-thousand dollars which the Board allocated to Contingency during its July 2023 meeting.

It has been a wild three years, but I am proud to say that CALAFCO is still going strong! Sound financial controls, cost cutting measures, and careful management of our funds have helped us to weather both the pandemic and historic inflation levels. We should all give thanks to the Board members and staff who came before us, who set this Association up for success, and who have managed its finances so well through the years. Because of all of those efforts, I am pleased to report that upon the conclusion of Fiscal Year 2022-2023, the Association continues to stand in sound financial shape. Selected data from the Association's financial data can be found later in this report. Full financial reports can be found in the Board's quarterly agenda packets or can be requested via email sent to info@calafco.org.

Thank you for allowing me the opportunity to have served as your Treasurer. It has been my utmost honor.

MESSAGE FROM THE
EXECUTIVE DIRECTOR

René LaRoche

Moving Forward. With the pandemic now behind us, 2023 has been a time to normalize and begin evolving. The big change for CALAFCO, of course, was the return of our Annual Conference and our Staff Workshop. It has been wonderful to meet all of you face to face. It has also been a pure joy to see the laughter and jests among old friends catching up, as well as the emerging bonds being forged by new staff who were meeting for the first time. This is family and we do what we do for each of you.

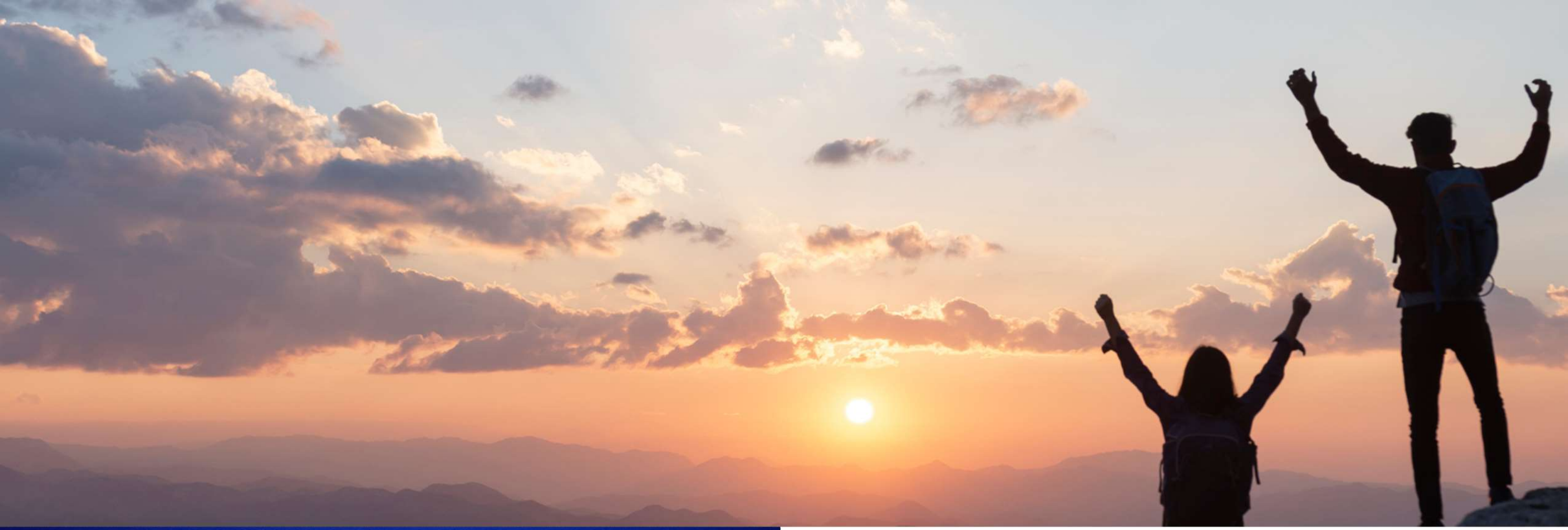
However, CALAFCO has a tiny staff and the only way we can do as much as we do is with the help of a veritable army of volunteers who devote countless hours to work behind the scenes on every event and CALAFCO U. Thank you ALL for your time, as well as the frustration, lip biting and hair pulling that occurs out of public view on these things. Your efforts are always appreciated!

I also want to draw attention to our four regional reps who not only go above and beyond by committing their time but who also have never-ending patience with my questions! Thank you CALAFCO Deputy Executive Officers José Henriquez (Central), Dawn Mittleman Longoria (Coastal), and Gary Thompson (Southern) for organizing event programs and CALAFCO U sessions, for taking Board minutes, and for generally being around when I need someone to lean on. Special thanks to Steve Lucas (Northern) for acting as our CALAFCO Executive Officer. I'm probably the thorn in his side since he's usually the first call for extra projects but I appreciate him always being willing to serve! Thank you to one and all!

As you can see in the Treasurer's Report, we have been able to reduce some of our ongoing expenses through the implementation of technology, which was in keeping with our new Strategic Plan. Under that plan, we are charged with modernizing all things CALAFCO. Of course, to be a truly effective modernization, it was necessary to start with our infrastructure and we are building that out as we speak with the adoption of more cloud services, a new office location, and other changes. Our Strategic Plan also called for rebranding CALAFCO and the Ad Hoc Committee is currently working on that. It will be exciting to see what new look they devise for us!

As you can see, it is an exhilarating time for the Association as we stand on the cusp of a new and better CALAFCO. Obviously, there is a lot going on behind the scenes. Yet, we continually look for new ways to provide better services at reduced costs because we are committed to bringing you, our members, ever more value.

It has been a great year, and we anticipate that next year will bring us more of the same. On behalf of myself and the Board, I want to extend sincere thanks and gratitude to our members and many volunteers who help bring these efforts to life!



SERVICES

Fiscal Year 2022-2023

EDUCATION

Annual Conference — 220 Registrants
Staff Workshop — 98 Registrants
2 Webinars — 118 Attendees
26.4 AICP Educational Credits Offered

Educational Resource

Member Development & Communication

Information Resource & Policy Advocate

MEMBER SERVICES

57 Member LAFCos — 4 Regions
26 Associate Members
9 List Serves ~ 305 Subscribers
> 750 Members Supported

LEGISLATION

3,030 Bills Reviewed
22 Bills Tracked
8 Positions Taken
1 Bill Sponsored

Accomplished by:

1.5 Employees
2 Part-time Consultants
4 Regional Volunteer Staff &
Numerous Committee Volunteers

FINANCIAL MANAGEMENT

The financial data that follows has been selected from the Association's financial statements, which were prepared in accordance with Generally Accepted Accounting Principles (GAAP). Unabridged copies of all financial statements can be found in the Board's July 14, 2023 agenda packet or may be obtained by sending an email request to info@calafco.org.

CALAFCO employs multiple safeguards to guarantee that the Association's assets are safeguarded from unauthorized use, and that all transactions are scrutinized to ensure that they are authorized, executed, and recorded properly. In addition, the association records were monitored by James Gladfelter, C.P.A., of Alta Mesa Group, LLP, who monitored controls and performance through quarterly reconciliations.

OVERVIEW

With the Association again hosting events, FY 22-23 revenues rose 68.4% over the previous year. Out of the total revenues, approximately 61% derived from dues, 29% from conference revenues, and 8% from workshop revenues.

Of course, holding events also means that event expenses are again posting. This can easily be seen in the amount of total expenses which also rose approximately 30% from the previous year. Of the FY 22-23 total expenses, over 39% is associated with events. Personnel and Office Expenses also make up 48% of the total expense. However, it must also be noted that salaries and office expenses decreased 3.9% from the previous year despite the high rates of inflation experienced across the board in 2022. The remaining expenses represent normal operational expenses.

Overall, CALAFCO is in a sound financial position. Its revenues are up from last year, while key operating expenses have decreased slightly. As good stewards of Association funds, we continue to seek greater efficiencies and cost savings going forward with an end goal of providing you, our members, better services.

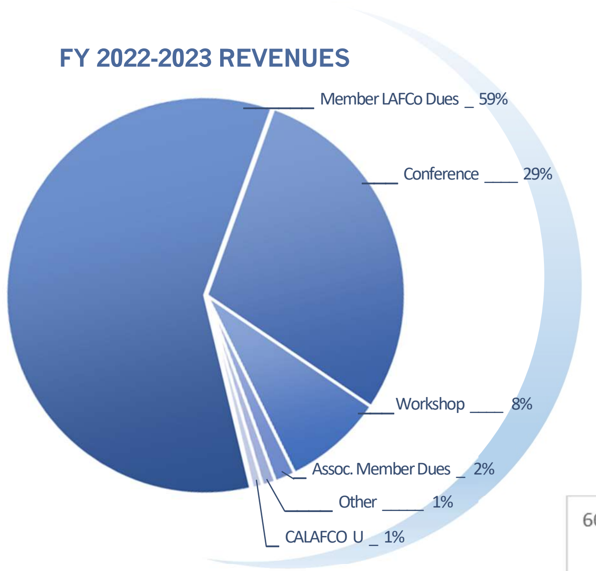
Acquanetta Warren
CALAFCO Treasurer

René LaRoche
Executive Director

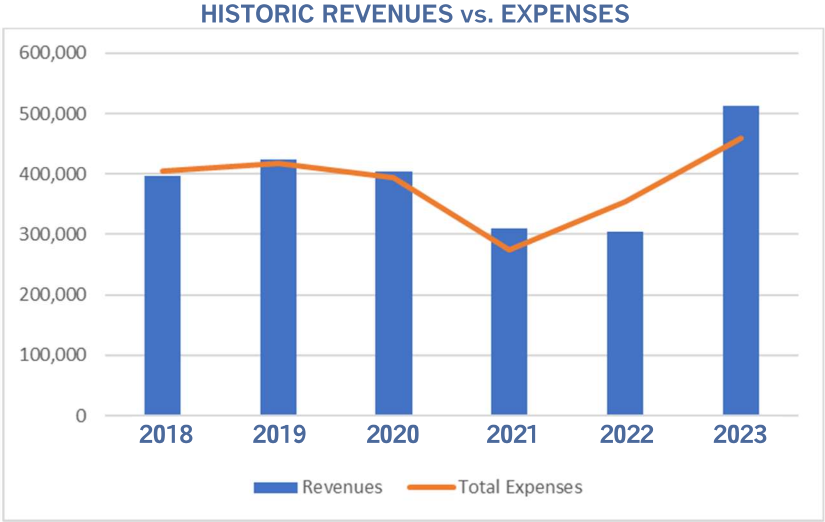
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2023

ASSETS	2022	2023
Cash and Cash Equivalents	$200,489	$271,969
Accounts and Other Receivables	-$ 13,779	-$ 30,431
Prepaid and Deferred Expenses	$ 14,792	$ 2,700
Total Assets	**$201,502**	**$244,238**
LIABILITIES		
Accounts and Other Payables	$ 7,992	$ 9,175
Deferred Income	$ 3,000	$ 0
Accrued Expenses	$ 7,930	$ 0
Total Liabilities	**$ 18,922**	**$ 9,175**
NET ASSETS		
Unrestricted	$ 69,986	$ 19,826
Fund Reserve	$ 162,754	$ 162,754
Net Surplus/Deficit	-$ 50,160	$ 52,486
Total Net Assets	**$ 182,580**	**$ 235,066**
Total Liabilities & Net Assets	**$ 201,502**	**$ 244,241**

FY 2022-2023 REVENUES



HISTORIC REVENUES vs. EXPENSES



Thank You to Our Associate Members

CALAFCO GOLD ASSOCIATE MEMBERS

BBK
BEST BEST & KRIEGER LLP

COLANTUONO
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WHATLEY, PC

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RSG

CALAFCO SILVER ASSOCIATE MEMBERS

Berkson Associates
Chase Design, Inc.
City of Rancho Mirage
County Sanitation Districts of L.A. County
Cucamonga Valley Water District
David Scheurich
DTA
E Mulberg & Associates
Economic & Planning Systems (EPS)
Goleta West Sanitary District
Griffith, Masuda & Hobbs, a Professional Law Corp
HdL Coren & Cone
Holly Owen, AICP
LACO Associates
Policy Consulting Associates
P. Scott Browne
QK
Rancho Mission Viejo
Sloan Sakai Yeung & Wong, LLP
South Fork Consulting, LLC
SWALE Inc.
Terranomics Consulting

1451 River Park Drive , Suite 185
Sacramento, California 95815
916. 442.6536
www.calafco.org

ITEM # 14.1

SDRMA
SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY

1112 I Street, Suite 300
Sacramento, California 95814-2865
T 916-231-4141 or 800-537-7790 * F 916-231-4111

Maximizing Protection. Minimizing Risk. * www.sdrma.org

September 26, 2023

Mr. Sequoia Hall
Chairperson
Local Agency Formation Commission of Santa Clara County
777 North First Street, Suite 410
San Jose, California 95112

Re: President's Special Acknowledgement Award - Workers' Compensation Program

Dear Mr. Hall,

This letter and enclosed certificate are to formally acknowledge the dedicated efforts of the Local Agency Formation Commission of Santa Clara County's Governing Body, management, and staff towards proactive loss prevention and workplace safety for earning the President's Special Acknowledgement Award! The Award is to recognize members with no "paid" claims during the prior **five consecutive program years** in the Workers' Compensation Program.

A "paid" claim for the purposes of this recognition represents the first payment on an open claim during the prior program year. Your agency's efforts have resulted in no "paid" workers' compensation claims for the prior five consecutive program years from 2018-23. This is an outstanding accomplishment that serves as an example for all SDRMA members!

In addition to this annual recognition, members with no "paid" claims during 2022-23 earned one credit incentive point (CIP) reducing their annual contribution amount, and members with no "paid" claims for the prior five consecutive program years earned three additional bonus CIPs. Also, members without claims receive a lower "experience modification factor" (EMOD), which also reduces their annual contribution amount.

On behalf of the SDRMA Board of Directors and staff, it is my privilege to congratulate your Governing Body, management, and staff for your commitment to proactive loss prevention and safety in the workplace.

Sincerely,
Special District Risk Management Authority

Sandy Seifert-Raffelson

Sandy A. Seifert-Raffelson, President
Board of Directors

SDRMA
SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY

President's Special Acknowledgement Award

The President of the Special District Risk Management Authority

Hereby gives special recognition to

Local Agency Formation Commission of Santa Clara County

The President's Special Acknowledgement Award is to recognize members with no "paid" claims during the prior five consecutive program years in the Workers' Compensation Program. A "paid" claim for the purposes of this recognition represents the first payment on an open claim during that same period. Congratulations on your excellent claims record!

Sandy Seifert-Raffelson

Sandy A. Seifert-Raffelson, SDRMA Board President

September 26, 2023

Date

ITEM # 14.2

From:	Council Member Zachary Hilton
To:	zachary.hilton@ci.gilroy.ca.us
Subject:	[EXTERNAL] Re: Gilroy USA Amendment 2021 (Wren Investors & Hewell) LAFCO August 2
Date:	Monday, November 27, 2023 1:45:36 PM
Attachments:	Gilroy Fire Santa Teresa District Station 4.pdf

LAFCO Commissioners,

Wanted to provide you with an update on Gilroy Fire Department Staffing and provide a staff report from our November 20 City Council meeting. There will be a meeting in January to discuss how we staff and fund our Station 4 in the Santa Teresa District. It includes looking into opening up of the MOU with Gilroy Firefighters Local 2805 and looking at a sales tax measure. Details are in the attached staff report. The sales tax measure to fund Station 4 is something never shared during the LAFCO Fire Service Review or Wren Investors Gilroy USA expansion. Staff manipulated the 10:54 response time from the LAFCO review period and placed in a number that they internally produced. I called this out during our meeting that you can't change data from a past service review.

Nov 20 Meeting Hyperlinked- https://youtu.be/Pm532PdoMOg?si=NQ3Yb3SiMMovLvjM&t=4290

Zach Hilton
Gilroy City Council Member
www.zachhilton.com
#HiltonForCouncil @zachhilton_ca

From: Council Member Zachary Hilton <Zachary.Hilton@ci.gilroy.ca.us>
Sent: Tuesday, September 26, 2023 7:15 AM
To: Council Member Zachary Hilton <Zachary.Hilton@ci.gilroy.ca.us>
Subject: Re: Gilroy USA Amendment 2021 (Wren Investors & Hewell) LAFCO August 2

LAFCO Commissioners,

I wanted to give you an update that Gilroy Firefighters Local 2805 has written a letter to the City Council that has prompted a closed session per the request of City Council on October 2. I attached the letter, city admins letter in response, and preliminary agenda for October 2. Local 2805 is speaking out against the random closing that city admin and fire admin have been doing with the the temporary Santa Teresa Station unit, our future Station 4. The days that admin closes it, the public and electeds are not notified.

This unit was approved by the City Council to reduce response times to the Santa Teresa/Glen Loma District. They are supposed to be operating 8am-8pm 7 days a week and respond in a smaller Type 6 unit (smaller wildland response type unit with 2 personnel). It is not a typical Type I fire engine with 3 personnel and this unit still requires one of our regular fire engines to respond with it as a backup for more personnel. Essentially placing two stations on a call, rather than just your typical one. This is one reason that has caused our citywide response times to remain at 00:10:54.

Zach Hilton
Gilroy City Council Member
www.zachhilton.com
#HiltonForCouncil @zachhilton_ca

From: Council Member Zachary Hilton <Zachary.Hilton@ci.gilroy.ca.us>
Sent: Monday, August 14, 2023 1:08 PM
To: Council Member Zachary Hilton <Zachary.Hilton@ci.gilroy.ca.us>
Subject: Re: Gilroy USA Amendment 2021 (Wren Investors & Hewell) LAFCO August 2

LAFCO Commissioners,

I wrote the following Op-Ed in last weeks Gilroy Dispatch and wanted to share it with you all. https://gilroydispatch.com/guest-view-dont-expand-city-limits/

I've spoken with a few of you but wanted to send too all in order to clarify and make sure you know that Gilroy has six Downtown Districts and one of them is the Historic District. https://www.cityofgilroy.org/271/Downtown-Specific-Plan

We have identified programs in our current 6th Draft Housing Element where the City will go farther with incentives to develop in our Downtown Expansion District. (E-12 Page 304 6th Draft Housing Element)
https://www.cityofgilroy.org/DocumentCenter/View/14379/Gilroy_HEU_Revised_7-31-23_Clean?bidId=

(E-12 Page 304) Downtown Expansion District and First Street Mixed-Use Corridor Flexibility: The City will develop a process to allow 100% residential projects in the Downtown Expansion District. The City will also create a process that allows flexibility in the type of non-residential uses allowed in the new First Street Mixed-Use Corridor such as supporting amenities, facilities or services, subject to certain criteria. In exchange for this flexibility, the City may require that a certain percentage of units are dedicated to extremely low-income households, farmworkers, persons with disabilities, or other identified groups. The intent of this program is to facilitate and encourage housing for extremely low income and special needs households. Quantified Objective: Adopted zoning amendments. Facilitation of 100 units using the adopted process in the planning period.

Zach Hilton
Gilroy City Council Member
www.zachhilton.com
#HiltonForCouncil @zachhilton_ca

From: Council Member Zachary Hilton <Zachary.Hilton@ci.gilroy.ca.us>
Sent: Sunday, July 30, 2023 7:15 AM
To: Council Member Zachary Hilton <Zachary.Hilton@ci.gilroy.ca.us>
Subject: Gilroy USA Amendment 2021 (Wren Investors & Hewell) LAFCO August 2

Morning,

I wanted to reach out before the August 2 LAFCO hearing and let you know I agree with the LAFCO staff recommendation to deny the proposed City of Gilroy Urban Service Area Amendment 2021 (Wren Investors & Hewell). Below are some parts of the staff report (link referenced below) that I agree with the most. I'm open to any questions that you may have for me. The City of Gilroy received a letter on non-compliance from State HCD regarding our 5th Draft Housing Element, and we will be creating a 6th Draft soon. We have not included this proposed annexation in our Site Inventory for the next 8 years, and it's not need to meet out RHNA goals for the next 8 years. We previously received a letter of non-compliance from State HCD earlier this year and are still out of compliance since January 31, 2023. The 5th Draft version that we recently sent to State HCD for approval can be found in my office's attached public memo. We have programs, policies, and funding placed into our housing element to create housing for all using our existing land, while promoting infill over the next 8 years, that does not rely on single family sprawl.
https://santaclaralafco.org/sites/default/files/Wren_Hewell_USA_Amendment.pdf

Page 7- In order to promote compact infill development; and prevent sprawl and the premature conversion of agricultural land, State law and LAFCO policies encourage the development of vacant or underutilized lands within existing city boundaries and discourage USA expansions when a city has more than a 5-year supply of vacant land within its existing USA. An USA includes lands that a city intends to annex for development and provide with urban services within a period of 5 years. There is at least an 8-year supply of vacant land designated for residential uses already within the City's USA. That is, the city has adequate land to accommodate future residential growth for approximately 8 years.

Page 10- RHNA must also be consistent with the growth pattern from the region's long-range plan for transportation, known as Plan Bay Area 2050, which calls for creating compact, walkable communities by promoting high-density housing and mixed-use development near transit stations and in existing urban areas. The City's proposal to add more rural, largely undeveloped land to the City would divert resources away from areas already within the city such as the downtown area, and would be in conflict with RHNA's and the Plan Bay Area's objectives of first encouraging development of underutilized lands in urban areas. Furthermore, lands that the City annexed over 40 years ago have yet to be fully developed, such as the Glen Loma Ranch. The USA is a 5-year boundary. Based on the vacant lands analysis, it appears that the city can conservatively accommodate at least 297 units annually for the next eight years and satisfy its market absorption rate for new residential development.

The City has stated that there are currently 207.77 acres of vacant commercial land within the city. The City has indicated that over a 10-year period (2009 – 2019), the City has approved 8.73 acres of commercial uses or an average of 0.87 acre per year. Based on this absorption rate, the City has adequate commercial land to serve future growth for 234 years. However, the City has stated that the proposed commercial development is intended to serve residential uses in the Neighborhood District, whereas the existing vacant land does not serve this purpose.

Page 16- The City has not established level of service/response time goals for fire service provision. The proposed USA amendment, annexation and future development would result in an increase in call volume within the City's service area. The City has not prepared analysis on the potential impacts of the anticipated development on fire service provision (such as impact on response times, the need for new or additional facilities, apparatus, and staffing) and has not adequately demonstrated its ability to provide and fund fire protection services to the subject area without reducing service levels to residents within its current boundaries. The City of Gilroy Police Department will provide service to the subject area upon USA amendment, annexation and development of the proposed uses. The City has not established measurable standards for level of service goals for police services.

My response on fire services- Gilroy Fire Departments average response times are well above the standards that the city has adopted. Later in your packet is a review of the Countywide Fire Service and we have an average response time of 00:10:54. It's high because of staffing shortages and our 3 primary stations leapfrog calls across the city to cover portions of the city that we don't have coverage for. That leaves gaps in coverage with extended response times because they are out of position. The temporary 2 person fire unit often gets browned out of service to save money because we have to mandatory all ranks to fill our vacancies. On July 15, 2023 the Gilroy Fire Department battled another multi-alarm fire took all the resources of the Gilroy Fire Dept (9 Firefighters covering 3 Stations, plus thankfully the Santa Teresa Unit was in service and added an additional 2 Firefighters) and South Santa Clara County Fire Dept. That left the City with a gap of coverage for any Fire/EMS calls for service until San Jose Fire Dept and Santa Clara County Fire units could provide city coverage. During the initial attack emergency traffic was called out for a "firefighter down" due to extreme heat exhaustion (the outside temperature in Gilroy was 97 degrees).

Outstanding job by Gilroy Fire Fighters Association IAFF L-2805 on containing these structure fires with limited resources and protecting the exposure buildings around it. **Since 2016 Gilroy Fire has seen a 40% increase for calls for service (Fire/EMS/Rescue).** Like most Bay Area Fire Departments, Gilroy Fire uses an all-hazards comprehensive emergency preparedness framework that takes the full scope of emergencies or disasters into account when planning for response capacities and mitigation efforts. **Our average response time is 10 minutes/54 seconds (00:10:54) when our adopted standard is 7 minutes/30 seconds (00:07:30). This is from the increased calls for service and not enough resources to respond to emergencies in a timely manner.**

We need to continue to invest in our human capital or our workforce. I remain concerned with the increase in mandatory overtime and the mental health and stress that puts on the fire department. The root cause of staffing still hasn't been solved. We made significant improvements to recruitment and retention with Local 2805 but we can't seem to fill our staffing levels to what the standards of coverage calls for, and what we need to permanently staff the Santa Teresa Fire District Station 4. The 2%@57 CALPERS retirement offered to our fire department is the worst in the State and I think we need to look at other solutions.

My city cell is 669-270-6232 as well.

Zach Hilton
Gilroy City Council Member
www.zachhilton.com
#HiltonForCouncil @zachhilton_ca

City of Gilroy

STAFF REPORT

Agenda Item Title:	**Santa Teresa Fire District Station Update**
Meeting Date:	November 20, 2023
From:	Jimmy Forbis, City Administrator
Department:	Administration
Submitted By:	Bryce Atkins, Assistant to the City Administrator
Prepared By:	Bryce Atkins, Assistant to the City Administrator

STRATEGIC PLAN GOALS	Develop a Financially Resilient Organization Ensure Neighborhood Equity from City Services Maintain and Improve City Infrastructure

RECOMMENDATION

Council discussion and direction regarding the strategic approach towards Fire staffing.

EXECUTIVE SUMMARY

Since 2000, the City of Gilroy and its Fire Department have identified the need and commenced planning efforts for a fourth fire station to serve those within the Santa Teresa Fire District. As time progressed, the need for the station to be in operation with a full crew increased. Today, the City Council, residents, businesses, firefighters and other City staff are in agreement that the Santa Teresa District Interim Station needs to be fully staffed.

The City has had plans to slowly build up staffing to meet the need, but external factors, such as the 2008/2009 recession, the slow recovery thereafter, and the impact of the COVID-19 Pandemic, have greatly limited the resources available to staff the fourth station. This has also been compounded with workplace injury leaves, turnover over the past decade, and the subsequent demand for overtime to meet the operational needs of the entire Department.

The issue at hand is not about the need for the fourth station to be open 24/7 with a fully staffed engine to serve the community, but rather how to pay for it, and staff it, with limited financial and personnel resources. Staff has developed for Council review and direction a list of possible options and recommendations for determining next steps towards achieving the needed staffing and operational needs to open the Santa Teresa Fire District Station.

BACKGROUND

Recently, the issue of Fire Department staffing, particularly at the Santa Teresa Fire District (STR District), has been a matter of discussion and concern for residents, the Firefighters labor bargaining group, City staff, and the City Council. Concerns regarding the hours of staffing and the staffing levels of the STR District have sharply risen recently. The nature of staffing the STR District requires consideration of multiple background factors that need to be included as the starting point in discussing possible solutions.

Background on Station History

In 2000, the Master Plan of Fire Services Report prepared by Citygate Associates, a management consultant, predicted the need for a fourth fire station based on predicted growth and road networks (Citygate, 2000). In 2004, the Public Facilities Fee Study for Gilroy identified the need to plan for a fourth and fifth fire station as detailed in the Capital Improvement Budget Summary fund 437 (MuniFinancial, 2004). Planning for a fourth Fire Station in the Glen Loma area was identified and adopted in 2005, and later revised in 2014 (Glen Loma Ranch Specific Plan, 2014).

The City engaged with Glen Loma Development Group (GLDG) on a development agreement for their housing development project. As part of this agreement, funding and location of a fourth fire station was included, to be operational upon the issuance of 1,100 building permits. Although the outside date for completion of the fire station has not yet occurred, service demand to support the Glen Loma project, as well as the other southwestern part of Gilroy has increased over time. The City deployed an alternative service model to establish a crew to provide service in the STR District.

Since mid-2020, the STR District crew has been temporarily housed at the TEEC Building located on the ranch-side at Christmas Hill Park. However, as the City pursues providing fire staffing resources from 12 hours per day to 24 hours per day, the current location at the TEEC Building is inadequate to meet the needs of the fire crew stationed there. The TEEC Building lacks the proper amenities and a garage to house fire apparatus securely.

The City's agreement with the GLDG requires funding from GLDG for the new permanent fire station, but such funding and construction of the permanent fire station has not yet occurred. Therefore, there is a need to build an interim fire station at an alternate site.

The Santa Teresa Interim Fire Station was initially planned to be located on the City-owned property at the corner of 10th Street and DeAnza Place (currently planned as the future 10th Street Bridge project). But unfortunately, due to infrastructure difficulties beyond the City's control, the proposed location for the interim Fire Station was changed in January 2023. The new proposed location is on the Ranch Site at Christmas

Hill Park, where the current interim fire station is located. Under this new plan, the interim facilities currently housing the Fire Department at this location will be upgraded.

The design phase for the new interim station is near completion. Contractor services will soon be engaged with approved plans to complete site prep work, including grading and trenching for electrical, water, sewer, and technology needs. Additionally, perimeter fencing will be installed to provide security with two electrical gates for access to the site. The last part of phase one will be to move into a modular facility where station alerting and all live-in amenities are provided for the crews.

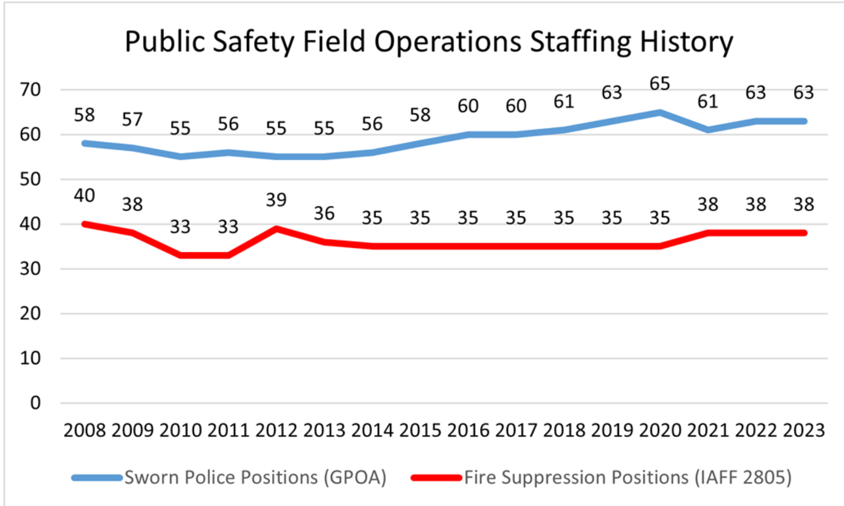
Comparable Analysis: Sunrise Station

The STR Station is not the first station to be constructed/established and not be staffed immediately. In 2004, the Sunrise Fire Station in the northwest portion of Gilroy finished construction, but no staff were hired to fill the positions right away. Sunrise remained closed for approximately three years, in 2007, before sufficient funding was available to staff the station on an ongoing basis. In the intervening time from station construction to full operation, the Gilroy Fire Department ran medical ambulance service out of Sunrise, with the other stations responding to fire calls in the Sunrise District.

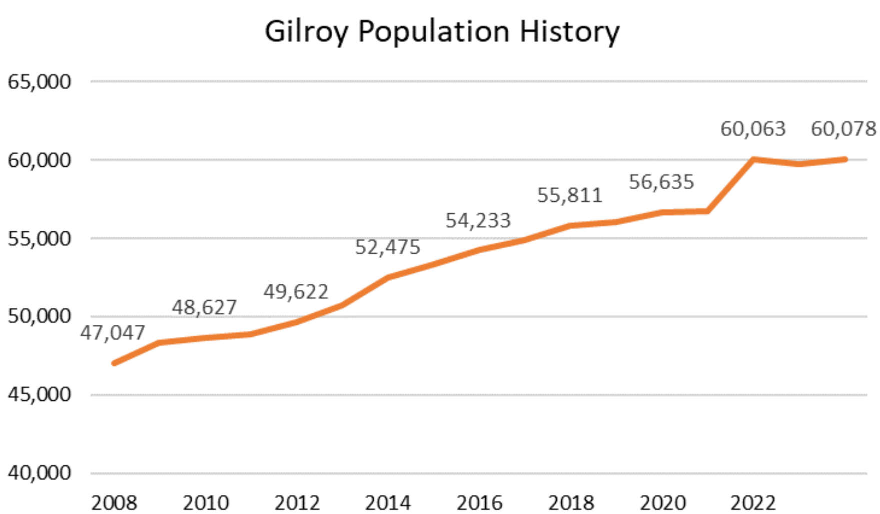
The financial challenges with the STR District station are similar. The City has enough promised funds to develop a permanent station at the location, but what is lacking currently is the available ongoing revenue levels to sustain the staffing at the STR District station. Today, the staffing and resources cited in the STR District are higher than was present in the Sunrise station area when that station was built. Records indicate that there were no reported concerns about coverage history or a major drive to compel certain staffing levels before the City could afford to host the positions.

Background on Public Safety (Police and Fire) Staffing History

Public Safety staffing has slowly increased since the recession of 2008/2009 but overall has not returned to pre-recession levels. Further complications from revenue fluctuations over the past 15 years have not allowed enough recurring revenues to generate to reach previous levels and increase public safety positions commensurate with the population increase over the same period. However, when looking at public safety field operation positions only, the total number has increased by three net positions. Below is a chart showing the total authorized public safety field operations positions each year since FY08 through FY23. As can be seen, the net change in public safety field operation positions has decreased in the Fire Department by two positions and increased by five positions in the Police Department.



While the total aggregated public safety field operations positions increased by a net three positions (roughly a 3% increase), the population of Gilroy has increased 27.7%, as shown below, resulting in an increase of service demand at a higher rate than field operation positions have been added.



<u>Staffing in the STR District</u>
The Gilroy Fire Department, with the approval of the Council in mid-2019, began a pilot study called the “Alternative Service Model” (ASM) that positioned a fire crew within the STR District. The purpose of the ASM study was to determine if a fire crew positioned in

STR could improve emergency response times within the district and throughout the city, designed to meet the calls in the area. The following 2019 data shows marked improvement in response times throughout the city within the first three months of the pilot program.

ASM Results – As of December 2019

District Area	Prior to ASM	With the ASM
Santa Teresa	10:51 Minutes	7:32 Minutes
Chestnut	8:56 Minutes	8:32 Minutes
Las Animas	8:11 Minutes	8:07 Minutes
Sunrise	8:33 Minutes	9:08 Minutes
All Districts	8:43 Minutes	8:07 Minutes

This became the catalyst towards planning the construction of an interim fire station at the designated site located at the corner of W. Luchessa and Miller Avenue, ahead of the construction of a permanent fourth fire station at the same location.

As work has commenced on an interim station, the staffing of the station has been varied. The following staffing models have been utilized this FY at the Santa Teresa Fire Station:

Apparatus Staffed *(Typically)*	E650		E50	
Staffing (FTE)	2.0	2.0	3.0	3.0
Hours in Service	12 hours	24 hours	12 hours	24 hours

Daily staffing of the STR Station is impacted by:

a. Availability of personnel regularly staffed each day.
b. Availability of personnel to work overtime to support vacancies.
c. Availability of qualified personnel to fill the additional positions.
d. Extreme weather events requiring up-staffing.
e. Other planned requests that support the need to staff (i.e., Mandated Training, mutual aid coverage for adjoining agencies, etc.).

It is important to note that when staffed with 2.0 FTEs, per the labor contract, an additional Engine is also required to respond to calls for service. When staffed with 3.0 FTEs, the STR engine is able to respond as a stand-alone engine to calls for service, thereby leaving all other units available for service.

Financial and Budgetary Background

On June 5, 2023, the City Council adopted both the Fiscal Year 2024 and 2025 Budget and the Authorized Position List. Through those adoptions, the City established the position and financial resources available to the Fire Department to carry out its public safety function. The staffing plan is described generally below in the analysis portion of this staff report. Overall, the City's budget was adopted with an operating margin of only $600,000 for ongoing expenditures. With additional one-time use of resources, the City budgeted for complete use of all incoming general revenue, and use of savings for one-time purchases.

The City's overall General Fund budget for FY24 was approved at $65.6 million, with an additional $5.8 million for one-time uses. Public Safety (Police and Fire) accounts for $45.9 million, roughly 63.8% of the total General Fund budget. Of the General Fund total of $65.6 million amount, personnel costs account for 66.7% of the total amount ($47.4 million).

The Fire Department's budget is $15.4 million, which is 23.5% of the total General Fund. Of that amount, 76.4% ($11.8 million) is for Fire Department personnel expenses. Overall, the Fire Department represents 25% of all personnel costs in the General Fund, and 21.2% of all full-time equivalent (FTE) positions authorized for the City (44 FTE of 207.5 FTE total in FY24).

As a whole, public safety accounts for 76% of the City's discretionary General Fund budget. The discretionary amount of the City's budget is the amount of revenue received from taxes that may be used for purposes at the discretion of the City Council. The discretionary amount does not include charges for services, fines and forfeitures, transfers, intergovernmental revenues, and use of money and property. The City's discretionary revenues are generally 80% of the total General Fund revenues, with small variations in proportion each year.

The Fire Department has seen significant investment over the past four years. Below is a table showing those investments.

Investments	Cost
Two new fire engines	$1.5M
Type III and Type VI Vehicles	$650K
Fire station improvements	$2.0M
Labor Agreement – salary increases	**$825K**
SCBA Equipment	$857K
Station Alerting System/CAD	$293K
Additional staffing	**$1.1M**
Interim STR Station	$462K
Additional Overtime	**$2.0M**
TOTAL	$9.7M

The Police Department is also a large portion of the General Fund at $30.5 million or 42.4% of the total General Fund budget. The Police Department's personnel costs account for 77.1% of the Departmental budget ($24.9 million of $32.3 million). Overall, the Police Department represents 52.0% of all personnel costs in the General Fund and 50.1% of all full-time equivalent (FTE) positions authorized for the City (104 FTE of 207.5 FTE total in FY24).

On October 16, 2023, the City's Finance Department provided a report to the City Council updating the Council on the current financial picture of the City. In that report, it was revealed that the City's sales tax revenue for FY24 is forecasted to come under budget, to the estimate of $900,000 less. Any plan to contribute funding to address the Fire Department staffing strategy will also need to account for this reduction as well since the Fire Department is fully dependent upon the General Fund. In addition, recent information indicates that growth in property tax revenue is likely to slow down as there are fewer home sales due to high-interest rates, the impact of which will likely occur in FY25. Data indicates that a 2024 recession is likely. In December 2024, staff will be presenting to Council an update on actual revenues and expenditures through the first quarter (July through September) of FY24 to provide more robust information.

ANALYSIS

Based on the above background information, staff is bringing this analysis of possible options regarding the ability to staff the interim STR District station with a three-person crew on a 24/7 coverage schedule.

The Original Fire Staffing Plan

The Fire staffing plan as adopted in the Fiscal Year 2023-24 and 2024-25 budget (FY24 and FY25, respectively) called for a total department staffing of 44 in FY24 and 46 in FY25, with the number of actual firefighting personnel being 38 and 40, respectively. Below is a table of what those approved positions are:

Position	FY24	FY25
Fire Chief	1	1
Management Analyst	1	1
Fire Administration Technician	1	1
Fire Division Chief	3	3
Fire Captain	10	10
Fire Engineer	9	9
Firefighter I/II	19	21
Total	**44**	**46**

The original plan as described in the budget message was that *"given our hiring efforts, and barring retirements and/or injuries, the department will be at full-budgeted staffing in the very near future. Two (2) additional firefighters in FY25 will allow the STR fire station to be staffed with a three-person engine 24/7. This staffing level will allow the* *department to meet demands for service, reduce response times, and increase firefighter safety. Service levels throughout the City will be consistent as the 4th station will operate like the other three existing stations."*

Why Won't the Original Fire Staffing Plan Work?

As described above, the plan was based on the full staffing, barring retirements, resignations, and/or injuries. Unfortunately, the Fire Department did experience injuries which has not allowed the full deployment model to be enacted as originally planned.

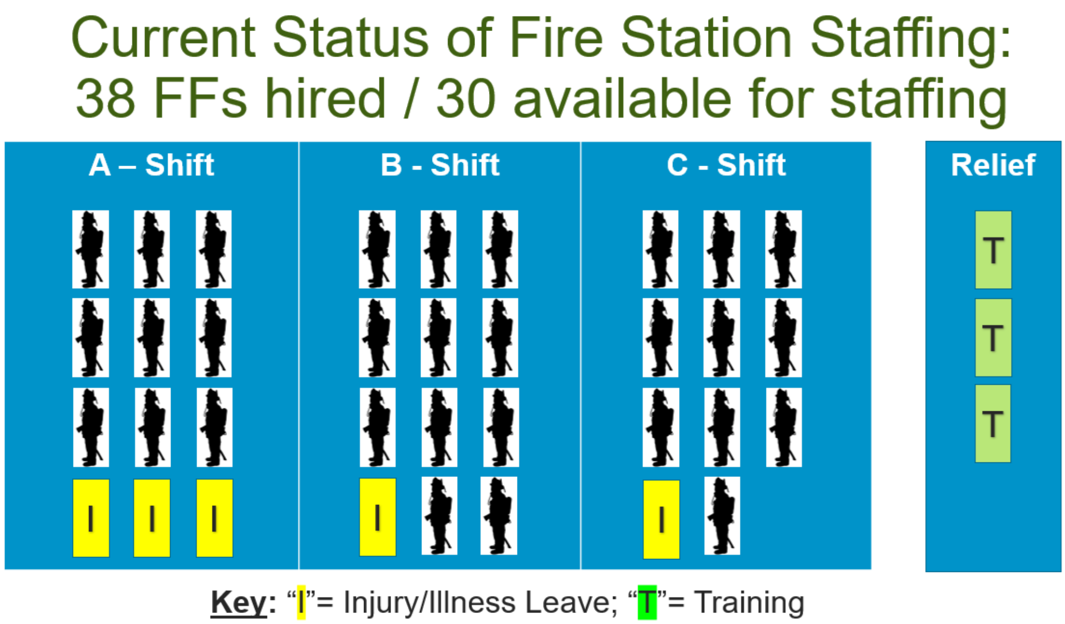
As of the writing of this staff report, all but one of the budgeted positions have been filled, due to a recent vacancy (November 1, 2023). Although nearly all budgeted positions are filled, not every employee currently hired is deployable. Currently, the department has three firefighters in the fire academy. The academy will conclude at the end of January. In February, two of three personnel should be deployable with the third to be deployable in March. In addition, the department has four employees (with a potential fifth employee pending) out on long-term worker's compensation leave due to injuries sustained in the course of employment. We do not have a date certain that any of these four employees will be able to return to active duty. Given the above, eight of the 38 firefighting/EMS response personnel are not currently available for deployment which impacts the department's ability to staff the STR Station.

Another element of staffing is planned and unplanned time off. Personnel have scheduled time off to include vacations and family leave. In addition, staffing is impacted by unplanned time off such as sick leave. In particular, in the last 12-month time period (October 21, 2022 - October 20, 2023), the department has experienced a significant increase in sick leave usage as compared to the year prior. From October 21, 2022 - October 20, 2023, 4,593[1] hours of sick leave were used by fire personnel compared to 1,725 hours in the year prior. Therefore, at different times, some of the 32 deployable personnel are not available due to planned and unplanned leave. The significant increase in the amount of unplanned sick leave usage has impacted the Department's ability to plan for and staff the STR District Interim Station. With planned and unplanned leave, combined with training time, it is mathematically impossible to staff four stations without increasing total Fire Department firefighting positions beyond the original staffing plan.

The staffing plan did not include having four (possibly five) employees out on long-term worker's compensation leave, nor the increased amount of overtime that would be needed to offset the loss of available personnel as it relates to providing shift coverage. The amount of worker's compensation leave had been reducing over the last half of the previous fiscal year, and such an increase was not anticipated. However, the staffing plan did mention it as a risk to reaching the intended goal if it occurred. To quantify the impact of injury leave, for the period of October 21, 2022 - October 20, 2023, 6,564[2] hours of productive work time were lost due to injury leave. This missed time is valued at $320,788. When this missed time has to be covered by another employee who is not

[1] Hours are based on a Firefighter 56-hour workweek schedule or 2912 hours per year.
[2] Again, based upon a Firefighter 56-hour workweek scheduled or 2912 hours per year.

already scheduled to work on that shift (i.e., relief personnel), then the coverage is in the form of overtime paid at time and one half. This added overtime work, in turn, leads to more exhaustion and also increased likelihood for workplace injuries, which increases sick leave as well as worker's compensation and non-worker's compensation leave use. Below is an infographic that demonstrates the impact of these unplanned leave use, vacancies, and non-deployable staff currently in the academy.



What is Our Current Status?
With various factors affecting staffing and coverage, below is a summary of the Fire Department's current status.

Employees

Fire staffing. All but one position has been filled due to a recent vacancy, though not all filled positions are deployable. Recently, three hires for firefighters are currently at the Fire Academy and will be deployable in February. As of the writing of this staff report, the Fire Department has four (possibly 5) fire line staff on worker's compensation or other extended leave. All other staffing per the authorized positions is currently deployed.

Deployment structure. The current deployment model is shown in the below table. Each entry below is one shift staffing, with three different shifts in the Fire Operations Division.

Station	Operational Hours	Firefighter Paramedics	Fire Engineers	Fire Captains
Chestnut	24/7	1	1	1
Las Animas	24/7	1	1	1
Sunrise	24/7	1	1	1
Santa Teresa	(3.0) 12-24/7	1	1	1
	(2.0) 12-24/7	1 (qualified as both)		1

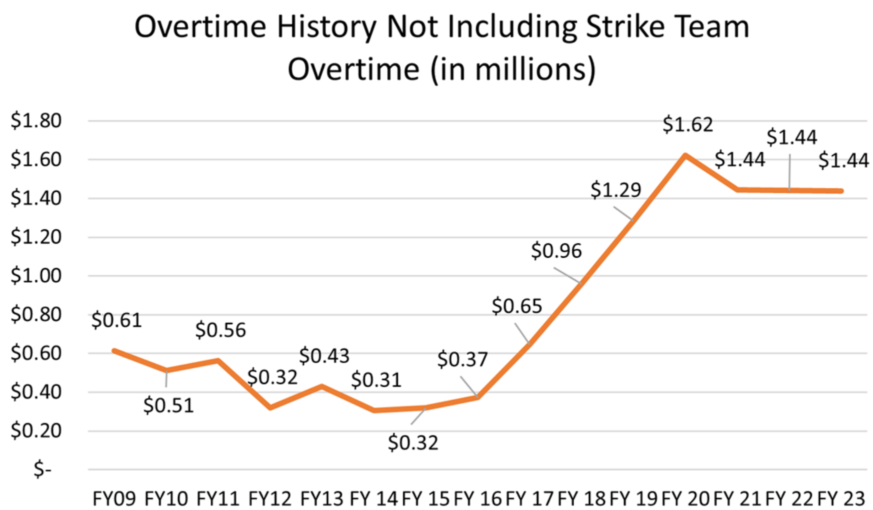
The Fire Department has been attempting to staff the STR Station with three-person crews whenever it has not created overtime. The station is also upstaffed to a three-person crew during peak periods of increased fire risk. The ultimate staffing on non-peak fire risk periods is a two-person crew, filled as able subject to staffing availability. This has typically been 12-hour operating shifts, but some 24-hour deployments have been possible.

Deployable staffing. Of the positions staffing the station, there are several members who are currently on long-term leave or are in the academy and cannot be deployed currently to serve on a fire shift. Below is a table that shows the number of non-deployable operational staff at each classification:

Operations Position	FY08 Authorized	FY24 Authorized	Filled Positions	Deployable Staffing
Fire Division Chief	4	3	3	3
Fire Captain[3]	10	10	10	8
Fire Engineer[4]	9	9	9	8
Firefighter I/II[5]	21	19	18	14
Total	**44**	**41**	**40**	**33**

Overtime. The Fire Department currently requires significant overtime shift work to maintain operations. However, with the final staffing hires in the Academy, the extensive need to use overtime should be reduced, again *provided that no additional injuries or vacancies occur*. Below is a graph that shows the historical trend of overtime actual expenditures since FY09, with the Strike Team reimbursable overtime removed.

[3] Two Fire Captain positions are on long-term worker's compensation leave.
[4] One Fire Engineer position is on long-term worker's compensation leave.
[5] One Firefighter Paramedic position is on long-term worker's compensation leave; one vacant position; and three currently in the fire academy.

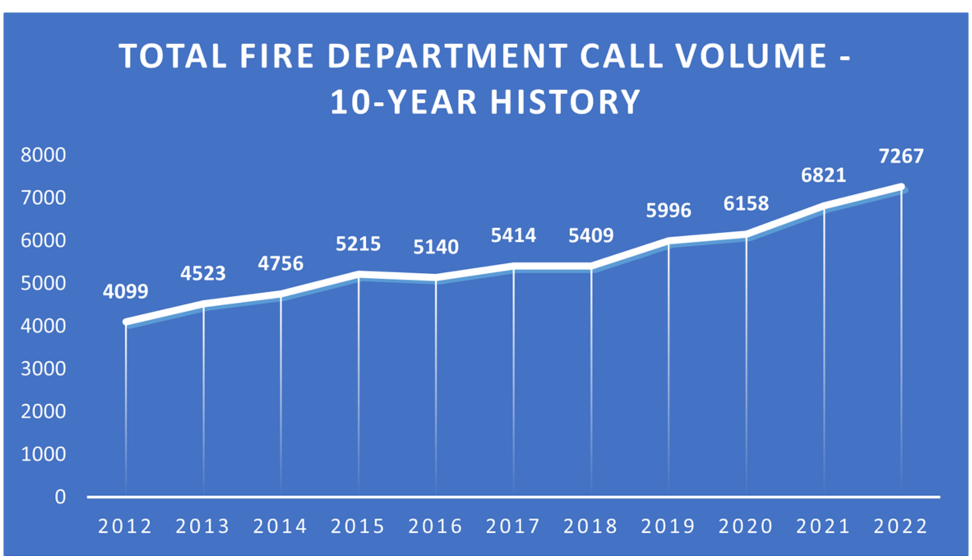


Overtime expenses in the First Quarter of FY24 (July-September 2023) have been $511,949. Trending and extrapolating the pattern, accounting for the additional deployable personnel in February, the overtime is currently estimated to be over $1.6 million at the end of FY24, nearly $500,000 over budget projections.

Fire Services

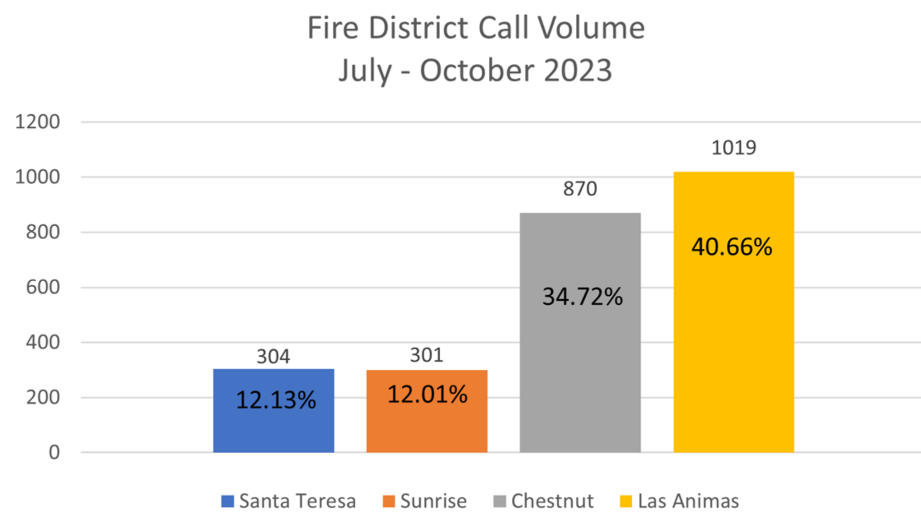
Community Fire Response

The demand for fire services and response to the community has increased dramatically over the past decade. Overall call volume for the Fire Department, including both emergency medical and fire suppression calls, has increased 77.3% over the past ten years, to a total of 7,267 calls in 2022. Below is a graph showing the increase over time.



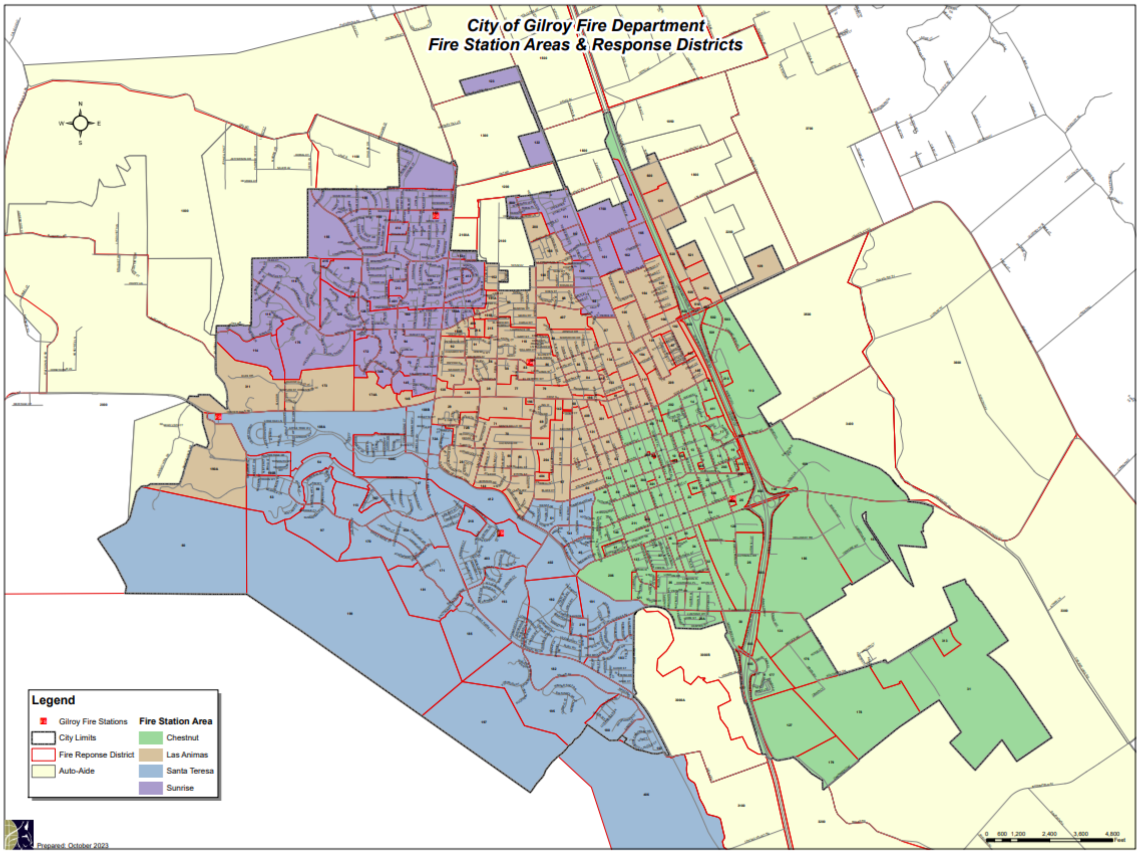
More recently, for the first four months of Fiscal Year 2024 (July 1, 2023-October 31, 2023), there have been a total of 2,506 calls for service. This is 34% of the previous year's total call volume at a third of the fiscal year. If the calls are even across the year, then extrapolating these calls would result in a total of 7,518 calls for the year, an increase of 3% over the prior year.

The calls for service do not affect each station to the same degree. For the first four months, below is the breakdown of the 2,506 calls into the various fire districts. It is important to note that these calls have their origination point within the identified district, but the ultimate response may have been provided from a station in another district.

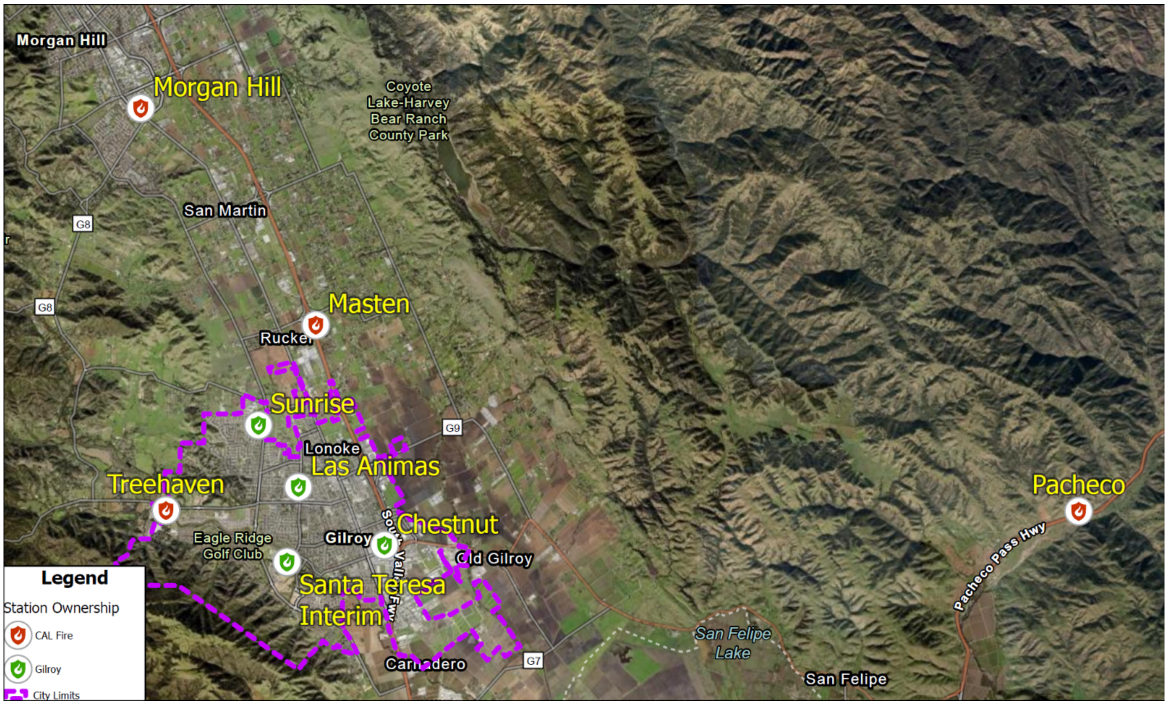


As can be seen, the STR District has seen 12% of the total call volume. The STR District does not see the high demand that the more centralized districts do.

For reference when considering the four fire districts within the City of Gilroy, below is a map showing the four districts' boundaries.



Additionally, the City receives support from other fire agencies' stations near the City of Gilroy. Within a 20-mile radius, there are 12 fire stations, not including Gilroy's four fire stations. Below is a map showing the location of four fire stations surrounding the City of Gilroy, as well as the City's fire stations.



Many agencies adopt response time goals. Response times for fire services are not based on averages, but the response time for 90% of the calls for service. These serve as targets for achievement in reducing or meeting response times. The City of Gilroy has an adopted response time goal of 7:30. The actual response time for the period ending October 31, 2023 is 8:55. While it is longer than the goal, a review of the response times of other fire agencies in Santa Clara County determined that none of the Santa Clara County fire agencies are meeting their established goals. Below is a table of these agencies, their established goal, and their actual response times.

Agency	Actual Response Time[6]	**Adopted Response Time (90th percentile)**
Santa Clara	8:03	7:00
Mountain View	8:15	7:20
Santa Clara County Fire	8:21	6:30
Sunnyvale	8:26	7:59
Milpitas	8:39	n/a
Gilroy	8:55	7:30
Palo Alto	9:41	8:00
San Jose	9:41	8:29 (80%)

[6] Response times from other agencies from LAFCO report on Countywide fire services. Gilroy response time is more recent.

Agency	Actual Response Time[6]	Adopted Response Time (90th percentile)
Morgan Hill	9:56	n/a
South Santa Clara County	15:24	15:00

The county-wide average of the above 90th percentile response time actuals, not including Gilroy, is 9:36. With a response time of 8:55, the City of Gilroy has a faster response time than the countywide average. Below is a table that shows the 90th percentile response times per district for the first four months of the fiscal year ending October 31, 2023.

Fire District Response Times (90th Percentile)

District	Response Times
Santa Teresa Total	0:10:16
Santa Teresa Staffed	0:09:25
Sunrise	0:09:06
Chestnut	0:09:24
Las Animas	0:07:51

Many additional factors impact the City's fire response, including increased congestion on roadway infrastructure, availability of staffing, multiple calls for service occurring simultaneously, reliability of neighboring agencies' resource availability to provide assistance, and severity of calls/size of necessary response.

<u>Strike Teams</u>. These teams are not being sent out. Due to staffing issues, but also for needed training, these existing priorities for providing service to our community must be met before strike teams will be sent to support other communities' wildfire protection needs.

<u>Medical Call Transports (Ambulance services)</u>. County ambulance response times are significantly delayed throughout all areas of the County. As wait times increase, crews are bound at the scene until the ambulance arrives. When on scene with the patient, it is not uncommon to have wait times for an ambulance that exceed 30 minutes. These committed fire resources on scene are now unavailable for response, requiring the next due resource to respond to additional calls in the district.

Staff issued a letter in October to Santa Clara County, raising the issue that they created as a result of contract changes for American Medical Response (AMR), the County's ambulance service for the south county area. The letter identifies the discrepancy between the response time of 12 minutes to the urban areas of the County, while Gilroy and the rest of the south county experience average response times exceeding 30 minutes. This wait time prevents Fire Department personnel from responding to the next pending emergency.

The County Emergency Medical Services Agency daily issues “Standard Dispatch Order #17”, which suspends automatic dispatches for County ambulances until the first-due Gilroy fire engine crew arrives on the scene and determines the acuity of the patient. It is only at that point that the Gilroy fire captain can then request the dispatch of the closest available county ambulance. This extends the on-scene time Gilroy fire crews have to stay before being able to respond to the next call.

The County compounded the issue when, three years ago, it unilaterally modified the agreement with AMR to decrease the late response penalties and changed the nature of the target response time from 12 minutes in each separate geographic zone to compliance levels systemwide, which lessens the need for fast response times to Gilroy residents in need. Further compounding the problem is the County’s effort to bridge the gap with basic life support ambulances, which frequently requires the Gilroy fire department engine crew to give up its only firefighter-paramedic member to accompany the patient to the hospital, and then requires the firefighter-paramedic to find alternative transportation back to Gilroy.

If a Basic Life Support (BLS) ambulance (non-paramedic) arrives, this requires a GFD paramedic to retain care and ride into the hospital. Depending on which hospital the patient is transported to, the paramedic may have a two-hour delay before rejoining with their crew. If the ambulance transports to Saint Louise, then the paramedic can be picked up at the hospital, minimizing the out-of-service time for the crew.

During Standard Dispatch Order #17, ambulances are not automatically attached to calls. Company officers are to arrive on scene to determine if an ambulance is required. Captains then request an ambulance and ask for an estimated time of arrival. For critical calls where an ambulance is needed, but there are none available, or they are extended, company officers have had to request Rescue-Medic 49, the City’s ambulance, for transport when in the best interest of the patient.

<u>What is Our Plan Going Forward?</u>

Our plan and recommendations are composed of short-term and long-term options. These are detailed below.

Short-term options

Due to the recent Firefighter vacancy that occurred on November 1, 2023, staff is commencing the recruitment process earlier than planned for the two new FY 25 positions. This will allow the department to fill the current vacancy as soon as possible and have two employees on deck ready to begin work on July 1, 2024, when the two new budgeted positions are approved.

Pilot policy changes. Staff has been reviewing overtime, leave use, and policies to determine options that may reduce the burden of overtime and negative impacts leading to increases in worker's compensation cases.

Auto Aid and Mutual Aid Agreement. Continue to foster and update current aid agreements to ensure coverage is maximized and mutually beneficial to all South County Agencies.

Interim fire station. Staff is continuing the effort to construct the interim fire station at the TEEC Building. This interim location until a permanent fire station can be constructed and placed into operation will help to allow both the short-term and long-term options to be better provided until the permanent structure is completed. On October 19th, the TEEC building was outfitted to enable change of shift operations to occur on-site. Security measures now protect personal vehicles and apparatus when placed out of service behind the building on the north side. Out-of-service time is now minimized as the crew starts and ends their shift at the TEEC site. A temporary system is now in place until the modular and apparatus bay is built and installed.

Explore additional alternative service delivery models. The Fire Department saw demonstrated reductions in response times with the implementation of the Quick Response Vehicle alternative service model. This option would entail reviewing the QRV Alternative Service Delivery Model, as well as reviewing and developing other potential ASMs that may help meet the needs identified in the fire service.

Long-term options
Increase staffing. One option is to increase staffing to 45 total fire response staffing. This model would raise staffing levels in each classification as follows:

- Captains 12 (+2 over current authorized staffing)
- Engineers 12 (+3 over current authorized staffing)
- Firefighters (Licensed Paramedics) 21 (+2 over current authorized staffing, matches FY25 authorized staffing)

The increase in staffing levels would provide enough staffing to fully staff all four stations with three-person crews on a 24/7 schedule taking into account workers' compensation leave, planned leave (vacation, family leave), and unplanned leave (sick leave). Currently, these leaves account for 2.5 absences per shift on average necessitating three relief personnel per shift. This would result in 15 personnel per shift (12 personnel per shift plus three relief personnel to cover absences).

The total employer cost for each position is $170,658 for firefighter paramedics, $181,480 for engineers, and $199,800 for captains. The total anticipated cost using 2024 personnel cost rates would be $944,039 per year ongoing (two Fire Captains and three Fire Engineers), with COLA and any other approved increases having to be absorbed into the Department's budget in future years.

Permanent Fire Station. This is completing the construction of the permanent STR District Fire Station and placing it into operation. The operation would be staffed with a three-person crew on a 24/7 schedule, assuming the increased staffing option is pursued. One-time construction cost as of December 2019 was $9.3 million. Ongoing operating and maintenance costs are projected to be $102,000 per year thereafter, with increases due to inflation each year.

One of the challenges relating to the construction of the permanent fire station is the funding from the Glen Loma Development Group. The Development Agreement with Glen Loma requires the developer to fund the construction of the permanent station, based on a baseline amount increased by an inflationary factor. The permanent fourth fire station is to be operational by the 1,100 building permit issued. At this time, the funding for the station has not been received, nor the station constructed. The GLDG is expected to pay a currently estimated $8 million for the station construction, as well as the dedication of the land for the station. This is a matter that continues to be pursued by the City. The City has already received $2.3 million from Glen Loma in lieu of building out the McCutchin Park which was approved by Council in June 2022 to further reduce the gap in permanent fire station funding. The City received those funds in July 2023, and deposited the payment into the Capital Projects fund to help offset future permanent fire station costs.

Standards of Coverage Review and Adjustment. The current Standards of Coverage was adopted prior to the completion of the 2040 General Plan update. The Standards of Coverage – which reviews and estimates the deployment and number of needed Fire Department facilities, equipment and staffing – needs to be updated with the projected community growth in the 2040 General Plan. This helps to provide the most strategic and holistic plan for the growth of the Fire Department as the population it serves increases. It will also serve to establish realistic response time goals. As mentioned earlier in the report, the Gilroy Fire Department has an average response time better than the countywide average. The goal currently established is not realistic given that the time is nearly one and one-half minute short of our average response time, while GFD outperforms larger fire protection agencies.

Contracting Out. In the Countywide Fire Services Review issued by the Local Agency Formation Commission of Santa Clara County (LAFCO) in 2023, LAFCO presented the following regarding contracting out fire service in the South County:

> "The southern region of Santa Clara is served by SCFD and the cities of Gilroy and Morgan Hill. These agencies each play an integral role in the other's services, as the jurisdictions experience a degree of isolation from external service providers and rely primarily on themselves or each other to furnish the necessary resources to handle almost all emergencies, except for the most severe ones, without assistance from external sources.
>
> The combination of geographical isolation and financial constraints that hinder any single jurisdiction from affording a service level with adequate resources and

staff to handle all service calls independently, makes a cooperative service delivery model the most favorable long-term option for all three jurisdictions. This model maximizes the utilization of their combined resources, ensuring optimal operational and fiscal effectiveness and efficiency.

As such, the three agencies have practiced significant collaboration, planning, and resource sharing. In 2016, the three agencies entered into a boundary drop agreement to respond to emergency calls in each other's jurisdictions. The agencies have also instituted several practices to maximize efficiency in administration and operations. SCFD and Morgan Hill operations, support, and dispatch are co-located, and they currently share funding for several positions: Heavy Equipment Mechanic, Emergency Medical Services Chief, Staff Services Analyst, Battalion Chief, and Administrative Chief. The three agencies have also conducted joint planning through a Standard of Coverage Assessment in 2019.

The Standards of Coverage Assessment found that ‘a cooperative fire service model that maximizes utilization of the combined three fire agency jurisdictions’ resources is the best alternative going forward for efficient and cost-effective delivery of fire services in south Santa Clara County.’

There are further opportunities to better share and leverage resources and develop cohesive response in the region:

- Possibly enter into a Memorandum of Understanding outlining the three agencies’ commitment to providing long-term cooperative fire services.
- Establishment of a joint strategic planning team with policy-level direction “to evaluate potential cooperative service elements for approval by the respective policy bodies, and then to conduct the detailed implementation planning necessary.”
- Gilroy may contract with CAL FIRE, thus making the region served by a single entity for consistency and cohesiveness of response and ease of communication. Additionally, with all three agencies served by CAL FIRE, they may have greater negotiation power for contracts.
- In the long-term, the agencies may wish to consider annexation of Morgan Hill and Gilroy fire services into SCFD to fully maximize efficiencies and effectiveness.

The LAFCO report suggests potential collaboration with Morgan Hill and/or CAL FIRE directly as an option to address increasing costs and needed efficiencies. Contracting out has the potential to provide one or more alternative service models for Gilroy Fire Services. Further analysis of options would need to be conducted.

<u>How are We Going to Fund These Options?</u>
There are several possible methods, including raising funds as well as re-allocating swapping existing funding that was approved as part of the Fiscal Year 24 and 25 Adopted budgets. These are discussed more below.

One-time funding
Grants. While City staff will continue to seek out grants, there are only a few that are for personnel. These grants are often focused on retaining firefighters in a department where the positions are at risk of being eliminated and not an expansion of staffing. There are some grants that can provide one-time reimbursement for equipment purchases, but they are also competitive and are not guaranteed. For the purposes of planning for funding other options for staffing, it is recommended not to include in the feasibility analysis grant revenue as a determination of increasing staffing.

The City has been applying for various grants, including the Assistance to Firefighter Grant and for additional positions, the latter particularly in the past. The City has not been awarded a grant for funding positions for many years, and with the intention being to fund the expansion of the number of firefighters the City has it is highly unlikely that we would receive any personnel grants. We have been awarded mainly equipment and training grants, such as an air compressor for refilling self-contained breathing apparatus (SCBAs) tanks, other smaller equipment purchases, and tactical medic training. Despite this, we still have more grant applications denied than approved. The other items applied for include satellite phone deployment and a type 1 fire engine. This experienced level of grant funding, and the challenges with personnel funding via grants, is the reason for grants not to be relied upon in the determination of increasing staffing.

Sustainable Funding
Revenue Enhancement - Ballot Measure. Since the majority of public safety services are provided utilizing the General Fund's discretionary tax dollars, the most effective means of securing revenue for fire services is through a ballot measure to increase tax revenue. There are two options for such a measure, a sales tax and a parcel tax. Each have advantages and disadvantages.

Public Safety Sales Tax. The City could initiate a ballot measure for a 0.25% sales tax dedicated to fire, police, and youth services. The rate of 0.25% is the maximum remaining sales tax increase capacity without special legislation at the state level. The anticipated amount this would generate would be approximately $4.3 million to $4.9 million. Since it would be based as a sales tax, the disadvantage is that it would be variable based on sales transactions overall, the same challenges that our normal sales tax revenue experiences. The advantage is that with our sales tax capture, a portion of the revenue comes from tourists and shoppers that do not live in the City of Gilroy, but still enjoy the services of the City. Since the sales tax is for a specified purpose, the threshold for passage is a 2/3 majority of the votes on the ballot. A general sales tax increase only requires a simple majority.

Public Safety Parcel Tax. The other option for a revenue ballot measure is a public safety parcel tax. This tax, since it is property based, would also require a 2/3 majority to pass regardless of its purpose. The disadvantage is that this tax would be assessed against only Gilroy residents and property owners, and none of our tourists or outside shoppers would be helping to pay for public safety services while enjoying the benefits of it. However, an advantage over a sales tax is that there is greater stability in a parcel tax. The revenues are set by each parcel, and they can have a defined growth rate in the ballot measure. This would preserve the revenue during an economic recession. Additionally, there is no arbitrary legislative cap regarding the rate, but instead it is based on the initial assessment rate approved by voters and recommended based on need. The lack of a cap may be a disadvantage as well, as concerns about future rates may cause fears of escalating tax liabilities. The amount would vary based on the assessment method, and the initial assessment amount proposed and approved by the voters.

Cost Reductions

Downsize and reallocate personnel costs. The alternative to raising additional revenue through a ballot measure is to make reductions in other areas and repurpose those funds towards Fire staffing. For such an endeavor, there are a few issues for consideration:

- Fire staffing is a discretionary General Fund expense, and therefore any reallocations must be done in the General Fund. This will limit the nature of any reductions, as the service impact will only be in the General Fund supported budgets for the various departments. Additionally, as discussed above, public safety is already the largest discretionary General Fund budget item, and therefore most reductions in those departments would not be possible while trying to maintain service. The decrease in funding would eliminate positions, and therefore programs and service reductions, withing the following departments/divisions:

    - Recreation
    - Building
    - Planning
    - Engineering (non-utility work)
    - Non-sworn Police Department staff
    - General Fund Streets and Park Landscaping

- The budget was approved with minimal operating margin to accomplish the additional personnel and services that were needed over the next two fiscal years. As such, there is not a pool of funds that can be easily shifted to Fire. Every dollar reduced and repurposed will be felt operationally, though the public may not experience the effects evenly from all the reductions. The City has continually “squeezed” the year-end savings as those savings are now budgeted and accounted for in the forecasted operating margin (salary savings).

- Ongoing expenditures need to be funded from reductions to other ongoing expenditures. Given that most of the ongoing costs for the General Fund is personnel (approximately 67%), the vast majority of reductions would have to be other, currently funded positions.

- Reduction in positions such as those in central services (Administration, Administrative Services, Finance), have a slightly lower effect, as these positions have some of their costs recovered to the General Fund from other funds through the Cost Allocation Plan/overhead charges. Any position reduced may also see a small reduction to revenue through the overhead charges applied to other funds. This means that more than the additional fire increase would need to be reduced, to offset the loss in overhead charge revenue.

The targeted amount may vary depending on the performance of the economy. As discussed in the background, sales tax revenue is now estimated to be $900,000 less than projected in the adopted budget. This amount would have to be identified in addition to the cost of any of the options above that are selected for addressing the need in the Fire Department, in addition to any potential future recession revenue losses.

CONCLUSION AND DIRECTION RECOMMENDATIONS

Current fire staffing is approaching the level proposed in the original budget adopted for this fiscal year, assuming that the three firefighters in the academy complete their training by February and the Fire Department does not see additional worker's compensation claims, retirements, or resignations. Staff will be continuing to issue to Council the weekly reports on staffing and station operating hours. There will also be an overall report to the City Council each month as work is performed on Council's final direction at tonight's meeting.

Additional staffing for the fourth fire station to enhance above the level proposed in the adopted budget, in either its interim or permanent state, will require additional funding to pay for the positions, equipment, and supplies. Staff is proposing to pursue several of the options listed above simultaneously. Therefore, staff is recommending to Council to direct staff to enact the following options.

1. Direct staff to pursue a dedicated 0.25% sales tax ballot measure for funding public safety, both police and fire, and public safety infrastructure. The funding would help generate funds for fire staffing, as well as police services and related infrastructure.

2. Authorize staff to explore alternative service models, including reinstating a quick response vehicle, as well as any other potential ASMs that would help meet the demand for fire services in the STR District while preserving funding and finding efficiencies in service delivery.

3. Update the Standards of Coverage (SOC) regarding updated actuals for call volume/growth. Update of the SOC after adoption of a General Plan is a best practice. The updated projections of where the community will grow, population increase, infrastructure planning, traffic, and the other planning components of the General Plan all inform the Fire Department's coverage today and into the future.

4. Create a Fire Service Strategic Plan to look at the service wholistically and to consider best methods, service models, growth projections, and options regarding stations, equipment, staffing, service levels, internal and external support options, and funding sources.

5. The Fire Department, in covering shifts that incurred absences from unplanned leaves, has consumed a large proportion of the current overtime budget. With the Department being nearly fully staffed, there is not an additional source of funding to facilitate more overtime coverage. Since there are insufficient resources to staff the STR District Interim Station, staff will be evaluating daily staffing and will continue to staff the station when on-duty personnel are available to do so and will continue to evaluate the current overtime budget to determine when resources are available to staff the station with overtime staffing. Given that there is not an unlimited overtime budget, fire management will evaluate the strategic use of the remaining overtime budget to staff the STR District Interim Station when it is possible to do so.

ALTERNATIVES

Each staff identified alternative has been discussed above in the analysis portion. There may be other alternatives that staff have not become aware of yet, which may be revealed as the process proceeds.

FISCAL IMPACT/FUNDING SOURCE

The ultimate fiscal impact will vary depending upon which option Council directs staff to pursue. Each option discussed above has a discussion on the financial impact of each for consideration, where the fiscal impact amount is known.

PUBLIC OUTREACH

The item has been discussed at previous meetings, including public comment and a closed session item at the September 18, 2023 City Council Regular Meeting. Additionally, the item was included on the publicly posted agenda for this meeting.

NEXT STEPS

Once Council issues direction to staff, staff will commence implementation. The next steps will vary based on Council's direction to staff and are discussed more in the analysis portion of this report.