



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

**Commissioners**  
Sylvia Arenas  
Jim Beall  
Rosemary Kamei  
Yoriko Kishimoto  
Otto Lee  
Terry Trumbull  
Mark Turner

**Alternate Commissioners**  
Pamela Campos  
Helen Chapman  
Betty Duong  
Zach Hilton  
Teresa O'Neill  
**Executive Officer**  
Neelima Palacherla

## REGULAR MEETING

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

City Administration Conference Room, Gilroy City Hall, 7351 Rosanna St, Gilroy

**December 3, 2025 • 1:15 PM**

## AGENDA

Chairperson: Sylvia Arenas • Vice-Chairperson: Rosemary Kamei

### 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/85383575586> or by dialing **(669) 900-6833** and entering **Meeting ID 853 8357 5586#** when prompted.

### PUBLIC COMMENT INSTRUCTIONS

**Written Public Comments** may be submitted by email to [LAFCO@ceo.sccgov.org](mailto: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/85383575586> 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 \$500 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 \$500 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 \$500 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](http://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 \$500 to any LAFCO commissioner during the proceeding and 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 total of \$1,000 or more or expend(s) a total of \$1,000 or more in support of or in opposition to specified LAFCO proposals or proceedings, which generally include proposed reorganizations or changes of organization, may be required to comply with the disclosure requirements of the Political Reform Act (See also, Section 84250 et seq.). These requirements contain provisions for making disclosures of contributions and expenditures at specified intervals. More information on the scope of the required disclosures is available at the web site of the FPPC: [www.fppc.ca.gov](http://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](http://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- 4709.

**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 1, 2025 LAFCO MEETING**

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**PUBLIC HEARING**

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**5. COMPREHENSIVE REVIEW AND UPDATE OF LAFCO POLICIES - CHAPTER 3.9 INCORPORATION POLICIES**

**Recommended Action:**

1. Adopt the proposed updated “Chapter 3.9 Incorporation Policies.”
2. Determine that the proposed update of LAFCO policies is not subject to the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines §15060(c)(2) and §15060(c)(3).

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**ITEMS FOR ACTION / INFORMATION**

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**6. COUNTYWIDE WATER AND WASTEWATER SERVICE REVIEW REQUEST FOR PROPOSALS**

**Recommended Action:**

1. Authorize staff to issue a Request for Proposals (RFP) for a professional services firm to prepare a Countywide Water & Wastewater Service Review.
2. Delegate authority to the LAFCO Chair to enter into an agreement with the most qualified consultant, as determined by the Consultant Interview Panel, in an amount not to exceed \$160,000, which may be amended with a contingency amount of up to \$10,000; and to execute any necessary amendments subject to LAFCO Counsel’s review and approval.

**7. ANNUAL FINANCIAL AUDIT REPORT – JUNE 30, 2025**

**Recommended Action:**

1. Receive a presentation from Chavan & Associates, LLP on LAFCO’s Annual Financial Audit Report for FY ending June 30, 2025.
2. Receive and file the Annual Financial Audit Report (June 30, 2025) prepared for Santa Clara LAFCO by Chavan & Associates, LLP.

**\*8. AMENDMENT TO SERVICES AGREEMENT BETWEEN LAFCO AND COVIVE LLC FOR WEBSITE HOSTING AND MAINTENANCE**

**Recommended Action:**

1. Approve an amendment to the services agreement between LAFCO and Covive LLC for website hosting and maintenance.

**\*9. ADOPTION OF SCHEDULE OF 2026 LAFCO MEETINGS**

**Recommended Action:** Adopt the schedule of LAFCO meetings and application filing deadlines for 2026.

**\*10. APPOINTMENT OF 2026 LAFCO CHAIRPERSON AND VICE-CHAIRPERSON**

**Recommended Action:** Per the rotation schedule, appoint Commissioner Rosemary Kamei to serve as Chairperson for 2026; and Commissioner Yoriko Kishimoto to serve as Vice-Chairperson for 2026.

**\*11. EXECUTIVE OFFICER’S REPORT**

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

**11.1 CSDA Board Secretary/Clerk Conference**

**11.2 Pre-Application Meeting with City of Sunnyvale on Potential Changes to Cupertino Sanitary District Boundaries**

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

**\*12. CALAFCO RELATED ACTIVITIES**

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

**13. COMMISSIONER REPORTS**

**14. NEWSPAPER ARTICLES / NEWSLETTERS**

**15. WRITTEN CORRESPONDENCE**

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**CLOSED SESSION**

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**16. PERFORMANCE EVALUATION**

Public Employee Performance Evaluation (Government Code §54957)

Title: LAFCO Executive Officer

**17. REPORT OUT OF CLOSED SESSION**

**18. ADJOURN**

Adjourn to the regular LAFCO meeting on February 4, 2026 at 1:15 PM in the Board of Supervisors' Chambers, 70 West Hedding Street, San Jose.





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**Commissioners**  
Sylvia Arenas  
Jim Beall  
Rosemary Kamei  
Yoriko Kishimoto  
Otto Lee  
Terry Trumbull  
Mark Turner

**ITEM # 4**

**Alternate Commissioners**  
Pamela Campos  
Helen Chapman  
Betty Duong  
Zach Hilton  
Teresa O'Neill  
**Executive Officer**  
Neelima Palacherla

## LAFCO MEETING MINUTES WEDNESDAY, OCTOBER 1, 2025

### CALL TO ORDER

The meeting was called to order at 1:28 p.m.

### 1. ROLL CALL

#### Commissioners

- Sylvia Arenas, Chairperson
- Rosemary Kamei, Vice Chairperson (Arrived at 1:32 p.m.)
- Jim Beall (Absent)
- Yoriko Kishimoto (Absent)
- Otto Lee (Absent)
- Terry Trumbull
- Mark Turner

#### Alternate Commissioners

- Pamela Campos (Absent)
- Helen Chapman (Voting for Jim Beall)
- Betty Duong (Absent)
- Zach Hilton (Attended remotely from City Administration Conference Room, Gilroy City Hall)
- Teresa O'Neill (Absent)

#### Staff

- Neelima Palacherla, Executive Officer
- Dunia Noel, Assistant Executive Officer
- Emmanuel Abello, Analyst
- Sonia Humphrey, Clerk
- Mala Subramanian, Counsel

### 2. PUBLIC COMMENTS

There were none.

**3. APPROVE CONSENT CALENDAR**

MOTION: Turner	SECOND: Trumbull	
AYES: Arenas, Chapman, Kamei, Trumbull, Turner		
NOES: None	ABSTAIN: None	ABSENT: Kishimoto, Lee

**Commission Action:** The Commission approved the Consent Calendar, including Items #4, #8 and #9.

**4. TAKEN ON CONSENT: APPROVE MINUTES OF AUGUST 6, 2025 LAFCO MEETING**

The Commission approved the minutes of the August 6, 2025 meeting.

**PUBLIC HEARING**

**5. COMPREHENSIVE REVIEW AND UPDATE OF LAFCO POLICIES – PHASE 2**

MOTION: Kamei	SECOND: Chapman	
AYES: Arenas, Chapman, Kamei, Trumbull, Turner		
NOES: None	ABSTAIN: None	ABSENT: Kishimoto, Lee

**Commission Action:**

1. The Commission approved the proposed structure for the Santa Clara LAFCO Policies and Procedures Manual.
2. The Commission adopted the proposed “Part 1. LAFCO Bylaws.”
3. The Commission adopted the proposed “Part 2. LAFCO Operational Policies and Procedures.”
4. The Commission adopted the proposed “Part 4. LAFCO Administrative Policies.”
5. The Commission rescinded the existing “Policies for Use of LAFCO Issued Electronic Devices” as they are no longer applicable.
6. The Commission determined that the proposed update of LAFCO policies is not subject to the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines §15060(c)(2) and §15060(c)(3).

**ITEMS FOR ACTION / INFORMATION**

**6. COUNTYWIDE WATER AND WASTEWATER SERVICE REVIEW**

MOTION: Kamei	SECOND: Turner	
AYES: Arenas, Chapman, Kamei, Trumbull, Turner		
NOES: None	ABSTAIN: None	ABSENT: Kishimoto, Lee

**Commission Action:**

1. The Commission directed staff to prepare a Draft Request for Proposals (RFP) for a professional services firm to conduct a Countywide Water and Wastewater Service Review, for the Commission’s consideration at the December 2025 LAFCO meeting.
2. The Commission appointed Vice Chairperson Kamei and Alternate Commissioner O’Neill to serve on the Countywide Water and Wastewater Service Review Technical Advisory Committee.

**7. FY 2024-2025 LAFCO ANNUAL REPORT**

**Commission Action:** The Commission accepted the FY 2024-2025 LAFCO Annual Report.

**8. TAKEN ON CONSENT: EXECUTIVE OFFICER’S REPORT**

**Commission Action:** The Commission accepted the report.

**9. TAKEN ON CONSENT: CALAFCO RELATED ACTIVITIES**

For Information only.

**9.1 Proposed Amendments to CALAFCO Bylaws**

**10. COMMISSIONER REPORTS**

**Alternate Commissioner Chapman** shared that the Open Space Authority signed a Memorandum of Understanding (MOU) to work with the City of Morgan Hill and West Hills Church on access to El Toro. She gave kudos to the City of Morgan Hill for working with her agency on this.

**Commissioner Turner** thanked Alternate Commissioner Chapman and the Open Space Authority for this major accomplishment.

**Commissioner Kamei** informed that she submitted her candidate nomination forms for the 2025/2026 CALAFCO Board of Directors election.

**11. NEWSPAPER ARTICLES / NEWSLETTERS**

There were none.

**12. WRITTEN CORRESPONDENCE**

**12.1** Letter from the Special District Risk Management Authority regarding the President’s Special Acknowledgement Awards (August 11, 2025)

**CLOSED SESSION**

**13. PERFORMANCE EVALUATION**

Public Employee Performance Evaluation (Government Code §54957)

Title: LAFCO Executive Officer

The Commission adjourned to Closed Session at 1:58 p.m.

**14. REPORT OUT OF CLOSED SESSION**

The Commission reconvened at 2:37 p.m., with no reportable action.

**15. ADJOURN**

The Commission adjourned at 2:37 p.m. to the next regular LAFCO meeting on December 3, 2025, at 1:15 p.m., in the Board of Supervisors’ Chambers, 70 West Hedding Street, San Jose.

Approved on December 3, 2025

\_\_\_\_\_  
Sylvia Arenas, Chairperson  
Local Agency Formation Commission of Santa Clara County

Prepared by: \_\_\_\_\_  
Sonia Humphrey, LAFCO Clerk



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**Commissioners**

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Terry Trumbull  
Mark Turner

**ITEM # 5**

**Alternate Commissioners**

Pamela Campos  
Helen Chapman  
Betty Duong  
Zach Hilton  
Teresa O'Neill

**Executive Officer**  
Neelima Palacherla

**LAFCO MEETING: December 3, 2025**

**TO: LAFCO**

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

**SUBJECT: COMPREHENSIVE REVIEW AND UPDATE OF LAFCO  
POLICIES – CHAPTER 3.9 INCORPORATION POLICIES**

**STAFF RECOMMENDATIONS**

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1. Adopt the proposed updated “Chapter 3.9 Incorporation Policies.”
2. Determine that the proposed update of LAFCO policies is not subject to the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines §15060(c)(2) and §15060(c)(3).

**PROJECT BACKGROUND**

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**Scope and Purpose of the Comprehensive Review and Update of LAFCO’s Policies**

The purpose of the comprehensive review and update of the current LAFCO policies is to:

- Better enable LAFCO to meet its legislative mandate,
- Make the policies consistent with recent changes to the CKH Act,
- Better document current/historic practices, and
- Provide better guidance to affected agencies, the public, and potential applicants; and increase clarity and transparency of LAFCO’s policies and expectations.

The project is divided into two phases (Phase 1 and Phase 2).

**Phase 1 Complete**

On December 4, 2024, LAFCO completed the first phase of the Comprehensive Review and Update of LAFCO Policies which focused on reviewing and updating, as necessary, the key policies that apply to processing typical LAFCO applications.

## **Phase 2 Nearly Complete**

On April 4, 2025, LAFCO approved a workplan for the second phase of the Comprehensive Review and Update of LAFCO Policies focusing on reviewing and updating, as needed, LAFCO's remaining policies. — including the service review policies, indemnification policy, incorporation policies (used less frequently), and policies and procedures related to administrative functions.

On August 6, 2025, LAFCO approved the following proposed updated policies: Service Review Policies, Policies and Procedures for Processing Proposals Affecting More than One County, LAFCO Indemnification Policy, and Records Retention Policy and Schedule.

On October 1, 2025, LAFCO approved the proposed structure for the Santa Clara LAFCO Policies and Procedures Manual; adopted the proposed LAFCO Bylaws, LAFCO Administrative Policies, and LAFCO Operational Policies and Procedures, except for the proposed updated Incorporation Policies (Attachment A) which are the subject of this staff report. If approved, these proposed updated Incorporation Policies will be included as Chapter 3.9 of Part 3. "Policies for Evaluating Proposals" in the new LAFCO Policies and Procedures Manual.

## **PROPOSED REVISIONS TO LAFCO'S INCORPORATION POLICES**

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### **Background**

Incorporation (i.e. the creation of a new city) is very rare type of LAFCO proposal both Statewide and in Santa Clara County. The last city to be formed in Santa Clara County was Monte Sereno, which was incorporated in 1957, some six years before the State Legislature created LAFCOs.

However, in 2007 LAFCO received an application by petition of registered voters for the incorporation of San Martin (a small unincorporated community located between Morgan Hill and Gilroy). One of the Commission's first steps in response to the application was to adopt more specific policies regarding the timing and processing of an incorporation proposal.

On May 30, 2007, LAFCO adopted its initial Incorporation Policies to establish ground rules and clarity for the incorporation process. These Incorporation Policies replaced LAFCO's much more minimal "Policies for City Incorporation and Special District Formation." LAFCO further amended the Incorporation Policies on August 1, 2007.

LAFCO's Incorporation Policies are intended to augment the Governor's Office of Planning and Research (OPR) 2003 "Guide to the LAFCO Process for Incorporations." Together, they provide a good overview of the incorporation process for potential applicants. Since 2007, LAFCO has not received any more incorporation proposals and has received only a handful of inquiries about potential incorporation efforts in Santa Clara County.

## Proposed Revisions

The current “Incorporation Policies,” have been edited, reformatted, and reorganized as the proposed “Chapter 3.9: Incorporation Policies.”

Most of the proposed changes are very minor and non-substantive. The current Incorporation Policies have been restructured as an individual numbered chapter with corresponding numbered policies and subtitles, to be part of the single Policies and Procedures Manual. New references to relevant code sections of State law have been added, where appropriate. New language has been added to the current policies to better reflect current State law, and to document current and longstanding Santa Clara LAFCO practices and procedures.

Some of the proposed changes are highlighted below:

Section (3.9.1) is titled “Introduction” to be more consistent with the other recently updated LAFCO policies. This section is largely based on the introductory paragraph of the current Incorporation Policies but also includes new language on the how an “incorporation” and a “city” are each defined in State law and includes references to the relevant GC Sections (i.e. §56043 and §56023). Additionally, new language is included to provide further background information on the time, expense, and complexity of the incorporation process.

Subsection 3.9.4.1 includes new language noting that LAFCO must consider certain factors in State law when reviewing incorporation boundaries.

Subsection 3.9.4.3 includes new language referencing environmental justice pursuant to GC §56668(p).

Subsection 3.9.4.8 includes new language clarifying that the inclusion of land under a farm security zone within an incorporation proposal is discouraged.

Subsection 3.9.5.1 includes new language clarifying that incorporation applicants must demonstrate that the new city will have sufficient revenues to maintain the current service levels in the area.

Section 3.9.8 includes revised language clarifying the general CEQA process for an incorporation proposal and LAFCO’s role in that process.

Section 3.9.9 includes new introductory language clarifying that preparation of comprehensive fiscal analysis (CFA) is a requirement under State law and that revenue neutrality is also a requirement.

Subsection 3.9.9.2 includes language that consolidates and clarifies the revenue neutrality negotiation process.

Lastly, the current flow chart diagramming the CFA and revenue neutrality negotiation process has been moved to the end of the Chapter as Exhibit 3.9-A.

Please see **Attachment A** for the current Incorporation Policies with proposed revisions shown in tracked changes.

## **NOTICE OF PUBLIC HEARING**

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A Notice of Public Hearing was posted on the LAFCO website and the County's Official Bulletin Board on November 5, 2025, and published in the *San Jose Post Record* on the same day. The staff report for this agenda item will be posted on the LAFCO website by November 26, 2025, and affected agencies, interested parties, and others that have requested to receive LAFCO agendas will be noticed accordingly.

## **ENVIRONMENTAL ANALYSIS**

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The purpose of the comprehensive review and update of the current LAFCO policies is to better enable LAFCO to meet its legislative mandate, make the policies consistent with recent changes to LAFCO law, better document current/historic practices, and provide ease of use and better guidance to affected agencies, public, and potential applicants; and increase clarity and transparency of LAFCO's policies and expectations.

The proposed revisions include changes to the overall organization and structure of the current LAFCO policies; removal of incorrect and/or expired references to State law and inclusion of new references to relevant code sections of State law and adopted LAFCO resolutions; and text changes to reflect changes in State law, current LAFCO practice or background information.

The approval of the proposed revisions is not subject to the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3 Section 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and, Section 15060(c)(3)(the activity is not a project as defined in Section 15378) because the proposed revisions to the policies reflect existing provisions of the Government Code that are already State law, existing policies of LAFCO that are already under implementation, historic or current Santa Clara LAFCO practice, or are entirely procedural (non-substantive) in nature.

## **NEXT STEPS**

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Following the Commission's adoption of the updated Incorporation Policies, staff will compile all adopted policies into a comprehensive manual, publish them on the LAFCO website, and notify local agencies and interested parties.

## **ATTACHMENT**

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Attachment A: Chapter 3.9 Incorporation Policies (tracked changes)

## **CHAPTER 3.9 INCORPORATION POLICIES**

Adopted: 05/30/2007

Amended: 08/01/2007, \_\_\_\_\_

### **3.9.1 INTRODUCTION**

State law (Government Code §56043) defines an “incorporation” as the creation or establishment of a city. Any area proposed for incorporation as a new city shall have at least 500 registered voters residing within the affected area at the time incorporation proceedings are initiated with Santa Clara LAFCO (GC §56043). Pursuant to GC §56023, a “city” means any incorporated chartered or general law city, including any city the name of which includes the word “town.”

The procedure for creating a new “city” in the State of California is a lengthy and very complex process requiring at least a year of formal review and significant requisite fees. The purpose of the process is to ensure that any proposed incorporation is economically feasible and in the best interests of the community. An incorporation must also be environmentally and logically sound from a public service standpoint.

These policies augment the Governor’s Office of Planning and Research (OPR) 2003 “Guide to the LAFCO Process for Incorporations”. Where these local policies differ from the OPR Guidelines, the local policies shall apply. These policies are not intended to preempt State law. Should these policies conflict with the provisions of law, the provisions of the CKH Act and related statutes shall prevail. Unless otherwise specified herein, proposals for incorporation are subject to all policies and requirements that apply to proposals and applications submitted to Santa Clara LAFCO.

### **3.9.2 CERTIFICATE OF FILING AND TIME LIMITATIONS**

1. In order to deem the incorporation application filed, issue the Certificate of Filing and set a hearing date for the proposal, all application requirements must be completed (GC §56651). The Certificate of Filing will not be issued by the Executive Officer until all of the filing requirements have been met including the comprehensive fiscal analysis, plan for services, -and information sufficient to facilitate an environmental determination pursuant to CEQA.
2. To ensure that the petition signatures remain sufficient and that the proposal remains current, the application requirements must be completed within 24 months following the date of the Certificate of Sufficiency or the date of adoption of the resolution making the application.
3. If the application remains incomplete after 22 months, Santa Clara LAFCO staff will notify the proponents at least 60 days before the 24-month deadline. The Commission may allow an extension of the 24-month time period, on a case by case basis.
4. Santa Clara LAFCO staff will use its best efforts to ensure timely completion of each procedural requirement in the incorporation process, including, but not limited to, preparing requests for financial information as early as possible

following the close of the fiscal year; giving appropriate notice; initiating agency consultations; and convening meetings related to revenue transfers.

### **3.9.3 INCORPORATION PROCESSING FEES**

1. The actual costs for processing the incorporation application are the proponent's responsibility. Application costs include consultant costs for preparing the comprehensive fiscal analysis and the environmental review documents, [Santa Clara](#) LAFCO staff time, legal counsel costs and other related expenses incurred by [Santa Clara](#) LAFCO in the incorporation proceedings.
2. Incorporation proposals are charged on an actual cost basis with a deposit required when the proposal is initiated. The cost of the proceedings will be much higher than the initial deposit. The deposit allows staff to open a file and initiate the determination of petition sufficiency and begin meetings with the proponents to develop a time-frame and cost estimates.
3. Consultants will be hired [by Santa Clara LAFCO](#) for the preparation of the comprehensive fiscal analysis and CEQA analysis / documents. Each consultant's total cost will be divided into costs for each sub task. Prior to commencement of each sub task, the proponents must make a deposit in the amount of the estimated cost for that task. [Santa Clara](#) LAFCO will not authorize the consultant to commence work on the task until the [requested](#) funds are received. At the end of each task a final accounting will be done. Any amounts due must be paid within 30 days.

Any refunds will be applied to the subsequent task or refunded. The actual amounts of the deposits will be determined after the consultant contracts are negotiated.

4. [Santa Clara](#) LAFCO staff will provide the proponents an initial estimate of the costs of the incorporation proceedings. The terms of payment will be stated in an agreement to be executed between [Santa Clara](#) LAFCO and the proponents.

### **3.9.4 INCORPORATION BOUNDARIES**

1. The Commission will review proposal boundaries, as submitted by proponents. Alternatives to the proposal must also be considered by [Santa Clara](#) LAFCO. The [LAFCO](#) Executive Officer will convene a meeting to identify logical boundary alternatives for the new city at the earliest date possible. The meeting will include the proponents. [The factors contained in GC §56668, and the following factors, will be considered in reviewing proposal boundaries.](#)
2. The Commission may modify proposed boundaries and order the inclusion or deletion of territory to accomplish its goal of creating orderly boundaries.
3. A proposed incorporation must satisfy a demonstrated need for services, and promote the health, safety, and welfare of the community, [and environmental justice.](#)
4. A proposed incorporation or formation must not conflict with the normal and logical expansion of adjacent governmental agencies.

5. An area proposed for incorporation must be compact and contiguous, and possess a community identity.
6. Pursuant to GC §56744, tThe proposal boundaries and alternatives shall not create islands or areas that would be difficult to serve.
7. Areas included within the proposed incorporation boundaries should consist of existing developed areas and lands, which are planned for development.
8. Inclusion of agricultural and open space lands, and lands under a farmland security zone (GC §56749), within the boundaries of a proposed city is discouraged.
9. Incorporation boundaries should be drawn so that community based special districts are wholly included within or excluded from the incorporation area, unless the Commission determines that there is either an overriding benefit to dividing the district or that there is no negative impact from dividing the district.

### **3.9.5 SERVICES TO INCORPORATION AREA**

1. Applicants must demonstrate to Santa Clara LAFCO that the proposed city will have the ability and sufficient revenues to provide adequate facilities and services in the incorporation area pursuant to GC §56668(k), and at no less than the level of services provided in the area prior to incorporation.
2. New cities should assume jurisdiction over as many services in the incorporation area as are feasible.

### **3.9.6 SPECIAL DISTRICTS AFFECTED BY INCORPORATION PROPOSAL**

1. District territory included in an incorporation area should be detached from the district or the district dissolved unless Santa Clara LAFCO determines that there is an overriding reason to retain the district.
2. Detachment of territory from a region-wide special district which provides service to multiple communities outside the incorporation area is discouraged, unless the Commission determines that there is an overriding reason for the detachment.

### **3.9.7 TIMING AND INITIATION OF NEW CITY'S SPHERE OF INFLUENCE (SOI)**

1. Pursuant to §56426.5, Fthe Commission may determine the ~~sphere of influence~~SOI for the new city at the time the incorporation is approved or no later than one year from the effective date of incorporation. The new city may initiate a ~~Sphere of Influence~~SOI application. In the absence of an application within the time frame necessary for sphere adoption, the Commission will adopt an initial ~~Sphere of Influence~~SOI boundary for the city which will be coterminous with the city's boundaries.

### **3.9.8 ENVIRONMENTAL REVIEW OF INCORPORATION PROPOSALS - CEQA**

1. An incorporation is considered a project under the California Environmental Quality Act (CEQA). Pursuant to CEQA, Santa Clara LAFCO is the Lead Agency for an incorporation proposals it receives that is initiated by petition and LAFCO shall

~~be is~~ responsible for the environmental review process. When an incorporation proposal is not initiated by petition, Lead Agency status is determined pursuant to the State CEQA Guidelines, California Code of Regulations, Title 14, Division 6, Chapter 3, Sections 15000 et seq.

- ~~2. The Executive Officer is the Environmental Coordinator for LAFCO, and is responsible for the environmental review process.~~
- ~~3. The Environmental Coordinator will prepare the Project Description.~~
42. A CEQA pProject dDescription will be prepared thatThe Project Description will includes the proposal as submitted for the purpose of preparing an environmental document. The pProject dDescription may identify alternatives being considered for the project and a sphere of influence boundary for the proposed city.
53. When LAFCO is the Lead Agency uUnder the direction and management of the Environmental CoordinatorLAFCO Executive Officer, the-an environmental review of the proposed incorporation will be initiated as early as feasible and will be completed as cost-effectively as possible.

### 3.9.9 COMPREHENSIVE FISCAL ANALYSIS AND REVENUE NEUTRALITY NEGOTIATION PROCESS

Pursuant to GC §56800, the Executive Officer shall prepare, or caused to be prepared by contract, a Comprehensive Fiscal Analysis (CFA) for an incorporation proposal which shall be included in the Executive Officer Report. Pursuant to GC §56815, an incorporation should result in a similar exchange of both revenue and responsibility for service delivery among the county, the proposed city, and other subject agencies (i.e. Revenue Neutrality).

The general process and requirements for preparing the CFAcomprehensive fiscal analysis and negotiating the revenue neutrality is outlined in the flow chart presented in Exhibit 3.9-A and described below.

1. **Initiate Comprehensive Fiscal Analysis (GC §56800)**
  - a. Santa Clara LAFCO will retain a financial consultant qualified to prepare the ~~Comprehensive Fiscal Analysis (CFA)~~ and related documents necessary for the project, consistent with Santa Clara LAFCO's usual and customary contract procedures.
  - b. The fiscal analysis will evaluate the proposal as submitted as well as the identified alternatives.
  - c. A detailed timeline for the CFA process will be developed by Santa Clara LAFCO in consultation with the consultants hired to prepare the CFA.
  - d. The Draft CFA will be prepared as early as possible to support revenue neutrality discussions.
2. **~~Ad Hoc~~ Revenue Neutrality Negotiationsng Committee**
  - a. The LAFCO Executive Officer at their discretion will-may convene a series of meetings with representatives of the County and representatives of the incorporation proponents, and other affected agencies and LAFCO

~~consultants as needed, an ad hoc revenue neutrality negotiating committee~~ to develop a revenue neutrality agreement as soon as possible after the draft CFA information becomes available. ~~The LAFCO Executive Officer may request the County and the incorporation proponents to provide a list of its representatives and designate one principal representative each, and additional members may be added after negotiations commence with the agreement of both parties.~~

- ~~b. Members of the ad hoc revenue neutrality negotiating committee shall include representatives of the County and representatives of the incorporation proponents and other affected agencies, as needed.~~
- ~~c. At the commencement of the negotiations or earlier, each party will provide a list of its representatives and designate one principal representative. Additional members may be added after negotiations commence with the agreement of both parties.~~
- ~~d. LAFCO staff will attend meetings of this committee in order to facilitate discussion, provide technical assistance and ensure compliance with LAFCO policies. LAFCO staff has the discretion to request attendance by its consultants.~~

### 3. **Timing and Adoption of Revenue Neutrality Agreement**

- a. The Draft CFA is a prerequisite to revenue neutrality negotiations.
- b. ~~The ad hoc revenue neutrality negotiating committee~~The County and the incorporation proponents will have up to 90 days to negotiate a revenue neutrality agreement. The 90 days commences from the ~~ir~~ first meeting ~~of the ad hoc committee~~ following the release of the Draft CFA.
- c. Within the ~~90 day~~90-day period, if the parties reach agreement, they shall provide a written revenue neutrality agreement to the LAFCO Executive Officer; the agreement will be signed by proponents. County representatives ~~to the committee~~ will place the agreement on the County Board of Supervisors agenda within the ~~90 day~~90-day period.
- d. The terms of the Revenue Neutrality Agreement will be included in the budget projections and feasibility analysis in the Public Hearing Draft CFA.
- e. If agreement does not occur within the 90-day negotiating period, LAFCO staff will draft proposed terms and conditions for use in the Public Hearing Draft ~~Comprehensive Fiscal Analysis~~CFA and for recommendation to the Commission at its public hearing.
- f. The ~~revenue neutrality committee~~County and the incorporation proponents may jointly reduce the time period for reaching agreement, ~~with the consent of all parties.~~

### 4. **Public Hearing Draft CFA and LAFCO Public Hearing**

- a. A Notice of Availability will be prepared by Santa Clara LAFCO staff and the Public Hearing Draft CFA will be circulated and made available to the public no less than 30 days prior to LAFCO's public hearing on the incorporation

proposal. The Public Hearing Draft CFA includes terms of the revenue neutrality agreement, if agreement has been reached, or terms to be determined by Santa Clara LAFCO if agreement has not been reached.

5. **State Controller Review of Comprehensive Fiscal Analysis, if Requested (GC §56801)**

- a. Any party may request review of the Public Hearing Draft Comprehensive Fiscal Analysis within 30 days of the release of the Notice of Availability of the Public Hearing Draft CFA. The written request shall be made to the LAFCO Executive Officer and should identify the specific elements that the State Controller is being requested to review and state the reasons for review of each of the elements.
- b. The requestor is responsible for all costs related to the request, and shall sign an agreement to pay such costs.
- c. The requestor shall deposit a fee in the amount of the total estimated cost of the review at the time the request for review is filed. The deposit will include the estimated charge by the State Controller, LAFCO staff costs, and costs for any consultants required to assist the State Controller with the review. The deposit shall be supplemented by the requestor if additional funds are needed to complete the review. The difference between the actual cost and the estimate shall be refunded / charged to the party initiating the request after the review is complete.

6. **Final CFA**

- a. The Final CFA will include the terms and conditions approved by Santa Clara LAFCO and will be prepared following the Commission's determinations and approval of the incorporation.

**3.9.10 FINANCIAL ASSUMPTIONS AND FISCAL ANALYSIS REQUIREMENTS**

1. All assumptions and calculation methodologies used for the fiscal calculations shall be clearly identified and detailed in the CFA. (GC §56800)
2. The CFA shall calculate the proposed city base year costs consistent with the 2003 OPR Guidelines ~~(Section V. 3.)~~.
3. The base year or "prior fiscal year" shall be the basis of financial calculations and determinations, as defined in Government Code §56810(g) as follows: "the most recent fiscal year for which data on actual direct and indirect costs and revenues needed to perform calculations required by this section are available preceding the issuance of the certificate of filing".
4. Costs of services in the proposal area shall be based on existing levels of service provided in the proposal area by the County and other agencies during the "base year".
5. When proposed city functions and services have not previously been provided by an agency prior to incorporation (e.g. new city general administration costs that are not transferred from another agency), the cost projection basis for the

proposed city's future expenditures for those services and functions shall be based on cities with similar population and geographic size that provide similar level and range of services.

6. Revenue projections for anticipated future city revenues will be "conservative"; where the revenue projection is estimated as a range, the lowest number in the range will be used for calculating future city budgets.
7. Property tax projection calculations for projecting the future city revenues will include the rate of increase in the assessed value (not greater than 2% annually). Property tax revenue projections based on market driven property tax reassessments (e.g. increases in home re-sale values) should not be relied upon for calculating future year city budgets and determining feasibility.
8. The CFA shall include the proposed city budget, projected for a minimum of ten years in order to 1) evaluate ~~long term~~long-term feasibility, 2) consider the effects of the new city's repayment to the County for its ~~first year~~first-year services and 3) project the effects of foreseeable shifts in state subventions, etc.
9. The CFA should include an annual appropriation in the new city budget for contingencies of 10% in each budget year evaluated. The CFA should include an additional reserve of 10% in any given year in the new city's budget projection.
10. The CFA will calculate the estimated property tax transfer and the total net agencies' cost of providing service in the proposed incorporation area. The Commission makes the final determination of costs and the transfer of property taxes.
11. Financial feasibility shall be based on the ability of the new city to maintain pre-incorporation service levels.
12. The CFA will include revenue sources that are currently available to all general law cities. Projections will not be based on potential revenue sources not currently applicable in the area or new revenues which might become available through the discretionary actions of a future city council.

### **3.9.11 BASIS AND ASSUMPTIONS FOR REVENUE NEUTRALITY**

Revenue neutrality intends that any proposal that includes an incorporation should result in a similar exchange of both revenue and responsibility for service delivery among the county, the proposed city, and other subject agencies. It is the further intent of the Legislature that an incorporation should not occur primarily for financial reasons (~~Government Code~~GC §56815). Pursuant to ~~Government Code~~GC §56815, Santa Clara LAFCO will make findings and/or impose conditions ~~or~~/ mitigations to equalize the transfers of revenue and service.

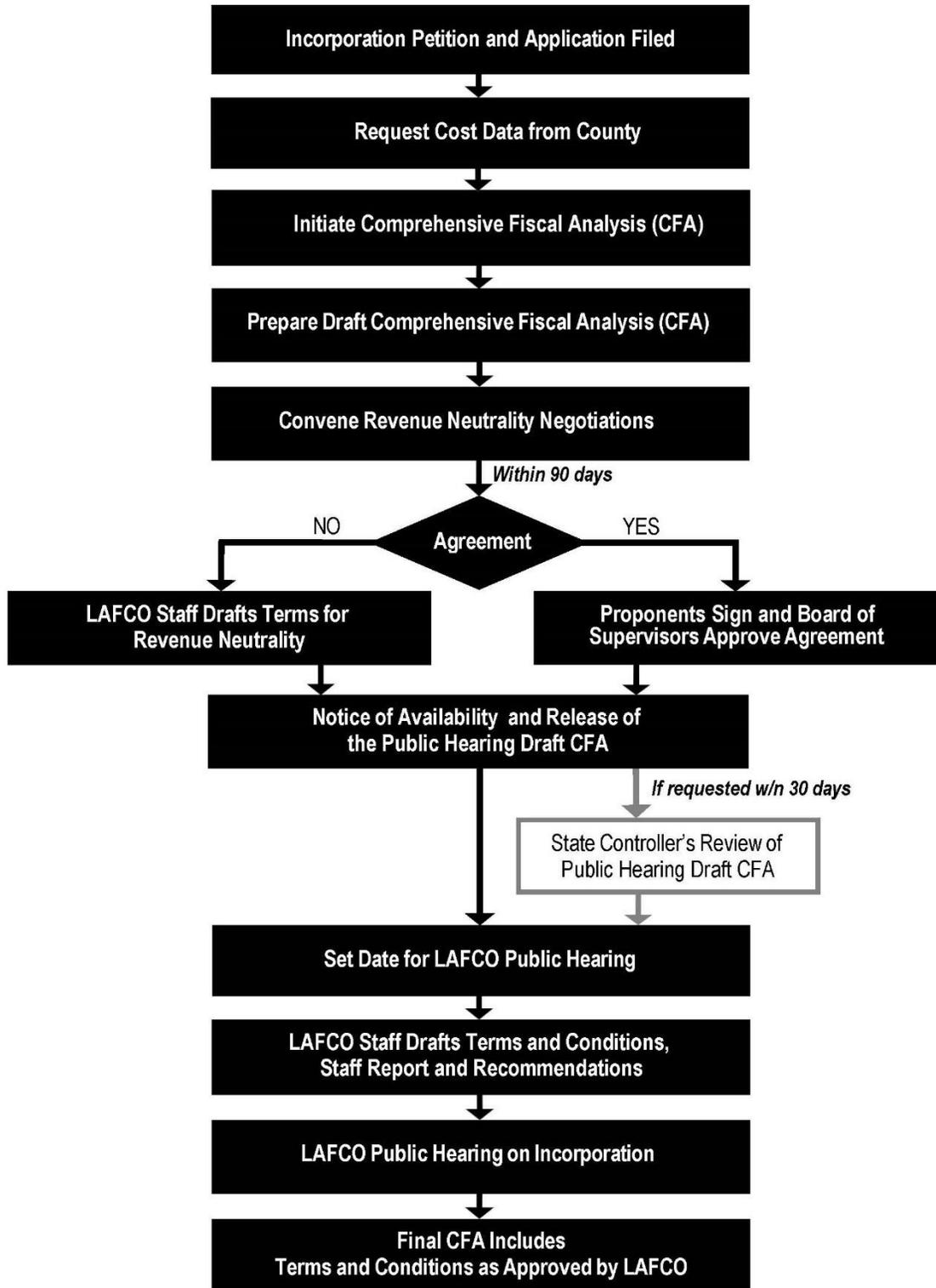
1. The revenue neutrality agreement or any proposal for LAFCO terms and conditions for revenue neutrality shall **include**:
  - a. A criteria and a process for modification by the affected agency and the city after incorporation

- b. A description of methodologies and assumptions leading up to the terms of the agreement
    - c. Identifiable and recurring revenues and expenditures only
  2. The revenue neutrality agreement or any proposal for LAFCO terms and conditions for revenue neutrality shall **exclude**:
    - a. Anticipated or projected revenue growth or sources of revenue dependent on discretionary actions by a future city council
    - b. Services funded on a cost recovery basis (such as permits/building inspection) which are, by definition, revenue neutral
    - c. Costs of capital improvements
  3. The following additional policies apply to the revenue neutrality agreement or any proposal for [Santa Clara](#) LAFCO terms and conditions for revenue neutrality:
    - a. Fiscal impacts to restricted and unrestricted revenues should be evaluated separately. A city may pay a portion of its annual revenue neutrality payment with restricted funds if both agencies agree, and if a legal exchange mechanism can be created to do so.
    - b. Fees charged by the county for services to other jurisdictions (such as property tax administration fees or jail booking fees) should be included as an off-setting county revenue in the calculation of fiscal effects on the county.
    - c. Countywide costs of regional services and general government, including the County Administration, Clerk of the Board, Auditor--Controller and other administrative government functions which are required to support county governance of both incorporated and unincorporated areas should not be included in defining services or revenues transferred to the new city.

### **3.9.12 EFFECTIVE DATE OF INCORPORATION**

1. The effective date of incorporation should be considered in revenue neutrality negotiations. [Santa Clara](#) LAFCO will establish the effective date. The effective date should be set to allow adequate initial account balances for the new city as it assumes service responsibilities, but should not otherwise conflict with the intent of fiscal neutrality or exacerbate County revenue losses.

**Exhibit 3.9-A**  
**Comprehensive Fiscal Analysis and**  
**Revenue Neutrality Negotiation Process**







**Local Agency  
Formation Commission  
of Santa Clara County**  
777 North First Street  
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**Commissioners**  
Sylvia Arenas  
Jim Beall  
Rosemary Kamei  
Yoriko Kishimoto  
Otto Lee  
Terry Trumbull  
Mark Turner

**ITEM # 6**

**Alternate Commissioners**  
Pamela Campos  
Helen Chapman  
Betty Duong  
Zach Hilton  
Teresa O'Neill  
**Executive Officer**  
Neelima Palacherla

**LAFCO MEETING: December 3, 2025**

**TO: LAFCO**

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

**SUBJECT: COUNTYWIDE WATER AND WASTEWATER SERVICE  
REVIEW REQUEST FOR PROPOSALS**

**STAFF RECOMMENDATION**

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1. Authorize staff to issue a Request for Proposals (RFP) for a professional services firm to prepare a Countywide Water & Wastewater Service Review.
2. Delegate authority to the LAFCO Chair to enter into an agreement with the most qualified consultant, as determined by the Consultant Interview Panel, in an amount not to exceed \$160,000, which may be amended with a contingency amount of up to \$10,000; and to execute any necessary amendments subject to LAFCO Counsel’s review and approval.

**BACKGROUND**

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At the December 2, 2020 LAFCO meeting, the Commission revised the LAFCO Service Review work plan as follows (listed from highest priority to lowest priority):

- a. Countywide Fire Service Review
- b. Countywide Water and Wastewater Service Review
- c. Special Districts Service Review
- d. Cities Service Review

At the October 4, 2023 LAFCO meeting, the Commission adopted its Countywide Fire Service Review (Report), which included many recommendations for fire and emergency medical response service providers to consider and potentially implement. LAFCO staff then worked with affected agencies to encourage implementation of the Report’s recommendations and monitored agencies’ efforts.

At the August 6, 2025 LAFCO meeting, the Commission adopted the proposed updated Service Review Policies which guide the Commission’s preparation of service reviews pursuant to Government Code §56430.

At the October 1, 2025 LAFCO meeting, the Commission directed staff to prepare a Draft RFP for a professional services firm to conduct a Countywide Water and Wastewater Service Review, for the Commission’s consideration at the December 2025 LAFCO Meeting, and appointed Commissioner Kamei and Alternate Commissioner O’Neill to serve on the Technical Advisory Committee (TAC) for the Service Review.

## **COUNTYWIDE WATER AND WASTEWATER SERVICE REVIEW**

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### **Distribution of Draft Request for Proposals (RFP) for Review and Comment**

On October 16, 2025, LAFCO staff distributed a Draft RFP for the preparation of a Countywide Water and Wastewater Service Review to LAFCO commissioners, the County, the 15 cities, the 26 special districts, (including the five water districts and seven districts that provide wastewater services), the four private water companies, the Santa Clara County/Cities Managers’ Association, the Santa Clara County Water Retailer’s Group, Santa Clara County Municipal Public Works Officials’ Association, Santa Clara County Special Districts Association, and various others for their review and comment. LAFCO also requested their assistance in identifying potential qualified consultants and identifying any other issues surrounding the provision of water and wastewater services in the county.

The deadline for providing LAFCO with written comments concerning the Draft RFP was October 30, 2025. LAFCO staff received comments (**Attachment A**) from the following:

- Kent Edler, Interim District Manager and Engineer, West Valley Sanitation District
- Darius Haghighi, Program Manager, Department of Environmental Health, County of Santa Clara

LAFCO staff has revised the Draft RFP and Scope of Services to address these comments. Please see **Attachment B** for the Revised RFP and Revised Scope of Services (including tracked changes).

### **Consultant Selection Process and Timeline**

LAFCO staff will convene a Consultant Interview Panel, consisting of a subgroup of TAC members. The Panel, along with LAFCO staff, will evaluate the proposals submitted and interview the consultant teams and provide a recommendation. If authorized by the Commission, the LAFCO Chair may enter into an agreement with the most qualified consultant.

The following is an estimated timeline for the consultant selection process:

- Issue RFP to potential consultant firms: December 4, 2025
- Proposals due to LAFCO: December 19, 2025

- Consultant interviews and selection: early/mid-January 2026
- Selected consultant firm begins Service Review: February 2026

It is expected that the service review will take about a year or so to complete. A detailed timeline/project schedule for completing the project, based on the key steps listed in the RFP and Scope of Services, will be negotiated between EO Palacherla and the selected consultant and included in the executed professional services agreement.

### **Proposed Budget**

Staff recommends an allocation of \$160,000 for the Countywide Water and Wastewater Service Review, which may be amended with a contingency amount of up to \$10,000, with LAFCO Counsel's review and approval. The LAFCO Executive Officer will negotiate the final project cost with the selected firm.

The Countywide Water and Wastewater Service Review is anticipated to be a complex and extensive study that will cover multiple types of services (i.e. water services (including recycled water), wastewater services, and stormwater management). It will also address special focus issues (i.e. small water systems in the unincorporated area, status of water quality issues in the southern part of Santa Clara County, implications of sea level rise on water and wastewater services and rising demand for water for data centers).

The proposed budget will ensure that the selected consulting firm will have the necessary resources and time to gather the required data from multiple agencies and organizations, conduct interviews with their representatives, participate in the stakeholder/public outreach and engagement efforts, conduct the required data analysis to prepare a robust report that includes the required written service review determinations, required sphere of influences updates and supporting findings, and thoughtful recommendations.

For comparison, in 2021 LAFCO allocated \$140,000 for its Countywide Fire Service Review which had a more limited scope.

The selected consultant's work on the Countywide Water and Wastewater Service Review is anticipated to begin in February 2026 (this fiscal year) and continue well into the next fiscal year, concluding in the first quarter of 2027. Staff recommends that the Service Review be budgeted over this fiscal year and next fiscal year. The LAFCO budget for this Fiscal Year (2025-2026) includes sufficient funding to commence the Service Review and the Commission can budget for the remaining balance as part of its Fiscal 2026-2027 budget planning process.

### **Countywide Water and Wastewater Service Review TAC**

As discussed above, LAFCO staff conducted outreach to various local professional associations to inform them of the upcoming Service Review and seek their input on the Draft RFP and participation on the Technical Advisory Committee (TAC). TAC members will serve as a liaison with their respective associations, help select a

consultant for the service review, and provide technical expertise/advice throughout the service review process. The TAC consists of the following members:

- Commissioner Rosemary Kamei and Alternate Commissioner Teresa O’Neill, appointed by LAFCO;
- Matt Morely (City Manager, City of Saratoga) and Chris Constantin (City Manager, Town of Los Gatos) appointed by the Santa Clara County/Cities Managers’ Association;
- Aaron Baker (Chief Operating Officer: Water Utility, Santa Clara Valley Water District) and Curt Rayer (Vice President of Operations, San Jose Water Company), liaisons to the Santa Clara County Water Retailer’s Group;
- Mansour Nasser (Assistant Director of Environmental Services, City of Sunnyvale) and Chris Ghione (Public Services Director, City of Morgan Hill), liaisons to the Santa Clara County Municipal Public Works Officials’ Association; and
- Kent Edler (Interim District Manager and Engineer, West Valley Sanitation District), liaison to the Santa Clara County Special Districts Association.

## **NEXT STEPS**

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Upon LAFCO authorization, staff will send the Final RFP to the firms on LAFCO’s consultant list and will post the RFP on the LAFCO website and the CALAFCO website for other interested firms. Responses to the RFP will be due by Friday, December 19, 2025 at 5 PM, as specified in greater detail in the RFP. The Consultant Interview Panel will review the responses, interview qualified consultants, and make a recommendation. If authorized by the Commission, the LAFCO Chair will enter into an agreement with the most qualified consultant, as determined by the Consultant Interview Panel, in an amount not to exceed \$160,000, which may be amended with a contingency amount of up to \$10,000; and execute any necessary amendments subject to LAFCO Counsel’s review and approval.

## **ATTACHMENTS**

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- |               |   |
|---------------|---|
| Attachment A: | Comments Received on Countywide Water and Wastewater Service Review Draft RFP   |
| Attachment B: | Final Countywide Water and Wastewater Service Review RFP including the Scope of Services, with tracked underlined changes |

**From:** [Kent Edler](#)  
**To:** [Noel, Dunia](#)  
**Subject:** [EXTERNAL] RE: Draft RFP and TAC for LAFCO's Countywide Water and Wastewater Service Review  
**Date:** Monday, October 20, 2025 1:56:38 PM  
**Attachments:** [DraftRFPScopeOfServices\\_WVSD Comments.pdf](#)

---

Hi Dunia,

We have just a few comments on the Draft RFP (see page 11 of the document – highlighted in red). See attached.

Thank you for providing us the opportunity to review the document.

Thanks,

Kent

---

**From:** Noel, Dunia <Dunia.Noel@ceo.sccgov.org>  
**Sent:** Friday, October 17, 2025 3:11 PM  
**Subject:** Draft RFP and TAC for LAFCO's Countywide Water and Wastewater Service Review

You don't often get email from [dunia.noel@ceo.sccgov.org](mailto:dunia.noel@ceo.sccgov.org). [Learn why this is important](#)

**CAUTION:** This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

**Dear Affected Agencies and Interested Parties:**

Santa Clara LAFCO invites your review and comments on the attached **Draft Request for Proposal & Scope of Services (RFP) for the upcoming Countywide Water and Wastewater Service Review**. Your input will help ensure the scope and approach accurately reflect local conditions and needs. Please submit any comments by **Thursday, October 30, 2025, at 5 PM** to [lafco@ceo.sccgov.org](mailto:lafco@ceo.sccgov.org).

We also welcome suggestions of qualified consulting firms for inclusion in the final RFP distribution list. If you have any questions, please feel free to reach out. Thank you for your continued collaboration and participation in this important effort.

Sincerely,

**Dunia Noel**

**Dunia Noel**

Assistant Executive Officer, Santa Clara LAFCO  
777 North First Street, Suite 410, San Jose, CA 95112  
(408) 993-4704 | [www.SantaClaraLAFCO.org](http://www.SantaClaraLAFCO.org)

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**Kent Edler, P.E.**

Interim District Manager and Engineer | **West Valley Sanitation District**

- direct: 408.385.3011 fax: 408.364.1821
- [kedler@wvsdca.gov](mailto:kedler@wvsdca.gov)
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**From:** [Haghighi, Darius](#)  
**To:** [LAFCO](#)  
**Cc:** [Underwood, Marilyn](#)  
**Subject:** Draft RFP and TAC for LAFCO's Countywide Water and Wastewater Service Review  
**Date:** Thursday, October 30, 2025 11:41:24 AM  
**Attachments:** [DraftRFP&ScopeOfServices.pdf](#)  
[Outlook-Circle\\_AI.png](#)  
[Outlook-Timeline\\_.png](#)

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Good morning,

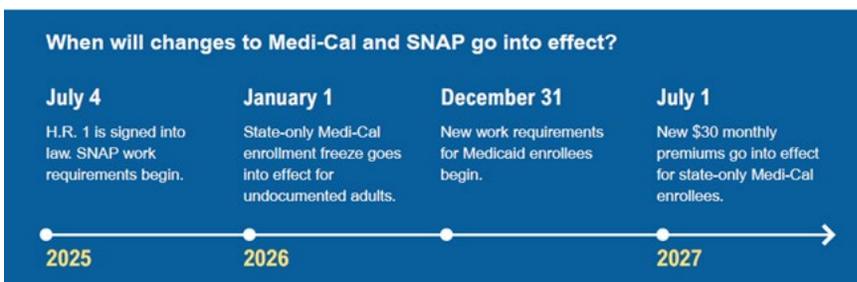
Comments from County of Santa Clara Environmental Health would be as follows:

- Regarding "Water and Wastewater Service Review Consultant Suggestions", Questa Engineering Corporation may be an appropriate candidate, having assisted with development of the County's Local Agency Management Plan (LAMP) for Onsite Wastewater Treatment Systems (OWTS) in 2013, and who are currently the lead firm representing the largest SB330 Builders Remedy development proposals.
- Recommend breaking out "Small Water Systems" which are a type of Public Water System associated with 15-200 water system connections, and adding "State Small Water Systems", which would be defined as having 5-14 water system connections serving less than 25 people per year.
- Recommend changing "Onsite Wastewater Management Systems" to "Onsite Wastewater Treatment Systems", and possibly adding community systems as well.
- Example language could be:
  - Experience with the operational aspects of various types of water service and wastewater service providers in California, including special districts (water districts, sanitary/sewer districts, and community services districts), city/county departments (public works, utilities, and environmental health), and others (private water companies, mutual water companies, small **public** water systems, **state small water systems**, **private water systems** and **community/individual onsite wastewater management treatment** systems)
- State Water Board's name should be updated: State Water Resources Control Board's **Department****Division** of Drinking Water (DDW)



Darius Haghighi, MPA, REHS  
County of Santa Clara | Program Manager  
Environmental Health  
1555 Berger Drive, San Jose, CA  
[Darius.Haghighi@deh.sccgov.org](mailto:Darius.Haghighi@deh.sccgov.org)  
(408) 918-3468

Learn More About the Impacts of the Federal Budget Cuts at:  
[santaclaracounty.gov](http://santaclaracounty.gov)



For Onsite Wastewater Treatment Systems Manual and application,  
Go to: [www.ehinfo.org/wastewater](http://www.ehinfo.org/wastewater)

For Drinking Water and Wells Information and applications,  
Go to: [www.ehinfo.org/drinkingwater](http://www.ehinfo.org/drinkingwater)

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**Commissioners**  
Sylvia Arenas  
Jim Beall  
Rosemary Kamei  
Yoriko Kishimoto  
Otto Lee  
Terry Trumbull  
Mark Turner

**Alternate Commissioners**  
Pamela Campos  
Helen Chapman  
Betty Duong  
Zach Hilton  
Teresa O'Neill  
**Executive Officer**  
Neelima Palacherla

**REVISED DRAFT REQUEST FOR PROPOSALS**  
**COUNTYWIDE WATER AND WASTEWATER SERVICE REVIEW**

**I. OBJECTIVE**

The Local Agency Formation Commission (LAFCO) of Santa Clara County is seeking proposals from professional service firms to prepare a Countywide Water and Wastewater Service Review. This work is to be completed in compliance with applicable California Government Code sections and Santa Clara LAFCO policies. In Santa Clara County, service reviews are intended to serve as a tool to help LAFCO, the public and other agencies better understand the public service governance and delivery and evaluate options for the provisions of efficient and effective public services, and to develop information to update the spheres of influence of special districts and cities in the county. 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 together with additional research and analysis where necessary, to pursue changes in jurisdictional boundaries or spheres of influence.

**II. BACKGROUND**

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 and requires that LAFCO once every five years, as necessary, review and update the sphere of influence of each city and special district [Government Code § 56430]. The Service Review must include an analysis and written statement of determination regarding each of the following seven categories:

- Growth and population projections for the affected area
- The 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
- Any other matter related to effective or efficient service delivery, as required by commission

Additionally, as part of the sphere of influence updates LAFCO must prepare an analysis and written statement of determinations for each special district regarding certain factors. [Government Code § 56425(e)]

Santa Clara LAFCO is responsible for establishing, reviewing, and updating Spheres of Influence for 41 public agencies in Santa Clara County (15 cities and 26 special districts). LAFCO's Service Review Policies (amended August 6, 2025), provide guidance to LAFCO in preparing and conducting service reviews.

LAFCO completed and adopted its first round of service reviews and sphere of influence updates prior to January 1, 2008 and its second round of service reviews and sphere of influence updates for all cities and special districts prior to January 1, 2015.

LAFCO's most recent [Countywide Water Service Review](#) was adopted in 2011. LAFCO's [Special District Service Review: Phase 2](#) was adopted in December 2013 and includes information on special districts that provide sanitary/sewer service. LAFCO's [Cities Service Review](#) was adopted in December 2015 and includes information on wastewater service and stormwater management services provided by cities in the county.

These Reports, which are all available on the LAFCO website, have been a valuable resource for LAFCO, the public, and other local agencies seeking to gain a better understanding on how these services are provided in the county.

LAFCO, at its December 2, 2020 meeting set priorities for the completion of LAFCO's third round of service reviews and sphere of influence updates. LAFCO's service reviews work plan calls for the completion of 4 studies (i.e. countywide fire service review, countywide water and wastewater service review, special districts service review, and cities service review). It is anticipated that these studies will be conducted by professional service firms under the operational direction of the LAFCO Executive Officer. LAFCO's first priority, a countywide fire service review was completed in October 2023. **LAFCO's next priority, a countywide review of water service and wastewater service in Santa Clara County and sphere of influence updates for special districts that provide water and wastewater service, is the subject of this Request for Proposal (RFP).**

### III. SCOPE OF SERVICES

A draft Scope of Services is enclosed with this RFP as **Attachment 1**. A final statement of services to be provided will be negotiated with the firm selected to

conduct the service review and will be included as part of the professional services agreement.

#### **IV. BUDGET**

A final budget amount for this project will be negotiated with the firm selected for the work prior to reaching agreement. The anticipated project cost of the proposal should not exceed **\$TBD**.

#### **V. SCHEDULE**

It is anticipated that the firm will start work in **February 2026** and that the service review will be conducted over the next 12 months or so. The final schedule for this project will be negotiated with the firm selected for the work prior to reaching an agreement and will be based on the key steps listed in the Scope of Services.

#### **VI. PROPOSAL REQUIREMENTS**

Response to this RFP must include all of the following:

1. A statement about the firm that describes its history as well as the competencies and resumes of the principal and all professionals who will be involved in the work. This statement should describe the firm's level of expertise in the following areas:

##### **General Expertise**

- Familiarity with CKH Act, the role and functions of LAFCO, and the service review process
- Ability to analyze and present information in an organized format
- Ability to quickly interpret varied budget and planning documents
- Ability to facilitate and synthesize input from a variety of stakeholders
- Familiarity with public input processes and experience in managing the presentation and dissemination of public information for review and comment
- Experience in fostering multi-agency partnerships and cooperative problem-solving
- Ability to provide flexible and creative alternatives where necessary to resolve service and policy issues

##### **Water Service and Wastewater Service Expertise**

- Management level understanding of how water service and wastewater service are financed and delivered
- Expertise in various aspects of 1) water service provision (i.e. water supply, water quality, water delivery, recycled water, water conservation and stewardship, groundwater recharge and pumping, flood control, stormwater runoff and management, etc.); and 2) sanitary/sewer service provision (i.e. wastewater collection, treatment, and management, etc.)

- Expertise in the financial analysis of water and wastewater service delivery systems, including identifying financing constraints / opportunities and cost avoidance opportunities
  - Expertise in water service and wastewater service organization analysis, including evaluating government structure options (advantages and disadvantages of the consolidation or reorganization of service providers)
  - Experience with the operational aspects of various types of water service and wastewater service providers in California, including special districts (water districts, sanitary/sewer districts, and community services districts), city/county departments (public works, utilities, and environmental health), and others (private water companies, mutual water companies, small public water systems, state small water systems, private water systems and community/individual onsite wastewater management-treatment systems)
  - Experience in evaluating water and wastewater service delivery systems, including performance measurements and benchmarking techniques
  - Experience in evaluating impacts of recent climate change (floods, sea level rise) and their impact on water service and wastewater service
2. Identification of the lead professional responsible for the project and identification of the professional(s) who will be performing the day-to-day work.
  3. Identification of any associate consultant firms to be involved. If associate consultant firms are proposed, describe the work they will perform and include the same information for each as required for items 1 and 2 above.
  4. A statement of related experience accomplished in the last five years and references for each such project, including the contact name, address, and telephone number.
  5. A statement regarding the anticipated approach for this project, including conducting community engagement and outreach, and explicitly discussing and identifying suggested changes to the draft Scope of Services (**Attachment 1**).
  6. Identification of any information, materials and/or work assistance required from LAFCO and / or involved water service and wastewater service providers to complete the project. The expectation is that the consultant will use all available data sources to develop/update information for agency profiles in an effort to minimize the workload for affected agencies.
  7. An overall project schedule, including the timing of each work task.
  8. Information about the availability of all professionals who will be involved in the work, including any associate consultants.
  9. The anticipated project cost, including:
    - a. A not-to-exceed total budget amount.
    - b. The cost for each major sub-task identified in the draft Scope of Services.

- c. The hourly rates for each person who will be involved in the work, including the rates of any associate consultants.

10. Comments about the draft services agreement (**Attachment 2**) specifically including the ability of the firm to meet the insurance requirements and other provisions.

## **VII. SUBMISSION REQUIREMENTS**

Responses to RFP will be accepted by email only at [lafco@ceo.sccgov.org](mailto:lafco@ceo.sccgov.org) and should be addressed to Neelima Palacherla, LAFCO Executive Officer. Proposals should be submitted in a complete, single electronic file, to the email specified in this notice.

**DUE DATE AND TIME: Friday, December 19, 2025, by 5:00 PM.**

Proposals received after that time and date will not be considered.

## **VIII. EVALUATION CRITERIA AND SELECTION PROCESS**

Firms will be selected for further consideration and follow-up interviews based on the following criteria:

- Relevant work experience
- The completeness of the responses
- Overall project approaches identified
- Proposed project budget

A consultant selection committee will conduct interviews and the most qualified firm will be selected based on the above evaluation criteria and reference checks.

**Interviews will be held in early January 2026.** The selection committee is expected to make a decision soon after. Following the selection of the most qualified firm, a final services agreement including budget, schedule, and final Scope of Services statement will be negotiated before executing the contract.

LAFCO reserves the right to reject any or all proposals, to issue addenda to the RFP, to modify the RFP or to cancel the RFP.

## **IX. LAFCO CONTACT**

Neelima Palacherla, Executive Officer  
LAFCO of Santa Clara County  
Voice: (408) 993-4713  
Email: [lafco@ceo.sccgov.org](mailto:lafco@ceo.sccgov.org)

## **X. ATTACHMENTS**

1. Draft Scope of Services (**Attachment 1**)
2. Draft Professional Service Agreement and insurance obligations (**Attachment 2**)

## **XI. REFERENCE INFORMATION**

Please refer to LAFCO's website ([www.santaclaralafco.org](http://www.santaclaralafco.org)) for general information about Santa Clara LAFCO and the following links for further information:

1. LAFCO's Service Review Policies (Amended August 6, 2025):  
(<https://santaclaralafco.org/resources/policies/service-review-policies>)
2. LAFCO Service Reviews Webpage: (<https://santaclaralafco.org/cities-and-special-districts/service-reviews>)
3. Countywide Water Service Review (Adopted December 7, 2011):  
(<https://santaclaralafco.org/cities-and-special-districts/service-reviews/second-round/2011-countywide-water-service-review>)
4. Special Districts Service Review: Phase 2 (Adopted December 4, 2013):  
(<https://santaclaralafco.org/cities-and-special-districts/service-reviews/second-round/special-districts-service-review-phase-2>)
5. Cities Service Review (Adopted December 2, 2015):  
(<https://santaclaralafco.org/cities-and-special-districts/service-reviews/second-round/cities-service-review>)

DRAFT

**REVISED DRAFT SCOPE OF SERVICES**  
**COUNTYWIDE WATER AND WASTEWATER SERVICE REVIEW AND**  
**SPHERE OF INFLUENCE UPDATES**

The Countywide Water and Wastewater Service Review Report will provide a comprehensive overview of all the agencies that provide water services (including recycled water), wastewater services, and stormwater management in the County; evaluate the provision of these services; and recommend actions to promote efficient service delivery; and review and update the spheres of influence of special districts that provide water and/or wastewater services in Santa Clara County (where Santa Clara LAFCO is the principal LAFCO).

**I. SERVICE REVIEW AND SPHERE OF INFLUENCE UPDATES**  
**REQUIREMENTS**

Pursuant to California Government Code §56430, LAFCO is required to adopt a written statement of determination for each of the following considerations:

1. Growth and population projections for the affected area.
2. Location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence
3. 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
4. Financial ability of agencies to provide services.
5. Status of, and opportunities for, shared facilities.
6. Accountability for community service needs, including governmental structure and operational efficiencies.
7. Any other matter related to effective or efficient service delivery, as required by commission policy.

California Government Code §56425 requires LAFCO, when determining the sphere of influence of each local agency, to prepare and adopt a written statement of determination for each city and special district regarding the following considerations:

1. The present and planned land uses in the area, including agricultural and open-space lands.
2. The present and probable need for public facilities and services in the area.
3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.

4. The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency
5. For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protections that occurs pursuant to subdivision (g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.
6. Nature, location, and extent of any functions or classes of services provided by existing districts

## **II. IDENTIFICATION OF SERVICE PROVIDERS FOR STUDY**

Agencies that are required to have a Spheres of Influence (SOI) [i.e. special districts and cities] will be the focus of service reviews. Other agencies will also be reviewed to the extent necessary to establish relationships, quantify services, designate or map service location/facilities and provide a complete overview of services in the area. The following agencies and organizations that provide water service (including recycled water), wastewater service, and stormwater management in Santa Clara County will be included in the service review:

### **Water Districts**

1. Aldercroft Heights County Water District (serves a small unincorporated community near Lexington Reservoir in the Santa Cruz Mountains)
2. Pacheco Pass Water District (serves a small unincorporated area in southern Santa Clara County and also includes lands in San Benito County. San Benito LAFCO is principal LAFCO)
3. Purissima Hills County Water District (serves a portion of Los Altos Hills and adjacent unincorporated area)
4. San Martin County Water District (serves a portion of the unincorporated community of San Martin)
5. Santa Clara Valley Water District (countywide)

### **Special Districts that Provide Wastewater Services**

1. Burbank Sanitary District (serves two non-contiguous unincorporated islands surrounded by the City of San Jose)
2. County Sanitation District 2-3 (serves two non-contiguous unincorporated areas surrounded by or adjacent to the City of San Jose)
3. Cupertino Sanitary District (serves majority of the City of Cupertino, portion of City of Saratoga, small areas of City of San Jose, Sunnyvale and Los Altos, and adjacent unincorporated areas)

4. West Bay Sanitary District (serves a small unincorporated area along the San Mateo County boundary and also includes lands in San Mateo County. San Mateo LAFCO is principal LAFCO)
5. West Valley Sanitation District (serves City of Campbell, Town of Los Gatos, City of Monte Sereno, portion of the City of Saratoga, and several non-contiguous unincorporated areas ~~of these cities~~)
6. Lions Gate Community Services District (serves the small unincorporated community of CordeValle, located south of Morgan Hill)
7. Lake Canyon Community Services District (serves the small unincorporated community of Lake Canyon near Lexington Reservoir in the Santa Cruz Mountains)

**Cities (review specific to water service, wastewater service, and stormwater management service)**

1. City of Campbell
2. City of Cupertino
3. City of Gilroy
4. Town of Los Altos
5. City of Los Altos Hills
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

**Other Service Providers (included for comprehensiveness and/or to address a focus issue)**

Private Water Companies

1. San Jose Water Company (serves Cities of Campbell, Saratoga, Los Gatos, Monte Sereno, part of Cupertino, parts of San Jose, and adjacent unincorporated areas)

2. California Water Service Company (serves parts of Cities of Cupertino and Los Altos, parts of Los Altos Hills and Mountain View, parts of Sunnyvale, and adjacent unincorporated areas)
3. Great Oaks Water Company (serves parts of San Jose, and adjacent unincorporated area south of San Jose)
4. West San Martin Water Works (purchased by California American Water, serves a portion of the unincorporated community of San Martin)

#### Miscellaneous

1. Stanford University (serves the University)
2. San Francisco Public Utilities Commission (wholesale agency to portions of North County)
3. Bay Area Water Supply and Conservation Agency (provides water conservation programs and conducts water supply planning activities for their members)
4. South Bay Water Recycling
5. County Department of Environmental Health
6. Palo Alto Regional Water Quality Control Plant
7. San Jose-Santa Clara Regional Wastewater Facility
8. South County Regional Wastewater Authority
9. Sunnyvale Water Pollution Control Plant
10. Mutual Water Companies, including small water systems

Please note that in addition to the above listed agencies, there may be other agencies within the county that provide water, wastewater, and/or stormwater management related services. It may be necessary to include those agencies in the service review.

### **III. PROJECT SCOPE OF WORK**

#### **Service Review Determinations**

Based on the elements above, Consultant will draft proposed service review determinations for the cities and special districts that provide water and/or wastewater services (where Santa Clara LAFCO is the Principal LAFCO) that meet the legal requirements as identified in Government Code §56430.

#### **Sphere of Influence Update**

Analyze and propose, if deemed appropriate, sphere of influence updates for each of the special districts that provide water and/or wastewater services (where Santa Clara LAFCO is the Principal LAFCO) and prepare a written statement of determination for each district as required by Government Code §56425

## **Focus Issues**

The service review will also consider the following issue and identify potential options/opportunities for addressing this issue in Santa Clara County:

### **Small Water Systems in the Unincorporated Area**

The State Water Resources Control Board's ~~Department~~ Division of Drinking Water (DDW) staff have identified many small water systems in south Santa Clara County that experience technical, managerial, and financial difficulties from time to time. In response, there have been many interagency discussions on potential options for helping these current systems, including the potential consolidation of these struggling systems with better managed or maintained systems located nearby. However, there does not appear to be any readily available solution.

Discussions concerning the feasibility and practicality of consolidation or infrastructure extension to these existing systems noted various challenges, including the long distances involved, terrain challenges, high costs, lack of funding sources, water supply availability, and overall uncertainty. Furthermore, it is important that any such solutions are consistent with LAFCO law, and LAFCO's mandate to preserve agricultural lands and open space, curb urban sprawl, and encourage efficient delivery of services; and local/affected agencies' policies.

Consultant will identify potential options/opportunities for addressing this issue in Santa Clara County and consider the fiscal, economic, political, social and policy implications of each identified option/opportunity.

### **Other Issues**

Consultant will also consider ongoing and emerging issues, including status of water quality issues in the southern part of Santa Clara County e.g. septic system concerns, nitrates, perchlorate, etc.; implications of sea level rise on water service and wastewater service, and stormwater management; and rising demand for water for data centers.

## **IV. SERVICE REVIEW TASKS OVERVIEW**

The Countywide Water & Wastewater Service Review will be conducted in accordance with LAFCO's Service Review Policies (adopted August 6, 2025). It is expected that the service review will begin in February 2026 and be conducted over the next 12 months or so. The final schedule for this project will be negotiated with the firm selected for the work prior to reaching an agreement and will be based on the following key steps, although other activities may be necessary:

### **1. Kick-Off & Stakeholder / Public / Community Engagement and Outreach**

- Attend kick-off meetings with LAFCO staff and Technical Advisory Committee (TAC).
- Develop a community engagement and outreach approach for the service review, consisting of meetings, surveys, etc.

- Conduct up to three (3) public workshops on LAFCO's Countywide Water and Wastewater Service Review to engage the community and receive input on water, wastewater, and stormwater related issues/concerns.
- Prepare summary memos of input received at each meeting and in the survey.
- Consider the findings and recommendations of prior service reviews for the affected agency or service area and consider the affected agency's implementation efforts. Prepare a memo summarizing any key takeaways and relation to current service review.

## **2. Development of Evaluation Criteria and Data Collection**

- Develop, in coordination with LAFCO staff and the TAC, appropriate criteria to be used for service evaluation and for making service review determinations, as necessary.
- Develop and present to LAFCO staff and TAC, a questionnaire or a request for information related to the evaluation categories for service reviews.
- Collect and compile necessary data from available data resources (i.e., agency websites, and other relevant sources). Create a custom questionnaire for each agency to collect any other necessary data and distribute the questionnaire to each agency for their completion.
- Conduct interviews with affected agencies as necessary to follow up on information gaps and seek clarification on matters. LAFCO staff may attend interviews when feasible.
- Compile profiles of each of the agencies using a standard format, based on the interviews and data collected and obtain a level of consistency in the data.
- Provide each agency with their agency profile for their internal review and comment, to ensure accuracy prior to analysis.

**Work Products:** Consultant must deliver to LAFCO staff a complete profile for each agency and organization.

## **3. Data Analysis and Preliminary Findings**

- Analyze data to make required determinations for each agency and to develop any recommendations, where appropriate.
- Present and discuss the required determinations and any recommendations with LAFCO staff.
- Present preliminary findings, as necessary to TAC.

**Work Products:** Consultant must deliver analysis and findings and recommendations to LAFCO staff.

#### **4. Administrative Draft Service Review Report**

- Prepare an Administrative Draft Report for LAFCO staff review, in accordance with the project schedule.
- LAFCO staff will review and provide comments on the Administrative Draft Report, in accordance with the schedule

**Work Products:** Consultant must deliver Administrative Draft Report to LAFCO staff.

#### **5. Draft Service Review Report & Community Workshops and LAFCO Public Hearing**

- Address LAFCO staff's comments and prepare a Draft Service Review Report
- LAFCO staff will distribute the Draft Report for a 21-day public review and comment period
- Conduct up to three (3) public workshops to present the Draft Report and receive input and prepare summary memos of input received at each meeting
- Provide written responses to comments received during the public review period
- Present the Draft Report at the LAFCO Public Hearing

**Work Products:** Consultant must deliver MS Word version and a PDF version of the Draft Report.

#### **6. Revised Draft Report & LAFCO Public Hearing**

- Revise the Draft Report to address comments and submit the Revised Draft Report to LAFCO staff
- LAFCO staff will distribute the Revised Draft Report for a 21-day public review and comment period
- Provide written responses to comments received during the public review period
- Present the Revised Draft Report at the LAFCO Public Hearing

**Work Products:** Consultant must deliver a MS Word version and a PDF version of the Revised Draft Report.

#### **7. Final Service Review Report**

- Following LAFCO adoption of the Service Review, prepare the Final Report.

**Work Products:** Consultant must deliver a MS Word version, a PDF version, and 3 hard copies of the Final Report.

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**SERVICES AGREEMENT BETWEEN THE LOCAL AGENCY FORMATION  
COMMISSION OF SANTA CLARA COUNTY AND \_\_\_\_\_ FOR  
COUNTYWIDE WATER AND WASTEWATER SERVICE REVIEW AND SPHERE OF  
INFLUENCE UPDATES**

This Services Agreement (“Agreement”) is made effective \_\_\_\_\_ (“Effective Date”), by and between the Local Agency Formation Commission of Santa Clara County (“LAFCO”) and \_\_\_\_\_ (“Contractor”) to provide consulting services for the development of a countywide service review for water and wastewater services within Santa Clara County and for sphere of influence updates for the special districts providing water and/or wastewater services in Santa Clara County (where Santa Clara LAFCO is the principal LAFCO).

WHEREAS, pursuant to the Cortese-Knox-Hertzberg Act, Government Code section 56000 et seq., LAFCO is an independent body; and

WHEREAS, LAFCO needs assistance with the preparation of a countywide service review of water and wastewater services in Santa Clara County; and

WHEREAS, Contractor has experience and expertise necessary to provide such services; and

WHEREAS, at the \_\_\_\_\_ meeting of LAFCO, the Commission delegated authority to the LAFCO Executive Officer to execute an agreement with the most qualified consultant for preparation of the countywide water and wastewater service review;

THEREFORE, the parties agree as follows:

**1. Nature of Services.**

Contractor will provide to LAFCO the services described in Exhibit A1, Scope of Services, which is attached hereto and incorporated herein by this reference. Contractor shall perform the services in accordance with the project timeline as described in Exhibit A2, which is attached hereto and incorporated herein by this reference.

**2. Term of Agreement.**

This Agreement is effective from the Effective Date to, and including, \_\_\_\_\_, unless terminated earlier in accordance with Section 4. The parties may, by mutual, written consent, extend the term of this Agreement if necessary to complete the services. Time is of the essence and Contractor shall perform its services in a prompt and timely manner within the term of this Agreement. Delays shall not entitle Contractor to any additional compensation regardless of the party responsible for the delay.

**3. Compensation.**

A. Contractor will be compensated for services provided under this Agreement in accordance with the rate schedule included in Exhibit A3, which is attached hereto and incorporated herein by this reference. Contractor will complete all the work and tasks described in Exhibit A1 for an amount not to exceed \_\_\_\_\_ (“Contract Price”). Contractor shall be paid based on the rate schedule indicated in Exhibit A3, and the

percentage of sub-tasks completed monthly, but compensation and expenses shall not exceed the Contract Price or the individual sub-task amount.

B. Contractor will provide LAFCO with monthly invoices specifying the percentage of completion for each sub-task based on tasks described in Exhibit A1. Contractor shall submit its final invoice to LAFCO within thirty (30) days from the last date of providing services or expiration or termination of this Agreement and failure by the Contractor to submit a timely invoice may constitute a waiver of its right to final payment.

C. Contractor shall deliver the administrative draft report, the draft report addressing staff comments for public review and comment, the revised draft report for public review and comment, and the final report adopted by LAFCO in accordance with the project timeline provided in Exhibit A2. or as otherwise determined by mutual written agreement of the parties. If the foregoing reports are not delivered according to the timeline in Exhibit A2 or as otherwise mutually agreed or if they do not comply with the requirements in the Scope of Services, it is understood, acknowledged and agreed that LAFCO will suffer damage. As fixed and liquidated damages, LAFCO shall withhold from Contractor the payment of the sum of \$200 per calendar day for each and every calendar day of delay beyond the date that each report is due in accordance with the timeline in Exhibit A2, or as otherwise mutually agreed.

#### **4. Termination.**

A. Termination Without Cause. LAFCO may terminate this Agreement without cause by giving Contractor ten (10) days written notice. Contractor may terminate this Agreement without cause, if approved by the Executive Officer in consultation with LAFCO Counsel, in her or his sole and absolute discretion, by giving LAFCO ten (10) days written notice.

B. Termination for Cause. LAFCO may terminate this Agreement for cause upon ten (10) days written notice to Contractor. For purposes of this Agreement, cause includes, but is not limited to, any of the following: (1) material breach of this Agreement by Contractor, (b) violation by Contractor of any applicable laws, (c) assignment by Contractor of this Agreement without the written consent of LAFCO pursuant to Section 13, or (d) failure to provide services in a satisfactory manner. The termination notice shall specify the reason for termination and shall indicate the effective date of such termination.

C. In the event of termination with or without cause, Contractor will deliver to LAFCO copies of all Documents & Data whether complete or incomplete, and upon receipt thereof, Contractor will be compensated based on the completion of services provided prior to termination, as solely and reasonably determined by LAFCO. Contractor shall not be entitled to payment for unperformed services, and shall not be entitled to damages or compensation for termination of the Agreement.

#### **5. Project Managers; Substitution**

A. Contractor designates \_\_\_\_\_ as the Contractor's Project Manager for the purpose of performing the services under this Agreement. \_\_\_\_\_ will serve as day-to-day contact for LAFCO and work directly with staff.

B. LAFCO designates the LAFCO Executive Officer as its Project Manager for the purpose of managing the services performed under this Agreement.

C. Contractor may not substitute anyone to replace \_\_\_\_\_ to serve as Project Manager without the written permission and the sole discretion of the LAFCO Executive Officer or their authorized representative. Any such substitution shall be with a person or firm of commensurate experience and knowledge necessary for the tasks to be undertaken.

**6. Conflicts of Interest.**

Contractor covenants that it presently has no interest, and will not acquire any interest, direct or indirect, financial or otherwise, which would conflict in any manner or degree with the performance of the services.

Contractor further covenants that, in the performance of this Agreement, it will not employ any contractor or person having such an interest.

**7. Indemnification/Insurance.**

Contractor's indemnification and insurance obligations with respect to this Agreement are set forth in Exhibit B, attached hereto and incorporated herein by this reference.

**8. Compliance with all Laws; Standard of Care.**

Contractor shall, during the term of this Agreement, comply with all applicable federal, state, and local rules, regulations, and laws. Contractor's services will be performed in accordance with generally accepted professional practices and principles and in a manner consistent with the level of care and skill ordinarily exercised by members of the profession currently practicing under similar conditions.

**9. Maintenance of Records.**

Contractor shall maintain books, documents, financial records, and other evidence pertaining to costs incurred and adequate to show that LAFCO funds paid under this Agreement were used for purposes consistent with the terms of this Agreement. These records shall be maintained and made available at all reasonable times during the term of this Agreement and for a period of three (3) years from expiration or termination of this Agreement or until all claims, if any, have been resolved, whichever period is longer, or longer if otherwise required under other provisions of this Agreement.

**10. Nondiscrimination.**

Contractor will comply with all applicable federal, state, and local laws and regulations including Santa Clara County's equal opportunity requirements. Such laws include but are not limited to the following: Title VII of the Civil Rights Act of 1964 as amended; Americans with Disabilities Act of 1990; The Rehabilitation Act of 1973 (Sections 503 and 504); California Fair Employment and Housing Act (Government Code sections 12900 et seq.); California Labor Code sections 1101 and 1102. Contractor will not discriminate against any subcontractor, employee, or applicant for employment because of

age, race, color, national origin, ancestry, religion, sex/gender, sexual orientation, mental disability, physical disability, medical condition, political beliefs, organizational affiliations, or marital status in the recruitment, selection for training including apprenticeship, hiring, employment, utilization, promotion, layoff, rates of pay or other forms of compensation. Nor will Contractor discriminate in providing services under this Agreement because of age, race, color, national origin, ancestry, religion, sex/gender, sexual orientation, mental disability, physical disability, medical condition, political beliefs, organizational affiliations, or marital status.

**11. Notices.**

All notices required by this Agreement shall be given in writing and delivered email, personally, or deposited in the United States mail, postage prepaid, return receipt requested, addressed to the other party at the address set forth below or at such other address as the party may designate in writing in accordance with this section and shall be effective upon receipt thereof.

To Contractor: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

To LAFCO: LAFCO Executive Officer  
777 North First Street, Suite 410  
San Jose, CA 95112

**12. Governing Law.**

This Agreement has been executed and delivered in, and will be construed and enforced in accordance with, the laws of the State of California. Venue shall be in Santa Clara County or the federal Northern District of California.

**13. Assignment.**

Contractor has been selected to perform services under this Agreement based upon the qualifications and experience of Contractor's personnel. Contractor may not assign, sublet, or transfer this Agreement or any rights or obligations hereunder without the specific written consent of LAFCO, which may be withheld for any reason. Any attempted assignment or subcontract without prior written consent will be null and void and will be cause, in LAFCO's sole and absolute discretion, for immediate termination of the Agreement. Subcontracts, if any, shall contain a provision making them subject to all provisions stipulated in this Agreement.

**14. Relationships of Parties; Independent Contractor.**

Contractor will perform all work and services described herein as an independent contractor and not as an officer, agent, servant or employee of LAFCO. None of the provisions of this Agreement is intended to create, nor shall be deemed or construed to create, any relationship between the parties other than that of independent parties contracting with each other for purpose of effecting the provisions of this Agreement. The

parties are not, and will not be construed to be in a relationship of joint venture, partnership or employer-employee. Neither party has the authority to make any statements, representations or commitments of any kind on behalf of the other party, or to use the name of the other party in any publications or advertisements, except with the written consent of the other party or as is explicitly provided herein. Contractor will be solely responsible for the acts and omissions of its officers, agents, employees, contractors, and subcontractors, if any. LAFCO reserves its right to employ other consultants, in connection with this project or other projects. Nothing in this Agreement shall be construed to give any rights or benefits to anyone other than LAFCO and the Contractor.

**15. Entire Agreement.**

This document represents the entire Agreement between the parties with respect to the subject matter hereof and supersedes and cancels any prior or contemporaneous oral or written understanding, promises or representations with respect to those matters covered hereunder. Each party acknowledges that no representations, inducements, promises or agreements have been made by any person which are not incorporated herein, and that any other agreements shall be void. This is an integrated Agreement.

**16. Amendments.**

This Agreement may be amended only by an instrument signed by the parties.

**17. Counterparts; Authority.**

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument. The persons executing this Agreement on behalf of the parties hereto warrant that they are duly authorized to execute this Agreement on behalf of said parties and that by doing so, the parties hereto are formally bound to the provisions of this Agreement.

**18. Severability.**

If any provision of this Agreement is found by a court of competent jurisdiction to be void, invalid or unenforceable, the same will either be reformed to comply with applicable law or stricken if not so conformable, so as not to affect the validity or enforceability of this Agreement, and the remaining provisions of this Agreement shall remain in full force and effect.

**19. Waiver.**

No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of that provision as to that or any other instance. Any waiver granted by a party must be in writing and shall apply to the specific instance expressly stated.

**20. Ownership of Materials and Confidentiality.**

A. Documents & Data; Licensing of Intellectual Property. This Agreement creates a non-exclusive and perpetual license for LAFCO to copy, use, modify, reuse, or sublicense any and all copyrights, designs, and other intellectual property embodied in plans, specifications, studies, drawings, estimates, and other documents or works of authorship fixed in any tangible medium of expression, including but not limited to, physical drawings or data magnetically or otherwise recorded on computer diskettes, which are

prepared or caused to be prepared by Contractor under this Agreement ("Documents & Data"). Contractor shall require all sub consultants to agree in writing that LAFCO is granted a non-exclusive and perpetual license for any Documents & Data the sub consultant prepares under this Agreement. Contractor represents and warrants that Contractor has the legal right to license any and all Documents & Data. Contractor makes no such representation and warranty in regard to Documents & Data which were prepared by design professionals other than Contractor or provided to Contractor by LAFCO. LAFCO shall not be limited in any way in its use of the Documents & Data at any time, provided that any such use not within the purposes intended by this Agreement shall be at LAFCO's sole risk.

B. Confidentiality. All ideas, memoranda, specifications, plans, procedures, drawings, descriptions, computer program data, input record data, written information, and other Documents & Data either created by or provided to Contractor in connection with the performance of this Agreement shall be held confidential by Contractor. Such materials shall not, without the prior written consent of Contractor, be used by Contractor for any purposes other than the performance of the Agreement. Nor shall such materials be disclosed to any person or entity not connected with the performance of the Agreement. Nothing furnished to Contractor which is otherwise known to Contractor or is generally known, or has become known, to the related industry shall be deemed confidential. Contractor shall not use LAFCO's name or insignia, photographs of the Services, or any publicity pertaining to the Services in any magazine, trade paper, newspaper, television or radio production or other similar medium without the prior written consent of LAFCO.

C. Confidential Information. LAFCO shall refrain from releasing Contractor's proprietary information ("Proprietary Information") unless LAFCO's legal counsel determines that the release of the Proprietary Information is required by the California Public Records Act or other applicable state or federal law, or order of a court of competent jurisdiction, in which case LAFCO shall notify Contractor of its intention to release Proprietary Information. Contractor shall have five (5) working days after receipt of the Release Notice to give LAFCO written notice of Contractor's objection to LAFCO's release of Proprietary Information. Contractor shall indemnify, defend and hold harmless LAFCO, and its officers, directors, employees, and agents from and against all liability, loss, cost or expense (including attorney's fees) arising out of a legal action brought to compel the release of Proprietary Information. LAFCO shall not release the Proprietary Information after receipt of the Objection Notice unless either: (1) Contractor fails to fully indemnify, defend (with LAFCO's choice of legal counsel), and hold LAFCO harmless from any legal action brought to compel such release; and/or (2) a final and non-appealable order by a court of competent jurisdiction requires that LAFCO release such information.

**SIGNATURE PAGE FOR SERVICES AGREEMENT BETWEEN THE LOCAL AGENCY  
FORMATION COMMISSION OF SANTA CLARA COUNTY AND \_\_\_\_\_ FOR  
COUNTYWIDE WATER AND WASTEWATER SERVICE REVIEW AND SPHERE OF  
INFLUENCE UPDATES**

**IN WITNESS WHEREOF**, LAFCO and Contractor have executed this Agreement as follows:

LAFCO

Contractor

\_\_\_\_\_, LAFCO Chair

Santa Clara LAFCO

Date: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
Date: \_\_\_\_\_

APPROVED AS TO FORM:

\_\_\_\_\_  
Malathy Subramanian, LAFCO Counsel

Exhibits to this Agreement: Exhibit A1 - Scope of Services  
Exhibit A2 - Project Timeline  
Exhibit A3 - Rate Schedule  
Exhibit B - Indemnification and Insurance



## **INSURANCE REQUIREMENTS FOR STANDARD SERVICE CONTRACTS ABOVE \$100,000**

### Indemnity

The Contractor shall indemnify, defend, and hold harmless the Local Agency Formation Commission of Santa Clara County (hereinafter "LAFCO"), its officers, agents and employees from any claim, liability, loss, injury or damage arising out of, or in connection with, performance of this Agreement by Contractor and/or its agents, employees or sub-contractors, excepting only loss, injury or damage caused by the sole negligence or willful misconduct of personnel employed by LAFCO. It is the intent of the parties to this Agreement to provide the broadest possible coverage for LAFCO. The Contractor shall reimburse LAFCO for all costs, attorneys' fees, expenses and liabilities incurred with respect to any litigation in which the Contractor contests its obligation to indemnify, defend and/or hold harmless the LAFCO under this Agreement and does not prevail in that contest.

### Insurance

Without limiting the Contractor's indemnification of LAFCO, the Contractor shall provide and maintain at its own expense, during the term of this Agreement, or as may be further required herein, the following insurance coverages and provisions:

#### A. Evidence of Coverage

Prior to commencement of this Agreement, the Contractor shall provide a Certificate of Insurance certifying that coverage as required herein has been obtained. Individual endorsements executed by the insurance carrier shall accompany the certificate. In addition, a copy of the policy or policies shall be provided by the Contractor upon request.

This verification of coverage shall be sent to the LAFCO Executive Officer, unless otherwise directed. The Contractor shall not receive a Notice to Proceed with the work under the Agreement until it has obtained all insurance required and such insurance has been approved by LAFCO Executive Officer. This approval of insurance shall neither relieve nor decrease the liability of the Contractor.

#### B. Qualifying Insurers

All coverages, except surety, shall be issued by companies which hold a current policyholder's alphabetic and financial size category rating of not less than A-V, according to the current Best's Key Rating Guide or a company of equal financial stability that is approved by the LAFCO Executive Officer.

#### C. Notice of Cancellation

All coverage as required herein shall not be canceled or changed so as to no longer meet the specified insurance requirements without 30 days' prior written notice of such cancellation or change being delivered to the LAFCO Executive Officer.

#### D. Insurance Required

##### 1. Commercial General Liability Insurance

Coverage at least as broad as Insurance Services Office ("ISO") Form CG 00 01 covering commercial general liability on an "occurrence" basis, including products and completed operations, property damage, bodily injury and personal and advertising injury with limits no less than \$2,000,000.00 per occurrence. If a

general aggregate limit applies, either the general aggregate limit shall apply separately to this project/location or the general aggregate limit shall be twice the required occurrence limit.

2. Automobile Liability Insurance

Coverage at least as broad as ISO Form Number CA 0001 covering, Code 1 (any auto), or if Contractor has no owned autos, Code 8 (hired) and 9 (non-owned), with limits no less than \$1,000,000.00 combined single limit for bodily injury and property damage.

3. Workers' Compensation and Employer's Liability Insurance

Workers' Compensation Insurance as required by the State of California, with statutory limits, and Employer's Liability Insurance with limit of no less than \$1,000,000.00 per accident for bodily injury or disease. *(Not required if Contractor provides written verification it has no employees)*

E. Special Provisions

The following provisions shall apply to this Agreement:

1. The foregoing requirements as to the types and limits of insurance coverage to be maintained by the Contractor and any approval of said insurance by the LAFCO Executive Officer or insurance consultant(s) are not intended to and shall not in any manner limit or qualify the liabilities and obligations otherwise assumed by the Contractor pursuant to this Agreement, including but not limited to the provisions concerning indemnification.
2. LAFCO acknowledges that some insurance requirements contained in this Agreement may be fulfilled by self-insurance on the part of the Contractor. However, this shall not in any way limit liabilities assumed by the Contractor under this Agreement. Any self-insurance shall be approved in writing by LAFCO upon satisfactory evidence of financial capacity. Contractor's obligation hereunder may be satisfied in whole or in part by adequately funded self-insurance programs or self-insurance retentions.
3. Contractor's general liability and automobile liability policies shall be endorsed to (1) be primary and shall not seek contribution from the LAFCO's coverage and (2) add LAFCO and its officers, officials, employees, and agents as additional insureds under such policies using Insurance Services Office form CG 20 10 and CG 20 37 (or equivalent) on the general liability policy.
4. Contractor hereby grants to LAFCO a waiver of any right to subrogation which any insurer of said Contractor may acquire against the LAFCO by virtue of the payment of any loss under such insurance. Contractor agrees to obtain any endorsement that may be necessary to affect this waiver of subrogation from its insurers, but this provision applies regardless of whether or not the LAFCO has received a waiver of subrogation endorsement from the insurer. The Workers' Compensation Policy shall be endorsed with a waiver of subrogation in favor of the LAFCO for all work performed by Contractor, its employees, agents and subcontractors.
5. Should any of the work under this Agreement be sublet, the Contractor shall require each of its subcontractors of any tier to carry the aforementioned coverages, or Contractor may insure subcontractors under its own policies.

6. LAFCO reserves the right to withhold payments to or terminate the contract with the Contractor in the event of material noncompliance with the insurance requirements outlined above.

F. Fidelity Bonds (Required only if contractor will be receiving advanced funds or payments)

Before receiving compensation under this Agreement, Contractor will furnish LAFCO with evidence that all officials, employees, and agents handling or having access to funds received or disbursed under this Agreement, or authorized to sign or countersign checks, are covered by a BLANKET FIDELITY BOND in an amount of AT LEAST fifteen percent (15%) of the maximum financial obligation of the LAFCO cited herein. If such bond is canceled or reduced, Contractor will notify LAFCO immediately, and LAFCO may withhold further payment to Contractor until proper coverage has been obtained. Failure to give such notice may be cause for termination of this Agreement, at the option of LAFCO.





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

**Commissioners**  
Sylvia Arenas  
Jim Beall  
Rosemary Kamei  
Yoriko Kishimoto  
Otto Lee  
Terry Trumbull  
Mark Turner

**Alternate Commissioners**  
Pamela Campos  
Helen Chapman  
Betty Duong  
Zach Hilton  
Teresa O'Neill  
**Executive Officer**  
Neelima Palacherla

**LAFCO MEETING: December 3, 2025**

**TO: LAFCO**

**FROM: Neelima Palacherla, Executive Officer  
Dunia Noel, Assistant Executive Officer  
Emmanuel Abello, Analyst**

**SUBJECT: ANNUAL FINANCIAL AUDIT REPORT – JUNE 30, 2025**

**STAFF RECOMMENDATION**

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1. Receive a presentation from Chavan & Associates, LLP on LAFCO’s Annual Financial Audit Report for FY ending June 30, 2025.
2. Receive and file the Annual Financial Audit Report (June 30, 2025) prepared for Santa Clara LAFCO by Chavan & Associates, LLP.

**BACKGROUND**

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The independent auditing firm of Chavan & Associates, LLP has prepared the LAFCO financial audit for Fiscal Year 2025, ending on June 30, 2025 (**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, 2025.

Key financial highlights from the audit for the Fiscal Year ending June 30, 2025 were as follows:

- Total assets decreased by \$180,623, a 26% decrease from the prior year.
- The net OPEB liability increased by \$57,069, a 21% 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 \$9,841, a 1% increase from the prior year. This increase was mostly due to changes in LAFCO’s proportionate share of the plan.
- Current liabilities decreased by \$65,649, a 40% decrease from the prior year. This decrease was mostly due to the decrease in unearned revenue.

- Noncurrent liabilities increased by \$27,033, a 2% increase from the prior year. This increase was mostly due to the increase in net other postemployment liability.

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 September 22, 2025 (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. In December 2021, LAFCO extended the agreement to January 1, 2024, to include audit of financial statements for Fiscal Years ending 2022 and 2023, and added \$25,500 in the contract, for a total contract amount not to exceed \$65,500. At its February 2024 meeting, LAFCO authorized the Executive Officer to amend the services agreement with Chavan & Associates, LLP, to (a) extend the agreement term to January 1, 2027, (b) include an additional \$38,250 in the contract, for a total contract amount not to exceed \$103,750, and (c) designate Paul Pham as the Contractor's Project Manager, pursuant to Government Code §12410.6[b].

## **ATTACHMENTS**

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Attachment A:	Annual Financial Audit Report (June 30, 2025)
Attachment B:	Management Letter dated September 22, 2025
Attachment C:	Letter to the Commission dated September 22, 2025

**ITEM # 7**  
**Attachment A**

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

Annual Financial Audit Report

June 30, 2025



**Chavan & Associates, LLP**

Certified Public Accountants  
16450 Monterey Road, Suite #5  
Morgan Hill, CA 95037

# Local Agency Formation Commission of Santa Clara County

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**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, 2025, 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, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinions

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

#### Emphasis of a Matter

##### *Deficit Net Position*

As of June 30, 2025, the District's net position in its Government-wide financial statements was at a deficit mostly because of the long-term pension and OPEB plan and deferrals as reported in Note 5 and Note 6. Our opinion is not modified with respect to this matter.

#### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LAFCO's ability to continue as a



going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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

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

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

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

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, Schedule of Contributions for Pension Plan, Schedule of Changes in Net Pension Liability, Schedule of Contributions for OPEB Plans, 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 is the responsibility of management and, 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 September 22, 2025 on our consideration of LAFCO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAFCO's internal control over financial reporting and compliance.

C & A LLP

September 22, 2025  
Morgan Hill, California

*Management's Discussion and Analysis*

# Local Agency Formation Commission of Santa Clara County

Management’s Discussion and Analysis  
For the Fiscal Year Ended June 30, 2025

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## INTRODUCTION

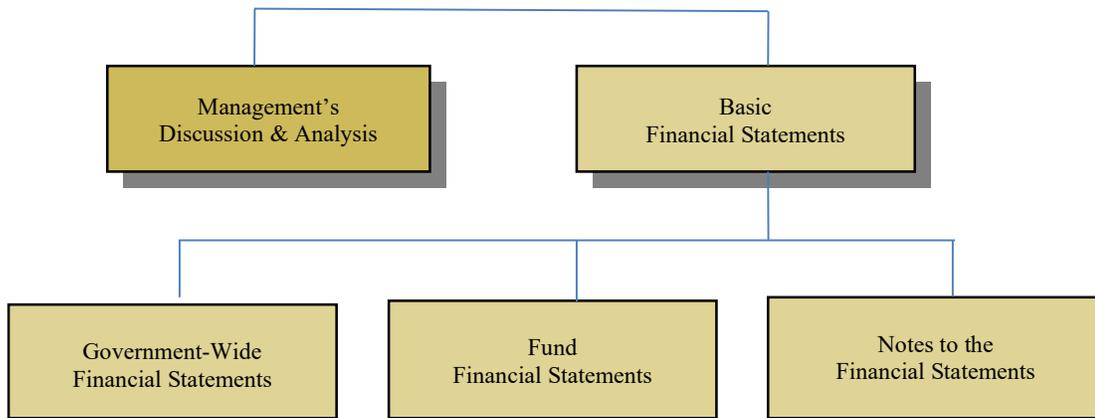
The Management’s Discussion and Analysis (MD&A) is a required section of LAFCO’s annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of LAFCO’s financial performance during the fiscal year that ended on June 30, 2025. This report will (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 2024 - 2025?” The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

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

## Local Agency Formation Commission of Santa Clara County

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2025

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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, 2025 were as follows:

- Total assets decreased by \$180,623, a 26% decrease from the prior year.
- The net OPEB liability increased by \$57,069, a 21% 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 \$9,841, a 1% increase from the prior year. This increase was mostly due to changes in LAFCO's proportionate share of the plan.
- Current liabilities decreased by \$65,649, a 40% decrease from the prior year. This decrease was mostly due to the decrease in unearned revenue.
- Noncurrent liabilities increased by \$27,033, a 2% increase from the prior year. This increase was mostly due to the increase in net other postemployment liability.

### REPORTING LAFCO'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

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

#### Governmental Funds

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

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

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2025

**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, 2025 as compared to June 30, 2024:

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

Description	2025	2024	Change	Percentage Change
<b>Assets</b>				
Current Assets	\$ 420,597	\$ 549,241	\$ (128,644)	-23.42%
Right of Use Assets - Net	95,297	147,276	(51,979)	-35.29%
<b>Total Assets</b>	<b>\$ 515,894</b>	<b>\$ 696,517</b>	<b>\$ (180,623)</b>	<b>-25.93%</b>
<b>Deferred Outflows</b>				
	\$ 412,402	\$ 359,918	\$ 52,484	14.58%
<b>Liabilities</b>				
Current Liabilities	\$ 97,894	\$ 163,543	\$ (65,649)	-40.14%
Noncurrent Liabilities	1,579,548	1,552,515	27,033	1.74%
<b>Total Liabilities</b>	<b>\$ 1,677,442</b>	<b>\$ 1,716,058</b>	<b>\$ (38,616)</b>	<b>-2.25%</b>
<b>Deferred Inflows</b>				
	\$ 25,713	\$ 49,225	\$ (23,512)	-47.76%
<b>Unrestricted Net Position</b>				
	\$ (774,859)	\$ (708,848)	\$ (66,011)	-8.52%

The decrease in current assets was mainly due to a decrease in cash, which was mostly due to an increase in program expenses for the year. Current liabilities decreased by \$65,649 mostly because of the decrease in unearned revenue of \$74,674. Noncurrent liabilities reflect a net increase of \$27,033 mostly due to changes in LAFCO's proportionate share of the pension plan and net OPEB liabilities. 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.

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

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2025

Table 2 shows the changes in net position for fiscal year 2025 as compared to 2024.

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

Description	2025	2024	Change	Percentage Change
<b>Revenues</b>				
Program revenues:				
Operating grants and contributions	\$ 1,077,611	\$ 893,042	\$ 184,569	20.67%
Charges for services	21,074	27,764	(6,690)	-24.10%
General revenues:				
Investment income	33,334	32,353	981	3.03%
<b>Total Revenues</b>	<b>1,132,019</b>	<b>953,159</b>	<b>178,860</b>	<b>18.76%</b>
<b>Program Expenses</b>				
General government	1,194,183	960,536	233,647	24.32%
Interest expense	3,847	5,388	(1,541)	-28.60%
<b>Total Expenses</b>	<b>1,198,030</b>	<b>965,924</b>	<b>232,106</b>	<b>24.03%</b>
<b>Change in Net Position</b>	<b>(66,011)</b>	<b>(12,765)</b>	<b>(53,246)</b>	<b>-80.66%</b>
<b>Beginning Net Position</b>	<b>(708,848)</b>	<b>(696,083)</b>	<b>(12,765)</b>	<b>-1.80%</b>
<b>Ending Net Position</b>	<b>\$ (774,859)</b>	<b>\$ (708,848)</b>	<b>\$ (66,011)</b>	<b>-8.52%</b>

Program revenues increased due to an increase in share of operating costs charged back to member agencies during the year. Program expenses decreased mainly due to GASB 68 adjustments for LAFCO's pension plan. See Note 5 and Note 6 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	2025	2024	Change	Percentage Change
General Fund	\$ 376,483	\$ 437,891	\$ (61,408)	-14.02%

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

Management’s Discussion and Analysis  
For the Fiscal Year Ended June 30, 2025

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**LAFCO’S NONCURRENT LIABILITIES**

Table 4 summarizes LAFCO’s noncurrent liabilities as of June 30, 2025 as compared to the prior fiscal year.

**Table 4 - Summary of Noncurrent Liabilities**

Description	2025	2024	Change	Percentage Change
Net OPEB Liability	\$ 324,566	\$ 267,497	\$ 57,069	21.33%
Net Pension Liability	990,676	980,835	9,841	1.00%
Office Lease	99,844	152,037	(52,193)	-34.33%
Compensated Absences	218,242	204,339	13,903	6.80%
Total Noncurrent Liabilities	<u>\$ 1,633,328</u>	<u>\$ 1,604,708</u>	<u>\$ 28,620</u>	<u>1.78%</u>

**GENERAL FUND BUDGETING HIGHLIGHTS**

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

Changes from LAFCO's General Fund 2024/2025 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 \$1,108,611. The original and final budgeted expenditures and other uses of funds were \$1,309,228 and \$1,276,605, respectively.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET**

The Commission adopted its FY 2026 Budget at the June 4, 2025 LAFCO meeting. The budget includes appropriations totaling \$1,464,666 which is approximately 14.4% higher than that of FY 2025. The budget assumes a roll-over of \$63,997 in fund balance from the previous fiscal year and anticipates no change in application fees but an increase in interest from deposits and investments 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, 2025

	Governmental Activities
<b>Assets</b>	
Current assets:	
Cash and investments	\$ 415,449
Interest receivable	5,148
Total current assets	<u>420,597</u>
Noncurrent assets:	
Right of use assets:	
Office space lease	259,896
Accumulated amortization	(164,600)
Total right of use assets, net	<u>95,296</u>
Total Assets	<u><u>\$ 515,893</u></u>
 <b>Deferred Outflows of Resources</b>	
OPEB adjustments	\$ 122,693
Pension adjustments	289,709
Total Deferred Outflows of Resources	<u><u>\$ 412,402</u></u>
 <b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 24,535
Accrued liabilities	19,579
Current portion of lease payable, office space	53,780
Total current liabilities	<u>97,894</u>
Noncurrent liabilities:	
Net OPEB liability	324,566
Net pension liability	990,676
Lease payable, office space	46,064
Compensated absences	218,242
Total noncurrent liabilities	<u>1,579,548</u>
Total Liabilities	<u><u>\$ 1,677,442</u></u>
 <b>Deferred Inflows of Resources</b>	
OPEB adjustments	\$ 25,478
Pension adjustments	235
Total Deferred Inflows of Resources	<u><u>\$ 25,713</u></u>
 <b>Net Position</b>	
Unrestricted	\$ (774,860)
Total Net Position	<u><u>\$ (774,860)</u></u>

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

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

Statement of Activities

For the Fiscal Year Ended June 30, 2025

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental activities:				
General government	\$ 1,194,184	\$ 21,074	\$ 1,077,611	\$ (95,499)
Interest expense	3,847	-	-	(3,847)
Total governmental activities	<u>\$ 1,198,031</u>	<u>\$ 21,074</u>	<u>\$ 1,077,611</u>	<u>(99,346)</u>
General revenues:				
Investment income				<u>33,334</u>
Change in net position				(66,012)
Net position July 1, 2024				<u>(708,848)</u>
Net position ending June 30, 2025				<u>\$ (774,860)</u>

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

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

Balance Sheet  
Governmental Funds  
June 30, 2025

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	<u>General Fund</u>
<b>ASSETS</b>	
Cash and investments	\$ 415,449
Interest receivable	<u>5,148</u>
Total Assets	<u>\$ 420,597</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 24,535
Accrued liabilities	<u>19,579</u>
Total Liabilities	<u>44,114</u>
<b>FUND BALANCE</b>	
Unassigned	<u>376,483</u>
Total Fund Balance	<u>376,483</u>
Total Liabilities and Fund Balance	<u>\$ 420,597</u>

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

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

Reconciliation of the Governmental Funds  
Balance Sheet to the Statement of Net Position  
June 30, 2025

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Total fund balance - governmental funds \$ 376,483

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	\$ 259,896	
Accumulated amortization	<u>(164,600)</u>	95,296

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		(4,138)
Difference between actual and expected earnings		5,035
Change in assumptions		65,932
Contribution subsequent to measurement date		30,386
Pension adjustments:		
Difference between actual and expected experience		72,538
Difference between actual and expected earnings		39,500
Change in assumptions		32,978
Contribution subsequent to measurement date		144,458

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	\$ 324,566	
Net pension liability	990,676	
Leases payable	99,844	
Compensated absences	<u>218,242</u>	<u>(1,633,328)</u>

Total net position - governmental activities \$ (774,860)

*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, 2025**

	General Fund
Revenues:	
Intergovernmental	\$ 1,077,611
Charges for services	21,074
Investment income	33,334
Total revenues	1,132,019
Expenditures:	
Current:	
Employee services	921,560
Professional services	157,507
Commission fees	6,000
Facilities	56,416
Insurance	8,665
Supplies	3,354
Memberships	14,318
Travel	11,937
Miscellaneous	13,670
Total expenditures	1,193,427
Net change in fund balance	(61,408)
Fund balance - July 1, 2024	437,891
Fund balance - June 30, 2025	\$ 376,483

*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, 2025

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Total net change in fund balance - governmental funds \$ (61,408)

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. 9,086

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 52,192

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. (13,903)

Change in net position of governmental activities \$ (66,012)

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

# Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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## 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, 2025, LAFCO does not have any component units but is a blended component unit of the County of Santa Clara.

### C. Accounting Principles

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

### D. Basis of Presentation

#### **Government-wide Financial Statements:**

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

# Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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

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

## **Fund Financial Statements:**

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

## E. Basis of Accounting

### **Government-Wide Financial Statements:**

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

### **Governmental Fund Financial Statement:**

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

## Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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

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

### Deferred Outflows/Deferred Inflows of Resources:

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

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

### Unearned Revenue:

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

### Expenses/Expenditures:

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

## F. Fund Accounting

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

# Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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## 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.

## Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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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

LAFCO recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered for employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment. Based on the criteria listed, two types of leave qualify for liability recognition for compensated absences – vacation and sick leave. The liability for compensated absences is incurred 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. However, 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.

## Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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### Vacation

LAFCO's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment at the employee's current pay rate upon separation from employment.

### Sick Leave

LAFCO's policy permits employees to accumulate earned but unused sick leave benefits. Generally, employees must complete ten years of service with the County to be eligible to receive pay for accrued sick leave, with the eligible payout determined by the terms outlined in the Memorandum of Understanding between the employees' bargaining units and LAFCO.

### 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 \$99,844. 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.

## Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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### 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.

# Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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Unrestricted net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

## 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, 2023. For this report, the following timeframes are used for LAFCO's pension plans:

Valuation Date (VD).....	June 30, 2023
Measurement Date (MD).....	June 30, 2024
Measurement Period (MP).....	June 30, 2023 to June 30, 2024

## S. Other Postemployment Benefits Other Than Pensions (OPEB)

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

## T. Implemented Accounting Pronouncements

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

During the fiscal year, LAFCO implemented GASB Statement No. 101 *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical

## Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that liability for specific types of compensated absences not be recognized until the leave is used. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

*GASB Statement No. 102, Certain Risk Disclosures, effective fiscal 2025.*

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions for (1) the concentration or constraint (2) each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements (3) actions taken by the government prior to the issuance of the financial statements to mitigate the risk. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.

### U. Upcoming Accounting and Reporting Changes

LAFCO is currently analyzing its accounting practices to determine the potential impact on the financial statements of the following GASB Statement:

*GASB Statement No. 103, Financial Reporting Model Improvements, effective fiscal 2026.*

This Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability.

This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to (a) Management's discussion and analysis (MD&A) (b) Unusual or infrequent items (c) Presentation of the proprietary fund statement of revenues, expenses, and changes in fund

# Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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net position (d) Information about major component units in basic financial statements (5) Budgetary comparison information (6) Financial trend information in the statistical section

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

## NOTE 2 - CASH AND INVESTMENTS

### Summary of Cash and Investments

LAFCO maintained cash with the Santa Clara County Treasurer's commingled pool totaling \$415,449 as of June 30, 2025.

### 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 415 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 \$6.8 billion as of June 30, 2025.

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

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**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 summarizes LAFCO’s noncurrent liabilities as of June 30, 2025:

Description	Balance July 01, 2024	Additions	Adjustments & Deletions	Balance June 30, 2025	Due Within One Year
Net Pension Liability	\$ 980,835	\$ 405,759	\$ 395,918	\$ 990,676	\$ -
Net OPEB Liability	267,497	218,178	161,109	324,566	-
Office Lease	152,037	-	52,193	99,844	53,780
Compensated Absences	204,339	13,903	-	218,242	-
<b>Total Noncurrent Liabilities</b>	<b>\$ 1,604,708</b>	<b>\$ 637,840</b>	<b>\$ 609,220</b>	<b>\$ 1,633,328</b>	<b>\$ 53,780</b>

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

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**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 initial present value of the lease liability, at a rate of 3% over the five years, was \$259,897. The calculated annual principal and interest payments totaled \$56,040. The calculated principal and interest for the fiscal year was \$52,193 and \$3,847, respectively. The District recorded an associated right of use asset of \$259,897. After netting the accumulated amortization of \$164,600, the net book value of the office space lease right of use asset was \$95,297. The following summarizes the principal and interest requirements to maturity:

Year Ending June 30	Principal Payments	Interest Payments	Total
2026	\$ 53,780	\$ 2,260	\$ 56,040
2027	46,064	636	46,700
	<u>\$ 99,844</u>	<u>\$ 2,896</u>	<u>\$ 102,740</u>

**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](http://www.calpers.ca.gov).

**Benefits Provided**

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

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

Notes to the Basic Financial Statements  
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The Plans' provisions and benefits in effect at June 30, 2025, are summarized as follows:

	<b>Miscellaneous</b>	
	<u>Classic</u>	<u>PEPRA</u>
Benefit formula	2% @ 55 2.5% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.7%	2%
Required employee contribution rates	8.00%	6.75%
Required employer contribution rates	16.0%	7.87%

**Employees Covered**

As of June 30, 2025, 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, 2025, the contributions were as follows:

Contributions - employer	\$ 130,332
Contributions - employee	14,126
Total	<u>\$ 144,458</u>

**Pension Liabilities**

As of June 30, 2025, LAFCO reported a net pension liability of \$990,676. LAFCO's net pension liability for the Plan is measured at a .023% 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, 2024, 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, 2023 rolled forward to June 30, 2024 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.

## Local Agency Formation Commission of Santa Clara County

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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:

	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net pension liability</b>
Balance at June 30, 2024	\$ 3,259,139	\$ 2,278,304	\$ 980,835
Service cost	86,193	-	86,193
Interest	234,028	-	234,028
Differences between expected and actual experience	46,472	-	46,472
Benefit payments	(160,797)	(160,797)	-
Change in proportionate share	123,402	86,260	37,142
Employer contributions	-	129,459	(129,459)
Employee contributions	-	40,765	(40,765)
Net investment income	-	225,694	(225,694)
Administrative expense	-	(1,924)	1,924
Net change	329,298	319,457	9,841
Balance at June 30, 2025	<u>\$ 3,588,437</u>	<u>\$ 2,597,761</u>	<u>\$ 990,676</u>

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

For the year ended June 30, 2025, LAFCO recognized pension expense of \$179,892. As of June 30, 2025, LAFCO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes of Assumptions	\$ 32,978	\$ -
Differences between Expected and Actual Experience	72,773	235
Differences between Projected and Actual Investment Earnings	39,500	-
Pension Contributions Made Subsequent to Measurement Date	144,458	-
	<u>\$ 289,709</u>	<u>\$ 235</u>

LAFCO reported \$144,458 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, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Fiscal Year Ending June 30</b>	<b>Miscellaneous</b>
2025	\$ 48,406
2026	97,112
2027	5,910
2028	(6,412)
	<u>\$ 145,016</u>

# Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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## Actuarial Assumptions

The total pension liabilities in the June 30, 2023 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Payroll Growth	2.80%
Projected Salary Increase	(1)
Investment Rate of Return	6.80% (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.

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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 (a)	Assumed Asset Allocation	Long-Term Expected Real Return (1)(2)
Global Equity Cap Weighted	30.00%	4.54%
Global Equity NonCap Weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	100.00%	

(1) An expected inflation of 2.3% used for this period.

(2) Figures are based on the 2021-22 Asset Liability Study.

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

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

	<u>Miscellaneous</u>
1% Decrease	5.90%
Net Pension Liability	\$ 1,478,232
1% Decrease	6.90%
Net Pension Liability	\$ 990,676
1% Increase	7.90%
Net Pension Liability	\$ 588,533

**Pension Plan Fiduciary Net Position**

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

## Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
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### 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-2024.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, 2025, 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 \$30,386. Total contributions included in the measurement period were \$28,717. The actuarially determined contribution was \$25,609. LAFCO's contributions were 5.73% of covered employee payroll during the year.

# Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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## Actuarial Assumptions

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

<b>Valuation Date:</b>	June 30, 2022
<b>Measurement Date:</b>	June 30, 2024
<b>Actuarial Cost Method:</b>	Entry-Age Actuarial Cost Method
<b>Amortization Method:</b>	26-Year Closed Amortization, Level Percent of Payroll
<b>Amortization Period:</b>	26 years
<b>Asset Valuation Method:</b>	Market Value
<b>Actuarial Assumptions:</b>	
Discount Rate	6.25%
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	6.25%, Net of investment expenses
<b>Medical Cost Trend Rates:</b>	
Non-Medicare medical plan	7.00% graded down to an ultimate rate of 4.50% over 11 years
Medicare medical plan	6.25% graded down to an ultimate rate 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, 2024, the measurement date, for the fiscal year ended June 30, 2025.

## 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.

## Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
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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	49.00%	6.590%
Fixed Income	23.00%	1.690%
Real Estate	20.00%	3.290%
Treasury Inflation Protected Securities (TIPS)	5.00%	1.690%
All Commodities	3.00%	3.790%
<b>Total</b>	<b>100.00%</b>	

### Net OPEB Liability

LAFCO's net OPEB liability was measured as of June 30, 2024 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022 (valuation date) for the fiscal year ended June 30, 2025. The following summarizes the changes in the net OPEB liability during the year ended June 30, 2025, for the measurement date of June 30, 2024:

Fiscal Year Ended June 30, 2025 (Measurement Date June 30, 2024)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
<b>Balance at June 30, 2024</b>	\$ 570,609	\$ 303,112	\$ 267,497
Service cost	18,647	-	18,647
Interest in Total OPEB Liability	37,880	-	37,880
Employer contributions	-	28,956	(28,956)
Employee contributions	-	1,782	(1,782)
Difference between actual and exp experience	3,351	-	3,351
Proportionate share changes	4,760	2,528	2,232
Changes in assumptions	64,149	-	64,149
Difference between actual and exp earnings	-	34,389	(34,389)
Administrative expenses	-	(117)	117
Benefit payments	(22,838)	(22,838)	-
Implicit subsidy fulfilled	-	4,180	(4,180)
<b>Net changes</b>	<b>105,949</b>	<b>48,880</b>	<b>57,069</b>
<b>Balance at June 30, 2025</b>	<b>\$ 676,558</b>	<b>\$ 351,992</b>	<b>\$ 324,566</b>
Covered Employee Payroll	\$ 505,266		
Total OPEB Liability as a % of Covered Employee Payroll	133.90%		
Plan Fid. Net Position as a % of Total OPEB Liability	52.03%		
Service Cost as a % of Covered Employee Payroll	3.69%		
Net OPEB Liability as a % of Covered Employee Payroll	64.24%		

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

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**Deferred Inflows and Outflows of Resources**

At June 30, 2025, LAFCO reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between actual and expected experience	\$ 6,536	\$ 10,674
Difference between actual and expected earnings	5,035	-
Change in assumptions	80,736	14,804
OPEB contribution subsequent to measurement date	30,386	-
<b>Totals</b>	<b>\$ 122,692</b>	<b>\$ 25,478</b>

Of the total amount reported as deferred outflows of resources related to OPEB, \$30,386 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, 2026. 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,	
2026	\$ 6,269
2027	18,731
2028	9,101
2029	9,947
2030	9,144
Thereafter	13,637
<b>Total</b>	<b>\$ 66,829</b>

**OPEB Expense**

The following summarizes the OPEB expense by source during the year ended June 30, 2025:

Service cost	\$ 18,647
Interest in TOL	37,880
Expected investment income	(20,255)
Other	(4,180)
Change in proportionate shares	(68,489)
Employee contributions	(1,782)
Difference between actual and expected experience	3,351
Difference between actual and expected earnings	(2,827)
Change in assumptions	64,149
Administrative expenses	117
<b>OPEB Expense</b>	<b>\$ 26,611</b>

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The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2025:

Net OPEB liability ending	\$ 324,566
Net OPEB liability beginning	<u>(267,497)</u>
Change in net OPEB liability	57,069
Changes in deferred outflows	(86,737)
Changes in deferred inflows	23,143
Employer contributions and implicit subsidy	<u>33,136</u>
<b>OPEB Expense</b>	<b><u>\$ 26,611</u></b>

**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:

	<u>Discount Rate</u>		
	<u>(1% Decrease )</u>	<u>6.25%</u>	<u>(1% Increase )</u>
Net OPEB Liability (Asset)	\$ 388,724	\$ 324,566	\$ 218,424

**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:

	<u>Trend Rate</u>		
	<u>(1% Decrease )</u>	<u>(Current Rate)</u>	<u>(1% Increase )</u>
Net OPEB Liability (Asset)	\$ 210,263	\$ 324,566	\$ 401,449

**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, 2025.

# Local Agency Formation Commission of Santa Clara County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2025

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## 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, 2025, LAFCO had the following coverages subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage from SDRMA:

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

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

## NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated all subsequent events from the statement of financial position date of June 30, 2025, through the date the financial statements were available to be issued, September 22, 2025.

**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, 2025

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental	\$ 1,077,611	\$ 1,077,611	\$ 1,077,611	\$ -
Charges for services	25,000	25,000	21,074	(3,926)
Investment income	6,000	6,000	33,334	27,334
<b>Total revenues</b>	<b>1,108,611</b>	<b>1,108,611</b>	<b>1,132,019</b>	<b>23,408</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Employee services	896,817	922,484	921,560	924
Professional services	284,196	222,889	157,507	65,382
Commission fees	10,000	10,000	6,000	4,000
Facilities	54,766	56,416	56,416	-
Insurance	8,335	6,737	8,665	(1,928)
Supplies	12,100	12,100	3,354	8,746
Memberships	13,870	14,509	14,318	191
Travel	17,650	22,750	11,937	10,813
Miscellaneous	11,494	8,720	13,670	(4,950)
<b>Total expenditures</b>	<b>1,309,228</b>	<b>1,276,605</b>	<b>1,193,427</b>	<b>83,178</b>
Net change in fund balance	(200,617)	(167,994)	(61,408)	106,586
Fund balance beginning	437,891	437,891	437,891	-
Fund balance ending	<u>\$ 237,274</u>	<u>\$ 269,897</u>	<u>\$ 376,483</u>	<u>\$ 106,586</u>

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, 2025

Fiscal Year Ended	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actuarially Determined Cont. (ADC)	\$ 56,192	\$ 64,817	\$ 72,514	\$ 77,923	\$ 84,621
Contributions in Relation to ADC	56,192	64,817	72,514	77,923	84,621
<b>Contribution Deficiency (Excess)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Covered Payroll</b>	<b>\$ 335,288</b>	<b>\$ 356,470</b>	<b>\$ 381,587</b>	<b>\$ 421,278</b>	<b>\$ 390,298</b>
<b>Cont. as % of Covered Payroll</b>	<b>16.76%</b>	<b>18.18%</b>	<b>19.00%</b>	<b>18.50%</b>	<b>21.68%</b>
Fiscal Year Ended	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Actuarially Determined Cont. (ADC)	\$ 90,788	\$ 81,926	\$ 96,874	\$ 115,422	\$ 144,458
Contributions in Relation to ADC	90,788	81,926	96,874	115,422	144,458
<b>Contribution Deficiency (Excess)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Covered Payroll</b>	<b>\$ 414,272</b>	<b>\$ 364,104</b>	<b>\$ 382,484</b>	<b>\$ 447,897</b>	<b>\$ 464,856</b>
<b>Cont. as % of Covered Payroll</b>	<b>21.92%</b>	<b>22.50%</b>	<b>25.33%</b>	<b>25.77%</b>	<b>31.08%</b>

**Notes to Schedule:**

Valuation Date: June 30, 2023

Assumptions Used: Entry Age Method used for Actuarial Cost Method  
 Level Percentage of Payroll and Direct Rate Smoothing  
 Remaining Amortization Period no more than 26 years  
 Inflation Assumed at 2.3%.

Investment Rate of Returns set at 6.8%.

The mortality table was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP 2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study report that can be found on the CalPERS website.

Asset valuation method is Fair Value of Assets.

Payroll growth 2.8%.

The probabilities of Retirement are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

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, 2025**

Fiscal Year	2016	2017	2018	2019	2020
<b>Total pension liability</b>					
Service cost	\$ 54,109	\$ 56,283	\$ 66,427	\$ 72,114	\$ 66,827
Interest	171,403	180,987	189,609	206,148	198,109
Changes of assumptions	(42,028)	-	158,690	(28,601)	-
Diff. expected and actual experience	(3,558)	3,559	(2,638)	19,945	39,404
Benefit payments	(101,138)	(108,619)	(116,090)	(130,376)	(126,340)
Change in proportionate share	-	-	-	104,305	(299,075)
Net change in Total Pension Liability	78,787	132,210	295,998	243,535	(121,075)
Total pension liability - beginning	2,309,660	2,388,448	2,520,658	2,816,656	3,060,191
Total pension liability - ending	\$ 2,388,448	\$ 2,520,658	\$ 2,816,656	\$ 3,060,191	\$ 2,939,116
<b>Plan fiduciary net position</b>					
Employer contributions	\$ 56,192	\$ 64,817	\$ 72,514	\$ 77,923	\$ 84,621
Employee contributions	26,336	28,002	29,734	31,795	31,754
Net investment income	39,872	9,509	199,967	174,067	130,885
Benefit payments	(101,138)	(108,619)	(116,090)	(130,376)	(126,340)
Net plan to resource movement	(156)	47	(28)	3	(8)
Administrative expense	(2,032)	(1,099)	(2,651)	(3,199)	(1,414)
Change in proportionate share	-	-	-	73,296	(214,687)
Other	-	-	-	(6,074)	5
Net change in plan fiduciary net position	19,074	(7,342)	183,446	217,435	(95,184)
Plan fiduciary net position - beginning	1,784,106	1,803,180	1,795,838	1,979,284	2,196,719
Plan fiduciary net position - ending	\$ 1,803,180	\$ 1,795,838	\$ 1,979,284	\$ 2,196,719	\$ 2,101,535
Net pension liability	\$ 585,268	\$ 724,820	\$ 837,372	\$ 863,472	\$ 837,581
Plan fiduciary net position as % of the total pension liability	75.50%	71.24%	70.27%	71.78%	71.50%
Covered payroll	335,288	356,470	381,587	421,278	421,278
NPL as a % of covered payroll	174.56%	203.33%	219.44%	204.96%	198.82%
TPL as a % of covered payroll	712.36%	707.12%	738.14%	726.41%	697.67%
<b>Fiscal Year</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>Total pension liability</b>					
Service cost	\$ 68,852	\$ 70,813	\$ 79,022	\$ 77,038	\$ 86,193
Interest	194,627	204,051	216,292	212,601	234,028
Changes of assumptions	-	-	98,409	-	-
Diff. expected and actual experience	22,186	(1,869)	44,632	36,560	46,472
Benefit payments	(125,902)	(135,654)	(146,756)	(146,308)	(160,797)
Change in proportionate share	(210,721)	19	(525,070)	287,201	123,402
Net change in Total Pension Liability	(50,958)	137,360	(233,471)	467,092	329,298
Total pension liability - beginning	2,939,116	2,888,158	3,025,518	2,792,047	3,259,139
Total pension liability - ending	\$ 2,888,158	\$ 3,025,518	\$ 2,792,047	\$ 3,259,139	\$ 3,588,437
<b>Plan fiduciary net position</b>					
Employer contributions	\$ 90,788	\$ 104,817	\$ 111,272	\$ 115,422	\$ 129,459
Employee contributions	32,010	33,537	34,436	34,459	40,765
Net investment income	97,705	459,658	(190,408)	131,883	225,694
Benefit payments	(125,902)	(135,654)	(146,756)	(146,308)	(160,797)
Net plan to resource movement	33	-	-	-	-
Administrative expense	(2,750)	(2,041)	(1,559)	(1,577)	(1,924)
Change in proportionate share	(150,670)	16	(365,668)	200,010	86,260
Other	-	-	16	-	-
Net change in plan fiduciary net position	(58,786)	460,333	(558,667)	333,889	319,457
Plan fiduciary net position - beginning	2,101,535	2,042,749	2,503,082	1,944,415	2,278,304
Plan fiduciary net position - ending	\$ 2,042,749	\$ 2,503,082	\$ 1,944,415	\$ 2,278,304	\$ 2,597,761
Net pension liability	\$ 845,409	\$ 522,436	\$ 847,632	\$ 980,835	\$ 990,676
Plan fiduciary net position as % of the total pension liability	70.89%	81.47%	69.64%	69.91%	72.39%
Covered payroll	390,298	414,272	364,104	447,897	464,856
NPL as a % of covered payroll	245.67%	153.49%	232.80%	218.99%	213.11%
TPL as a % of covered payroll	843.88%	828.20%	766.83%	727.65%	771.95%

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 Contributions for OPEB Plans

For the Fiscal Year Ended June 30, 2025

Fiscal Year Ended	2018	2019	2020	2021
Actuarially determined contribution (ADC)	\$ 29,697	\$ 29,697	\$ 30,704	\$ 27,601
Less: actual contribution in relation to ADC	(34,427)	(24,639)	(25,852)	(22,766)
Contribution deficiency (excess)	\$ (4,730)	\$ 5,058	\$ 4,852	\$ 4,835

Covered employee payroll	\$ 349,612	\$ 397,559	\$ 402,829	\$ 399,011
Contrib. as a % of covered employee payroll	9.85%	6.20%	6.42%	5.71%

Fiscal Year Ended	2022	2023	2024	2025
Actuarially determined contribution (ADC)	\$ 23,723	\$ 22,362	\$ 27,734	\$ 25,609
Less: actual contribution in relation to ADC	(19,206)	(18,293)	(23,665)	(28,956)
Contribution deficiency (excess)	\$ 4,517	\$ 4,069	\$ 4,068	\$ (3,347)

Covered employee payroll	\$ 369,855	\$ 337,824	\$ 464,885	\$ 505,266
Contrib. as a % of covered employee payroll	5.19%	5.42%	5.09%	5.73%

**Notes to Schedule:**

*Assumptions and Methods*

<b>Valuation Date:</b>	June 30, 2022
<b>Measurement Date:</b>	June 30, 2024
<b>Actuarial Cost Method:</b>	Entry-Age Actuarial Cost Method
<b>Amortization Method:</b>	30-Year Closed Amortization, Level Percent of
<b>Amortization Period:</b>	26 years
<b>Asset Valuation Method:</b>	Market Value
<b>Actuarial Assumptions:</b>	
Discount Rate	6.50%
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	7.00%, Net of investment expenses
<b>Medical Cost Trend Rates:</b>	
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	4.50%

*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, 2025**

Fiscal Year Ended	2018	2019	2020	2021	2022	2023	2024	2025
<b>Total OPEB liability</b>								
Service cost	\$ 14,472	\$ 13,122	\$ 14,930	\$ 14,091	\$ 11,037	\$ 10,986	\$ 18,029	\$ 18,647
Interest	34,597	20,649	35,501	32,617	26,639	27,427	36,236	37,880
Changes of benefit terms	-	-	-	-	-	2,875	-	-
Differences between expected and actual experience	(40,235)	(3,650)	(30,126)	(19,223)	4,409	(39)	1,598	3,351
Changes of assumptions	(9,061)	3,835	4,159	(13,776)	4,479	29,396	(14,052)	64,149
Benefit payments	(16,867)	(8,877)	(19,358)	(18,090)	(15,912)	(16,105)	(20,954)	(22,838)
Proportionate share changes	-	21,414	(2,209)	(46,108)	(79,049)	(19,391)	106,474	4,760
Other	-	(13,486)	-	-	-	-	-	-
Net change in Total OPEB Liability	(17,095)	33,007	2,897	(50,489)	(48,397)	35,149	127,331	105,949
Total OPEB Liability - beginning	488,207	471,112	504,119	507,016	456,527	408,130	443,279	570,610
Total OPEB Liability - ending	\$ 471,112	\$ 504,119	\$ 507,016	\$ 456,527	\$ 408,130	\$ 443,279	\$ 570,610	\$ 676,559
<b>Plan fiduciary net position</b>								
Employer contributions	\$ 28,891	\$ 44,336	\$ 23,466	\$ 23,598	\$ 18,824	\$ 18,293	\$ 23,665	\$ 28,956
Proportionate share changes	-	8,578	(9,847)	(22,638)	-	-	53,840	2,528
Employee contributions	1,325	-	1,453	1,520	1,505	1,426	1,871	1,782
Net investment income	16,679	1,156	14,662	8,058	56,099	(34,552)	18,198	34,389
Difference between estimated and actual earnings	-	-	-	-	(41,968)	(12,597)	-	-
Benefit payments	(16,867)	(8,877)	(19,358)	(18,090)	(15,912)	(16,105)	(20,954)	(22,838)
Implicit subsidy fulfilled	-	-	5,503	1,538	4,874	3,065	2,451	4,180
Other	-	(126)	(733)	-	-	-	-	-
Administrative expense	(563)	-	-	(546)	(655)	(523)	(106)	(117)
Adjustments	3,999	-	-	-	-	-	-	-
Net change in plan fiduciary net position	33,464	45,067	15,146	(6,559)	22,767	(40,993)	78,965	48,880
Plan fiduciary net position - beginning	155,257	188,721	233,788	248,934	242,374	265,141	224,148	303,113
Plan fiduciary net position - ending	\$ 188,721	\$ 233,788	\$ 248,934	\$ 242,374	\$ 265,141	\$ 224,148	\$ 303,113	\$ 351,993
Net OPEB liability (asset)	\$ 282,391	\$ 270,331	258,082	214,153	142,989	219,131	267,497	324,566
Plan fiduciary net position as a percentage of the total OPEB liability	40.06%	46.38%	49.10%	53.09%	64.96%	50.57%	53.12%	52.03%
Covered Employee Payroll	\$ 339,998	\$ 349,612	\$ 397,559	\$ 402,829	\$ 399,011	\$ 337,824	\$ 464,885	\$ 505,266
Net OPEB liab. as a % of cov. Emp. payroll	83.06%	77.32%	64.92%	53.16%	35.84%	64.87%	57.54%	64.24%
Total OPEB liab. as a % of cov. Emp. payroll	138.56%	144.19%	127.53%	113.33%	102.29%	131.22%	122.74%	133.90%

*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**



**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, 2025, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements, and have issued our report thereon dated September 22, 2025.

**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 or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not 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



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

September 22, 2025  
Morgan Hill, California



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, 2025, 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

***GASB Statement No. 103, Financial Reporting Model Improvements, effective fiscal 2026.***

This Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability.



This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to (a) Management's discussion and analysis (MD&A) (b) Unusual or infrequent items (c) Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position (d) Information about major component units in basic financial statements (5) Budgetary comparison information (6) Financial trend information in the statistical section

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

### **Purpose of Communication**

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

This communication is intended solely for the information and use of management, those individuals charged with governance, others within the organization, and the County of Santa Clara, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

*C & A LLP*

September 22, 2025  
Morgan Hill, California



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, 2025, and have issued our report thereon dated September 22, 2025. 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.

**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. Safeguards have been implemented to reduce threats to our independence to an acceptable level in relation to the preparation of the financial statements and related note disclosures. Those safeguards include the review of the financial statements and notes by a qualified Partner, Manager, Senior or third party, that has not been included in the audit team.

### **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, 2025. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### *Significant Accounting Estimates*

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

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

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



### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Local Agency Formation Commission of Santa Clara County's financial statements relate to cash and investments, 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 have neither identified nor obtained 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.

There were no uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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. The material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management.

### **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.



### **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 September 22, 2025.

### **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*

September 22, 2025  
Morgan Hill, California



**Local Agency  
Formation Commission  
of Santa Clara County**  
777 North First Street  
Suite 410  
San Jose, CA 95112  
[SantaClaraLAFCO.org](http://SantaClaraLAFCO.org)

**Commissioners**  
Sylvia Arenas  
Jim Beall  
Rosemary Kamei  
Yoriko Kishimoto  
Otto Lee  
Terry Trumbull  
Mark Turner

**ITEM # 8**

**Alternate Commissioners**  
Pamela Campos  
Helen Chapman  
Betty Duong  
Zach Hilton  
Teresa O'Neill  
**Executive Officer**  
Neelima Palacherla

**LAFCO MEETING: December 3, 2025**

**TO: LAFCO**

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

**SUBJECT: AMENDMENT TO SERVICES AGREEMENT BETWEEN  
LAFCO AND COVIVE LLC FOR WEBSITE HOSTING AND  
MAINTENANCE**

**STAFF RECOMMENDATION**

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1. Approve an amendment to the services agreement between LAFCO and Covive LLC for website hosting and maintenance.

**BACKGROUND**

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Covive LLC has successfully hosted and maintained the LAFCO website since 2020. Chad Upham, Principal at Covive LLC, redesigned and developed LAFCO’s current website. Mr. Upham was part of a team of consultants that prepared LAFCO’s award-winning Communications and Outreach Plan that resulted in the development of new communications and public engagement tools, including LAFCO’s current website. Through this process, Mr. Upham gained a deep understanding of Santa Clara LAFCO and Santa Clara County and has consistently met LAFCO’s website hosting and maintenance needs at a reasonable cost.

The original contract with Covive LLC, and subsequent extensions, were executed under LAFCO Resolution No. 2019-03, delegating authority to the LAFCO Executive Officer for execution of any small contracts not to exceed \$5,000 in certain conditions. At the expiration of the original contract in December 2023, LAFCO entered into a new services agreement with Covive LLC effective January 2024 which is structured as an ongoing contract without a termination date and without a not to exceed amount. Compensation is based on the scope of services and the rates presented in Exhibit “A” for calendar years 2024 and 2025.

Covive’s website hosting and maintenance rates have remained unchanged since January 2020. However, Covive LLC is now proposing new rates for calendar years 2026, 2027, and 2028.

### **Proposed Amendment to the Services Agreement with Covive LLC**

Staff recommends that the Commission amend the services agreement with Covive LLC for ongoing website hosting and maintenance to reflect the new rates for calendar years 2026 through 2028.

The LAFCO Budget for Fiscal Year 2025-2026 includes sufficient funding (under “Consultant Services”) for the currently anticipated services. Any significant additional expenditure would be discussed annually, as part LAFCO’s workplan and budget approval process.

### **ATTACHMENT**

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Attachment A: Proposed Amendment to Services Agreement between Santa Clara LAFCO and Covive LLC for Website Hosting and Maintenance

**FIRST AMENDMENT  
TO THE SERVICES AGREEMENT  
BETWEEN THE LOCAL AGENCY FORMATION COMMISSION OF SANTA CLARA COUNTY  
AND COVIVE LLC FOR WEBSITE HOSTING AND MAINTENANCE**

This First Amendment to the Services Agreement is made and entered into as of this \_\_\_ day of \_\_\_\_\_, 2025, by and between the Local Agency Formation Commission of Santa Clara County (“LAFCO”), and Covive LLC (“Contractor” or “Consultant”). LAFCO and Contractor are sometimes individually referred to as “Party” and collectively as “Parties.”

WHEREAS, LAFCO and Contractor entered into an agreement entitled “Services Agreement,” dated October 4, 2023 (“Agreement”) for the purposes of hosting and maintenance of LAFCO’s website; and

WHEREAS, LAFCO and Contractor now desire to amend the Agreement to increase the compensation amount.

NOW, THEREFORE, for good and valuable consideration, LAFCO and Contractor agree as follows:

**1. Amendment.**

Exhibit A of the Services Agreement is hereby replaced with the amended Exhibit A, attached hereto and incorporated herein by reference. From and after the date of this First Amendment, all references to “Exhibit A” shall mean Exhibit A as amended by this First Amendment.

**2. Continuing Effect of Agreement.**

Except as amended by this First Amendment, all other provisions of the Agreement remain in full force and effect and shall govern the actions of the parties under this First Amendment. From and after the date of this First Amendment, whenever the term “Agreement” appears in the Agreement, it shall mean the Agreement as amended by this First Amendment.

**3. Severability.**

If any portion of this First Amendment is declared invalid, illegal, or otherwise unenforceable by a court of competent jurisdiction, the remaining provisions shall continue in full force and effect.

[Signatures on following page]

**SIGNATURE PAGE FOR FIRST AMENDMENT  
TO THE SERVICES AGREEMENT  
BETWEEN THE LOCAL AGENCY FORMATION COMMISSION OF SANTA CLARA COUNTY  
AND COVIVE LLC FOR WEBSITE HOSTING AND MAINTENANCE**

**IN WITNESS WHEREOF**, LAFCO and Contractor have executed this First Amendment to the Agreement as follows:

**LOCAL AGENCY FORMATION COMMISSION    COVIVE LLC  
OF SANTA CLARA COUNTY**

\_\_\_\_\_  
Sylvia Arenas  
LAFCO Chairperson

\_\_\_\_\_  
Chad Upham  
Principal

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

APPROVED AS TO FORM:

\_\_\_\_\_  
Malathy Subramanian, LAFCO Counsel

\_\_\_\_\_  
Date

Exhibit to this Agreement: Exhibit A –    Scope of Services and Compensation

**EXHIBIT "A"**

**SCOPE OF SERVICES AND COMPENSATION**

**Website Hosting and Maintenance**

**OVERVIEW**

Covive is able to contract with Santa Clara LAFCO to provide ongoing website hosting and maintenance for two calendar years from January 2026 through December 2028.

**Annual Website Hosting** **\$600 per year\***  
- Hosting of Drupal 7 website on Pantheon WebOps Platform in an account prepaid yearly by Covive on behalf of Santa Clara LAFCO

\* price subject to change based on Pantheon pricing at time of renewal.

**Fee for Three (3) Years of Prepaid Hosting (2026-2028)** **\$1,800**

**Website Maintenance and Support** **\$200/hour**  
- As-needed security updates to Drupal core and supporting modules  
- Assisting LAFCO staff with formatting of new content, as needed  
- Coding of minor new features or content management system refinements  
- Not to exceed 15 hours per calendar year without written approval from LAFCO

**Estimated Total Annual Hourly Maintenance Fees** **\$3,000**  
Hourly work will be billed monthly.

*Major website updates (exceeding the 15 hours allocated for annual maintenance) will require additional fees.*

**Additional work outside of the scope of this maintenance contract will be based on the rate of \$200/hour through 12/31/28.**



**2026 SCHEDULE OF LAFCO MEETINGS AND  
APPLICATION FILING DEADLINES**

<b>LAFCO MEETING</b>	<b>DEADLINE TO FILE APPLICATION</b>
February 4, 2026	December 4, 2025
April 1, 2026	February 5, 2026
June 3, 2026	April 2, 2026
August 5, 2026	June 4, 2026
October 7, 2026	August 6, 2026
December 2, 2026	October 8, 2026

TIME OF MEETINGS

1:15 PM

LOCATION OF MEETINGS

Board of Supervisors' Chambers  
70 West Hedding Street  
San Jose, CA 95110APPLICATION MAILING  
ADDRESSLAFCO Office  
777 North First Street, Suite 410  
San Jose, CA 95112  
(408) 993-4705





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

**Commissioners**  
Sylvia Arenas  
Jim Beall  
Rosemary Kamei  
Yoriko Kishimoto  
Otto Lee  
Terry Trumbull  
Mark Turner

**ITEM # 10**

**Alternate Commissioners**  
Pamela Campos  
Helen Chapman  
Betty Duong  
Zach Hilton  
Teresa O'Neill  
**Executive Officer**  
Neelima Palacherla

**LAFCO MEETING: December 3, 2025**

**TO: LAFCO**

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

**SUBJECT: APPOINTMENT OF 2026 LAFCO CHAIRPERSON AND  
VICE-CHAIRPERSON**

**STAFF RECOMMENDATION**

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Per the rotation schedule, appoint Commissioner Rosemary Kamei to serve as Chairperson for 2026; and Commissioner Yoriko Kishimoto to serve as Vice-Chairperson for 2026.

**BACKGROUND**

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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

On December 4, 2024, LAFCO appointed Sylvia Arenas (County member), as Chairperson, and Rosemary Kamei (San Jose member), as Vice-Chairperson for calendar year 2025.

In accordance with the above-mentioned rotation schedule, it is recommended that Commissioner Kamei (San Jose member) be appointed 2026 Chair and Commissioner Kishimoto (Special Districts member) be appointed 2026 Vice Chair.





Local Agency  
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of Santa Clara County

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SantaClaraLAFCO.org

**Commissioners**

Sylvia Arenas  
Jim Beall  
Rosemary Kamei  
Yoriko Kishimoto  
Otto Lee  
Terry Trumbull  
Mark Turner

**ITEM # 11**

**Alternate Commissioners**

Pamela Campos  
Helen Chapman  
Betty Duong  
Zach Hilton  
Teresa O'Neill

**Executive Officer**

Neelima Palacherla

**LAFCO MEETING: December 3, 2025**

**TO: LAFCO**  
**FROM: Neelima Palacherla, Executive Officer  
Dunia Noel, Asst. Executive Officer  
Sonia Humphrey, Clerk**  
**SUBJECT: EXECUTIVE OFFICER'S REPORT**

**STAFF RECOMMENDATION**

---

Accept report and provide direction, as necessary.

**11.1 CSDA 2025 BOARD SECRETARY/CLERK CONFERENCE**

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Clerk Humphrey attended the 2025 Board Secretary/Clerk Conference in Santa Rosa, California (October 28 - 29), hosted by the California Special Districts Association (CSDA) which offered practical and hands-on courses, professional development sessions, and informal discussions.

Tuesday's program included an Opening Keynote address entitled "Settle Your Worth and Launch the Life of Your Dreams"; and then sessions on "Board Secretary/Clerk Foundations"; "Staying in Compliance (part one)"; and "Advanced Training in the California Public Records Act."

Wednesday's program featured sessions on "Staying in Compliance (part two)"; "Best Practices for Taking & Processing Meeting Minutes"; "Website Compliance: Everything Board Secretaries Need to Know"; and "Understanding Board Member & District Liability Issues." The Conference then adjourned with attendees receiving a graduate certificate acknowledging their conference participation and continuing education.

**11.2 PRE-APPLICATION MEETING WITH CITY OF SUNNYVALE ON POTENTIAL CHANGES TO CUPERTINO SANITARY DISTRICT BOUNDARIES**

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On November 11, 2025, EO Palacherla and Assistant EO Noel held a pre-application meeting with Eric Evans (Senior Civil Engineer, City of Sunnyvale) to discuss the City of Sunnyvale's plans to submit an application to LAFCO requesting certain changes to the Cupertino Sanitary District's boundaries to better reflect areas adjacent to and in the vicinity of the City of Sunnyvale that do not receive sewer

service from the District, but instead receive sewer service from the City of Sunnyvale.

Prior to the meeting, LAFCO staff had many discussions with Mr. Evans over the last couple of years concerning this potential proposal and more recently reviewed the City of Sunnyvale's Resolution supporting said application to LAFCO.

At the meeting, LAFCO staff explained the relevant LAFCO policies and the applicable boundary change processes (i.e. sanitary district sphere of influence amendments and sanitary district detachments), filing requirements and deadlines, and applicable fees.

Mr. Evans reported that he would be working with Cupertino Sanitary District staff to obtain a resolution from the District's Board of Directors supporting the proposed boundary changes and then will bring forward an application to LAFCO.

### **11.3 SANTA CLARA COUNTY ASSOCIATION OF PLANNING OFFICIALS' MEETING**

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EO Palacherla and Assistant EO Noel participated in the virtual meeting of the Santa Clara County Association of Planning Officials (SCCAPO) held on November 5, 2025. This meeting included updates and announcements from MTC/ABAG representatives and Santa Clara County Planning Collaborative representatives, as well as from Jeffrey Hare (San Jose State University's Professor in the Urban and Regional Planning) highlighting recent advancements in the Department of Urban and Regional Planning, creation of new certificate programs in the Department, and opportunities for local agencies to partner with the Department on internships for urban and regional planning students. The meeting also included an insightful presentation from Morgan Hill Planning staff on the City's SB 1425 - Open Space Element and Environmental Justice Element. Attendees also shared updates on various matters and discussed potential future agenda items.



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**Commissioners**  
Sylvia Arenas  
Jim Beall  
Rosemary Kamei  
Yoriko Kishimoto  
Otto Lee  
Terry Trumbull  
Mark Turner

**ITEM # 12**

**Alternate Commissioners**  
Pamela Campos  
Helen Chapman  
Betty Duong  
Zach Hilton  
Teresa O'Neill  
**Executive Officer**  
Neelima Palacherla

**LAFCO MEETING: December 3, 2025**

**TO: LAFCO**

**FROM: Neelima Palacherla, Executive Officer  
Dunia Noel, Assistant Executive Officer  
Emmanuel Abello, LAFCO Analyst**

**SUBJECT: CALAFCO RELATED ACTIVITIES**

**STAFF RECOMMENDATION**

---

Accept report and provide direction, as necessary.

**REPORT ON THE 2025 CALAFCO ANNUAL CONFERENCE**

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Chairperson Arenas, Vice Chairperson Kamei, Alternate Commissioner O'Neill, EO Palacherla, Assistant EO Noel and Analyst Abello attended this year's CALAFCO Annual Conference which was held at the Wyndham San Diego Bayside from October 22 – October 24. The annual conference provided an opportunity for LAFCOs across the state to share some of their best practices and learn new techniques and approaches from other LAFCOs.

**Vice Chair Kamei Elected to CALAFCO Board of Directors**

Vice Chair Kamei was elected to the CALAFCO Board of Directors seat from the Coastal Region to serve a two-year term ending in October 2027 (should there be no other changes to the CALAFCO Bylaws between now and then). The following counties form CALAFCO's Coastal Region: Alameda, Contra Costa, Marin, Monterey, San Benito, San Francisco, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Solano, Sonoma and Ventura.

CALAFCO is the process of rebuilding itself, and as part of that effort, the CALAFCO Board of Directors will be working on organizational restructuring and reforms, improving communications, and promoting member engagement, while ensuring the delivery of important CALAFCO services like legislative advocacy and providing education opportunities to member LAFCOs.

Vice Chair Kamei and EO Palacherla attended the October 24, 2025 CALAFCO Board of Directors meeting, which was held as part of the 2025 CALAFCO Annual Conference in San Diego.

Vice Chair Kamei, as a member of CALAFCO's Board of Directors, is anticipated to attend six CALAFCO Board meetings in 2026, including a full day in-person Board Team Building and Strategic Planning Retreat on February 26, 2026, in Sacramento. The next CALAFCO Board Meeting will be held on December 5, 2025 at San Jose City Hall.

### **Summary of Annual Conference Program**

The Annual Conference started on Wednesday morning with "So, You Think You Know LAFCO? Challenge & Expand Your Knowledge in The LAFCO Pyramid," a LAFCO 101 session styled in a gameshow format. In the afternoon, there was the Conference Opening program that was followed by Keynote Speaker, David Marquet, who shared his insights about leadership and communications based on his experience as a captain of a US nuclear submarine. It was followed by a general session entitled "How Am I Supposed to Know That??? Moving from Guessing to Knowing," conducted in the style of a fireside chat.

Thursday's program included regional caucus meetings and elections, CALAFCO Annual Business Meeting, commissioner and staff roundtable discussions organized by region, and breakout sessions including, "Reimagining Governance & Growth for California's Forgotten Communities"; "Incorporation in the New World – What Makes Them Successful?"; "Local Government Reorganizations – What Tools Are In/Out of LAFCO's Toolbox?"; and "Cleared for Takeoff: Using Technology to Bring LAFCOs Into the 21<sup>st</sup> Century."

Friday's program started with a CALAFCO Board of Directors Breakfast and Meeting, followed by two general sessions - "Where the Farmland Meets the Front Porch: How do LAFCOs Protect Ag Lands and Increase the Supply of Housing?" and "CALAFCO Legislative Update: The Good, the Bad & the Future". CALAFCO will be posting all conference presentation materials and handouts on its website at [www.calafco.org](http://www.calafco.org).

The next CALAFCO Annual Conference is scheduled for October 21-23, 2026 at the Sheraton Grand Sacramento Hotel in Sacramento.