



PROCEEDINGS OF THE LOCAL AGENCY FORMATION COMMISSION OF SANTA CRUZ COUNTY

Wednesday, August 2, 2017
10:00 a.m.

Supervisors Chambers
701 Ocean Street, Room 525
Santa Cruz, California

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The August 2, 2017 Santa Cruz Local Agency Formation Commission meeting is called to order by declaration of Vice-Chairperson Leopold.

ROLL CALL

Present and Voting:	Commissioners J. Anderson, R. Anderson, Lather, Bottorff, Lind, Friend, and Vice-Chairperson Leopold
Absent:	LaHue
Alternates Present:	Bobbe
Alternates Absent:	None
Staff:	Patrick M. McCormick, Executive Officer Brooke Miller, LAFCO Counsel Debra Means, Secretary-Clerk

MINUTES

MOTION AND ACTION

Motion: J. Anderson	To approve June 7, 2017 minutes.
Second: R. Anderson	Motion carries with Commissioners Bottorff and Friend abstaining.

ORAL COMMUNICATIONS

Becky Steinbruner is a customer of Pure Source Water Company in Aptos, located in the Mid-County groundwater basin. The State Water Board is beginning to consolidate small water companies. There is a workshop on August 17th at the EPA building in Sacramento where no action will be taken. The purpose of the workshop is to introduce and receive input from the public and applicable agencies on consolidating small water companies.

She is against consolidation. Her water company has very responsible managers. It has been very clear historically that they do not want to become part of Soquel Creek Water District. She has been told by rural water consultants that the plan is to consolidate them. Small water companies are not always in favor of consolidation. She asks LAFCO to help preserve the integrity of small water companies and work with them.

She is also concerned about the Soquel Creek Water District plan for the Pure Water project affecting other water users in the Purisima aquifer. She thinks the project could potentially introduce contaminants into the groundwater. There have been problems in Cambria with their indirect potable use project. She asks that all water users within the Purisima aquifer be allowed to vote on whether they agree with having recycled water injected into the entire region's drinking water supply.

PUBLIC HEARINGS

SERVICE AND SPHERE OF INFLUENCE REVIEW FOR THE CITY OF CAPITOLA

Mr. McCormick reports that there is a staff report and a public review draft that was released to the public earlier. The service review addresses such issues as budget, public involvement, ability to provide service, and opportunities to make services more efficient. A sphere of influence review identifies what areas are eligible to be within the City of Capitola.

The main conclusions are that the City is operating in a responsible manner to provide services and that it has adequate capacity to provide those services. Should there be a proposal for a major annexation, there should be a financial analysis to make sure that it makes sense for the City.

Capitola is the smallest city in the County with both population and area. It gets many of its services through regional agencies such as the sanitation district, the fire district, and mosquito abatement. It gets efficiencies by participating in regional service entities. It is cooperating on projects with other agencies such as rebuilding a permanent library and participating in a homeless governance study committee.

There are no underserved disadvantaged communities in Capitola. There are some low income areas in and adjacent to the City, but they benefit from a generally high level of services that the City and the regional service agencies provide.

Neither the City nor LAFCO staff is recommending any amendments to the City's sphere of influence. The population projection table has one of the cities mislabeled on the errata sheet.

MOTION AND ACTION

Motion: Friend Second: Bottorff	To adopt draft Resolution No. 2017-08 and approve the 2017 Service and Sphere Review for the City of Capitola. Motion carries with a unanimous voice vote.
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SERVICE AND SPHERE OF INFLUENCE REVIEW FOR CENTRAL WATER DISTRICT

Mr. McCormick reports that Central Water District is located in rural Aptos. The main streets within the water district are Freedom Boulevard, Day Valley Road, Pleasant Valley Road, and Cox Road. Being primarily residential, it has a very low growth rate. There are about 815 customers.

The water district shares two aquifers with other groundwater users. The Purisima and the Aromas Red Sands aquifers are overdrafted and are either experiencing saltwater intrusion, or at risk of saltwater intrusion. The district's customers responded positively to the drought of 2012-2016 by reducing their water demand. The district is cooperating with regional partners to address long term water sustainability in the two aquifers they share.

The district is fortunate to have an adequate water supply and they are able to keep up with routine repair and upgrading infrastructure. There is no sphere amendment recommended by the district or LAFCO staff.

The background report contains an annexation history and an explanation of what looks to be a crazy boundary. The boundary reflects an attempt to match the County's agricultural preservation policies with the pre-existing service pattern, as well as previous LAFCO actions that would allow easily served agricultural parcels to be served if the properties are put into a Williamson Act or similar long term conservation program, and the water service would not compromise the long term agricultural use.

Commissioner Roger Anderson asks if the parcels on the map that are white are the parcels that could be served at a later time with the Williamson Act.

Mr. McCormick says that is correct.

Commissioner Roger Anderson notices there are quite a few parcels outside the sphere of influence. He asks if those parcels could eventually be included in the sphere.

Mr. McCormick answers that those parcels were already served by the district by the time LAFCO got jurisdiction and prepared spheres of influence. These were pre-existing connections within the district's boundary. The blue parcels outside the red line allow any of those property owners to apply for a detachment from the district if they have an independent water supply. This has not happened yet, but it is theoretically possible, and that is why the pre-existing parcels were excluded from the sphere of influence if they were designated for productive agricultural use on the County's general plan. LAFCO has been trying to match their plan with the land use agency's plan.

Commissioner Roger Anderson asks how long these blue parcels outside the red line have been served.

Mr. McCormick replies about 30 to 40 years. They were being served when LAFCO did its first sphere of influence in the early 1980s. There were pre-existing irregular boundaries. Several annexations occurred when there were expectations for rural subdivision activity which was very common in the 1970s, but has not happened since then. There is no longer any expectation for rural subdivisions. These are mostly single houses on a big lot that may have an agricultural use or not. There have not been any agricultural annexations inside the sphere because the owners have not wished to go into a Williamson Act Agricultural Preservation contract.

Commissioner Roger Anderson asks if there is any harm in keeping the line as it is.

Mr. McCormick explained that he spoke with the district manager and that is the evaluation they made.

Vice-Chairperson Leopold thinks there will not be any Williamson Act properties because the Williamson Act has been defunded.

Ralph Bracamonte, the district manager, has been involved in water issues as long as he has been involved. Mr. Bracamonte was an active participant when LAFCO's water policies were being drafted. He has contributed to the formation of the Mid-County Groundwater Sustainability Agency. He welcomes Mr. Bracamonte's thoughtful input and has enjoyed working with him.

Ms. Steinbruner also acknowledges Mr. Bracamonte for his exemplary community service. The Central Water District (CWD) does a great job, their rates are low, and they work hard to be efficient. Their rates were recently raised to cover expenses and be a part of the Mid-County Groundwater Agency.

She thinks another correction should be made on the map of all the Soquel/Aptos groundwater management plan area. There is an error regarding the eighth private water company. It is listed as "Greenbelt Water Company" when it should be "Pure Source Water Company".

She notes that there is a change in the use of the land. Of the parcels that are outside of the sphere but are being served by CWD, she thinks one of the parcels is the Lester Winery. She has worked with citizens in that area. The County Planning Department just issued a commercial use for the winery that will allow up to 10 large events per year of 200 guests and up to 16 events per year of 50 guests. There are a number of wineries out there that will be adding this commercial use to their use permits. As a result, water use will increase, but fortunately the water recharge is good in that area.

She asks how the sphere of influence intertwines with the intertie agreement with Soquel Creek Water District (SCWD). CWD sometimes sells water to SCWD. Recently, they sold 402 units when SCWD had a pipe break.

MOTION AND ACTION

Motion: Friend Second: Lather	To adopt Resolution No. 2017-9 accepting the review and the existing sphere of influence for Central Water District, as well as the sphere of influence policies that advocate extension of water to agricultural uses only if there is a Williamson Act or similar long term conservation easement. Motion carries with a unanimous voice vote.
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SERVICE AND SPHERE OF INFLUENCE REVIEW FOR COUNTY SERVICE AREA (CSA) 54, SUMMIT WEST WATER

Mr. McCormick says CSA 54 is west of Highway 17 at the Summit. The water CSA includes Hutchinson Road, Mountain Charlie Road, and Glenwood Road. CSA 54 was formed in 1996. The prior provider was the Mountain Charlie Water Works, a private water company. Its rates were regulated by the California Public Utilities Commission. Its service and water quality were regulated by the State and the County Environmental Health Department.

The area is designated Mountain Residential and the residents gravitate more toward Los Gatos than Santa Cruz. Up until 1996, the water customers were extremely distraught with water quality service. It was a funky privately-operated water system that was poorly operated.

The solution took multiple steps. The County petitioned the court to put the water system into private receivership. The receivership caused the water to be very expensive since the court approved their costs. The residents asked the County to form a County Service Area which became CSA 54.

What CSA 54 first needed to accomplish in the 1990s was pass an assessment to have the County's attorneys file an eminent domain lawsuit against the assets of the private water company. It was an aggressive move. The suit was settled out of court for a lump sum that was paid to the private water company. The County received certain assets that were used to provide water.

The County started operating the water system as a CSA. The customers realized that if they self-organized as a mutual water company, they could cooperatively manage their water system, and provide water at a lesser cost. They incorporated a mutual benefit association called the Summit West Mutual Water Company. They asked the County to transfer the assets to them as a mutual benefit association.

There was still an outstanding State loan that CSA 54 had to pay off with the County's help. The loan has now been paid off. Over the last four years, there has been about \$2,000 fund balance. The agency is getting about \$15 per year in interest and is spending about \$125 per year in accounting fees. They are drawing down their account balance as an inactive CSA.

The officers of Summit West agree that dissolving the CSA is a good idea. The remaining fund balance can be returned to the customers. LAFCO cannot dissolve the CSA, but this Commission's action would set up a zero sphere of influence so that they or the County's Board of Supervisors can petition to dissolve the CSA within the next few months.

Vice-Chairperson Leopold asks what dissolution involves.

Mr. McCormick replies that the Board of Supervisors is the governing board and they can unilaterally work with Summit West's customers and pass a resolution to petition LAFCO to dissolve the CSA. LAFCO holds a noticed public hearing and decides whether to approve or disapprove after hearing from the public. If LAFCO approves it, there is a protest opportunity for the property owners within the CSA if they do not think it is a good idea to dissolve. If there is 25% protest or more, than the dissolution issue goes to a vote within the CSA. A dissolution can also start by a petition of the customers and residents of CSA 54, but it is a harder to organize.

Commissioner Lather asks how much it will cost to dissolve the CSA.

Mr. McCormick replies that the cost would be around \$500 between LAFCO and the State when it is recorded. There may be a small cost for the County and a few dollars leftover that could be passed onto the association for their operations.

Vice-Chairperson Leopold encourages the Commission to recommend dissolution. The State legislature is concerned about inactive districts and why LAFCOs are not doing more.

MOTION AND ACTION

Motion: J. Anderson Second: Lather	To adopt draft Resolution No. 2017-10 approving the 2017 Service and Sphere of Influence Review for CSA 54, amending the sphere of influence to be a zero sphere, and encouraging the dissolution of CSA 54, as recommended by staff. Motion carries with a unanimous voice vote.
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SERVICE AND SPHERE OF INFLUENCE REVIEW FOR 33 COUNTY SERVICE AREAS PERFORMING ROAD MAINTENANCE

Mr. McCormick reports that 33 County Service Areas (CSAs) conduct road maintenance. Most of them are located in rural settings. A CSA is a dependent district overseen by the Board of Supervisors. Each CSA has its own fund, so there is no mixing of County general fund monies between the CSAs. CSA funds are generated by revenues charged against the property owners within the CSA.

In these 33 CSAs, there is a vast difference in the quality of the road surface. They do not have to meet the County's road standards for public roads. Some of the CSA roads are rustic and some of the roads have higher specifications than the County's road standards.

Each CSA has a boundary. Most of them have a sphere of influence that coincides with the current boundary, so LAFCO thinks the boundary is correctly identified. There are some CSAs that have a larger sphere of influence, so LAFCO thinks there are other properties that would potentially benefit from using the road, and they should help to pay for the road. For any property adjacent to a CSA and included in the sphere of influence, it implies that there is the potential for them to benefit.

If a property is in the sphere of influence, it does not automatically annex the property or add a road assessment to the property owner's tax bill. There is a process to annex through this Commission and a process to add assessments through the Board of Supervisors. There are several sphere of influence changes recommended as a first step, followed by an annexation process that includes protest opportunity and an assessment process with the Board of Supervisors. The assessment process also includes a property owner protest opportunity.

LAFCO staff is recommending no change to 29 CSAs' sphere of influence. There are four CSAs that staff is recommending additions to their spheres: two parcels to Hidden Valley CSA 26 off Rodeo Gulch in Soquel, one road right-of-way addition to Lomond Terrace CSA 28 in Ben Lomond, four parcels added to Sunbeam Woods CSA 44 in Boulder Creek, and seven parcels added to Pinecrest CSA 46 in Boulder Creek. All of these proposed additional properties could potentially benefit from road maintenance because they use the common road to access their properties.

Commissioner Jim Anderson thinks the people most likely to challenge are the ones not included in the CSA. He asks if there is a way to equalize that because people within the CSA would like more people added within the CSA.

Mr. McCormick replies that if any of these sphere amendments result in an application, then property owners are noticed at least three weeks ahead of the LAFCO meeting, as per State law. They can voice their opinion and present evidence that their property would not benefit by the road maintenance. This Commission makes a judgment based upon what is presented on the record.

If the Commission approves the application, LAFCO staff conducts a protest hearing. The property owners of annexing territories can protest. It is easy for a property owner to protest out an annexation even if the road association and this Commission think it is a good idea. He advises road associations to talk to their neighbors and make a deal, and it is fine if that involves them paying privately without going through LAFCO.

Commissioner Roger Anderson wonders about the financing for the 33 CSAs. He looked at their budgets and there is a very large increase in their budgeted expenditures, probably due to recent winter weather. He asks if parties in the road maintenance districts will be liable for those increases in this coming year, or whether it is spread out over some time. He wants to know who established these budgeted amounts for maintenance over the next year. He may be misinterpreting the expenditure data from previous years and what is budgeted for next year, but he is concerned that it is a large amount of money.

Mr. McCormick answers that CSAs are subject to all State laws including Proposition 218, also known as the Right to Vote on Taxes Act. Road fees are voted upon. Property owners within a CSA get to vote on their level of assessment and that sets a maximum that the County can collect. The County has to notice that every year and they generally do not increase assessments. If there is an increase, there has to be an assessment election consistent with Proposition 218.

The County does do FEMA claiming and they take the lead if the CSA is eligible for an emergency road claim. There is now a major slide on Hutchinson Road that fits this category.

Vice-Chairperson Leopold observes that CSAs get their money annually and it takes a few years to earn the money necessary to do a big repair. The budget may not have been much the year before, but it is larger this year due to getting the major repairs done. Major repairs are not done every year.

Commissioner Roger Anderson adds that some of these increases are a factor of ten, twenty, or thirty times, and that is a huge multiple of the expenditures from previous years.

Peggy Ducey works for the County Public Works Department. She says that each CSA makes a determination of what they want to increase in their benefit assessment. The Public Works Department does not make that determination. Every year, Public Works sends out a letter asking if the CSA property owners are interested in increasing their benefit assessment, either by the CPI or by a different assessment. If they want to increase other than by the CPI, then it goes to a vote of those property owners that are affected. It will be approved if they get 50% plus one vote of the ballots that are returned.

A CSA budget is managed by that CSA community. County staff implements what the CSA wants to do.

There has been a big budget jump in many CSAs due to last winter's storm damage. There have been two catastrophic slip outs that are being rushed through the FEMA process. It has been a blessing for the CSAs because they are under the "CSA umbrella". Because the Board of Supervisors is their governing board, they are covered by public assistance.

Huckleberry Island has been struggling for years about whether they should set up a CSA. They did not move quickly enough to set up a CSA and now they have an expensive bridge project that they will have to cover themselves.

Commissioner Roger Anderson asks if the budgeted amounts are inclusive of the FEMA money.

Ms. Ducey answers no. The County's budget shows that it is based on rollover funds from last year that were not spent and the current benefit assessment. Once FEMA approves a project worksheet, approving the project and the recommended repair process, County staff will go back to the Board of Supervisors and request that the appropriation for each CSA be increased as reflected by the project worksheet amount.

Commissioner Lather thinks the table is confusing because it shows expenditures from previous years and the budget for the current year. The budget and the expenditures do not equal each other and that seems confusing. The budget includes capital reserves and expenditures do not. What is being carried over could be a lot of money that could be spent this year.

Vice-Chairperson Leopold says that in the Shared Services of Facilities section on page 14, there is one government structure option that is not currently used in Santa Cruz County and that is a Permanent Road Division. He wonders what the difference is between a Permanent Road Division and a CSA.

Mr. McCormick replies that other counties approach the same problem with a different solution called a Permanent Road Division. Each Permanent Road Division is like a CSA without LAFCO review. It is a separate section of State law that is closer to assessment law than district law. The county conducts Proposition 218 elections for Permanent Road Divisions the same way as CSAs. The county provides accounting support. LAFCO is not in the loop because it is not a district; it is more of an operating account of the county. The County explored this option and decided against pursuing it.

Ms. Steinbruner lives in CSA 33 Redwood Drive. She delivered a letter to the Commission the day before. She researched Permanent Road Divisions and thinks she would be against it because it would take away the independent nature those CSAs have and relinquish full power to the County. It would also limit the ability of CSAs to do such projects that enhance road safety such as vegetation management. She thinks that might not be allowed under a Permanent Road Division.

CSA 33 is the 2nd largest CSA in road miles in the County. It has functioned very well with dedicated volunteers over the years.

Many CSA liaison leaders did not know about this hearing today. The contact persons for the CSAs whose boundaries have proposed changes were contacted.

She hopes the Legislature will update the outdated bidding rules. CSA leaders have tried unsuccessfully to update the bidding.

CSA 33 had to have their overlay engineered for putting pavement on the road. Due to the dollar amount and a new requirement by Public Works, they cannot do their own drawings. This adds additional cost to the projects. The engineers have been difficult to work with.

Last year's bundled projects were completed by a local paver, Earthworks, and they still have not been paid almost \$500,000. As a result, they are not interested in bidding on any future County CSA projects.

She wants to know what Public Works' overhead is since it adds more cost. Some CSAs have considered pulling out.

CSA 33 always keeps a \$15,000 minimum reserve for storm repairs. Their CSA fund for this year has no note of the encumbrances in the Public Works' report. Their liaison officer closely watches the dollar amounts.

Ms. Ducey says that Earthworks completed a CSA resurfacing project. When that contract is let, it goes to the construction management division.

She did not know about Earthworks not getting paid until about five weeks ago when she called construction management to find out what happened. There were some inconsistencies on both sides; so, she asked Earthworks for an invoice. Earthworks has been notified and they will be paid. The department will make sure construction management pays promptly, which is usually within 30 to 45 days for any future projects completed.

Around August or September of last year, she started to look into increasing bid levels for public projects. Until about 18 months ago, when the County changed to the new financial tracking system, they did not meet State requirements to work under California Public Construction Cost Accounting Act (CPCCA). They were just starting to move through the County approval process when the winter storms hit.

If the Board approves the bid level increase to anything under \$45,000, it could be let to a contractor without any bid at all. From \$45,000 to \$175,000, they could do an informal bid process with just three bids. Above \$175,000, they would go to formal bids and specs. Of the 200+ disaster sites, at least 25% to 30% of them would fall under that \$175,000 bid level and would not have specification costs.

Commissioner Roger Anderson asks that by meeting these requirements, can the County now change the bid requirements by themselves.

Ms. Ducey answers no. There is a simple additional State process. If the Board chooses to adopt this CPCCA Act, they would adopt a resolution. The resolution would be sent to the State and the requirements would be fulfilled. They are in the process of making sure the Auditor is comfortable with their analysis of what can and needs to be provided, and then it can be taken to the CAO's office. They need to ensure the current financial system actually meets the cost accounting requirements for the entire County.

If this cannot move forward with the whole County, they may have an option of doing it for the CSAs alone. Due to the disaster projects, it would be beneficial to meet those requirements countywide.

Commissioner Roger Anderson asks when they will know.

Ms. Ducey hopes she can let the Board of Supervisors know within the next three months.

Commissioner Lather assumes a public process occurred to interview engineers and Bowman and Williams was chosen. She asks if any members of the CSAs had any say in the selection.

Ms. Ducey thinks they received three bids from engineering firms.

Elsa Aguilar from Public Works adds that a scope of work was sent out to three different engineering firms. Bowman and Williams was the only firm who responded.

Commissioner Lather has experience working with the Sanitation District. When they selected an engineer, they usually included a member of the CSAs in the selection committee.

Phil Rodgers has been the road manager for CSA 13 Hutchinson Road for about 30 years. He was not aware of the meeting today until the last minute, and he would like to be notified of any LAFCO meetings in the future.

Bid levels have been a long-standing frustration for his CSA. They try to keep their road in good shape and it seems to be in much better shape than most other County roads.

It is difficult to get a contractor to work on any small project. It can be resolved by increasing the bid levels.

They do chip seals every four years or so. The County seems unable to get contracts let in time so they can beat the weather. They had to skip the chip seals last year, so they are trying to get a contractor up this year who was awarded the contract last year. They are concerned about driving across Hutchinson Road due to storm damage.

Other CSAs and the County have to deal with similar logistical problems. It does not seem like it would be that difficult to mitigate these issues.

Their viaduct was damaged during the 1989 earthquake. They received FEMA funding to repair the damage. The County helped with the project.

Commissioner Roger Anderson thinks an essential piece of information would be a list of the reserve funds for all of the CSAs.

MOTION AND ACTION

Motion: R. Anderson Second: Lind	To delay approval of the road CSAs review for at least one month until a list of reserve funds is provided. Motion carries with a unanimous voice vote.
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OTHER BUSINESS

STATUS REPORT ON MID-COUNTY FIRE AGENCY CONSOLIDATION FEASIBILITY STUDY

Mr. McCormick reports that the ad hoc committee consisting of Commissioners Roger Anderson, Jim Anderson, and John Leopold are working with him. LAFCO plans to work with Central and Aptos / La Selva Fire Protection Districts on a consolidation feasibility study for those two districts. Since the last LAFCO meeting, he has received three proposals from consulting firms. The proposals have been reviewed and the committee will request some supplemental information. They will proceed with reviews and come up with a joint

recommendation. He does not think the recommendation will be ready by September, but supplemental information may be available then.

Ms. Steinbruner hopes County Fire officials are kept apprised throughout the process.

Mr. McCormick says County Fire will be involved in the process and all of the decision-making. However, County Fire is not part of the consolidation that will be studied.

LEGISLATION

Mr. McCormick says that the Legislature will be coming back into session in August when it will be very busy for them. He is recommending that the Commission take a new position to oppose AB 1361 by Assembly Member Garcia. The bill would exempt water districts from LAFCO review when extending water service to tribal properties in the Coachella Valley. It would also apply to other districts that are similarly located and have tribal lands they can provide water to.

CALAFCO opposes AB 1361 because LAFCO is familiar with reviewing applications for cities and districts to extend service. This bill would set a bad precedent to exempt from what is a standard review process.

MOTION AND ACTION

Motion: R. Anderson	To write a letter in opposition to AB 1361.
Second: J. Anderson	Motion carries with a unanimous voice vote.

Alternate Bobbe asks if this kind of legislative attempt to bypass LAFCO has come up before.

Mr. McCormick answers yes.

Commissioner Leopold says this has been happening with increasing frequency. In the last couple of years, the Legislature has introduced several bills that go around the LAFCO process and CALAFCO has taken a position of opposition to them. Some of this is due to a local LAFCO failing to come up with a solution in a timely fashion.

The Little Hoover Commission has been looking into these attempts to override the LAFCO process. If it is because LAFCO is not moving fast enough, or they have not done an adequate study, then the Legislature would be useful providing a small amount of money. CALAFCO has recommended to the Little Hoover Commission that the State create a fund of \$1 million to \$3 million to help LAFCOs do more in-depth studies on their inactive districts or any other service providers.

CALAFCO ANNUAL CONFERENCE AND BUSINESS MEETING

MOTION AND ACTION

Motion: Friend Second: Lind	To nominate Jim Anderson as voting delegate for business meeting. Motion carries with a unanimous voice vote.
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MOTION AND ACTION

Motion: R. Anderson Second: Friend	To nominate Cherie Bobbe as a public member for the Coastal Region. Motion carries with a unanimous voice vote.
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Meeting is adjourned at 11:48 a.m. The next LAFCO meeting is scheduled for 10:00 a.m. on Wednesday, September 6, 2017.

VICE CHAIRPERSON JOHN LEOPOLD

Attest:

Patrick M. McCormick, Executive Officer