



**LOCAL AGENCY FORMATION COMMISSION
OF SANTA CRUZ COUNTY**

701 Ocean Street, #318-D
Santa Cruz, CA 95060
Phone Number: (831) 454-2055
Website: www.santacruzlafco.org
Email: info@santacruzlafco.org

REGULAR MEETING AGENDA

*******SPECIAL LOCATION*******

Wednesday, April 1, 2026 at 9:00 a.m.
(hybrid meeting may be attended remotely or in-person)

Attend Meeting by Internet: <https://us02web.zoom.us/j/84673049008>
(Password 408013)

Attend Meeting by Conference Call: Dial 1-669-900-6833 or 1-253-215-8782
(Webinar ID: 846 7304 9008)

Attend Meeting In-Person: **Watsonville City Chambers**
(275 Main Street, Top Floor, Watsonville, CA 95076)

HYBRID MEETING PROCESS

LAFCO has established a hybrid meeting process in accordance with AB 2449:

- a) Commission Quorum: State law indicates that a quorum must consist of Commissioners in person pursuant to AB 2449.
- b) Public Comments: For those wishing to make public comments remotely, identified individuals will be given up to three (3) minutes to speak. Staff will inform the individual when one minute is left and when their time is up. For those attending the meeting remotely, please click on the “Raise Hand” button under the “Reactions Tab” to raise your hand. For those joining via conference call, pressing *9 will raise your hand. The three (3) minute limit also applies to virtual public comments.
- c) Accommodations for Persons with Disabilities: Santa Cruz LAFCO does not discriminate on the basis of disability, and no person shall, by reason of a disability, be denied the benefits of its services, programs, or activities. If you are a person with a disability and wish to attend the meeting, but require special assistance in order to participate, please contact the staff at (831) 454-2055 at least 24 hours in advance of the meeting to make the appropriate arrangements. Persons with disabilities may also request a copy of the agenda in an alternative format.

1. ROLL CALL

2. EXECUTIVE OFFICER'S MESSAGE

The Executive Officer may make brief announcements in the form of a written report or verbal update, and may not require Commission action.

a. Hybrid Meeting Process

The Commission will receive an update on the hybrid meeting process.

Recommended Action: No action required; Informational item only.

3. ADOPTION OF MINUTES

The Commission will consider approving the minutes from the March 4, 2026 Regular LAFCO Meeting.

Recommended Action: Approve the minutes as presented with any desired changes.

4. ORAL COMMUNICATIONS

This is an opportunity for members of the public to address the Commission on items not on the agenda, provided that the subject matter is within the jurisdiction of the Commission and that no action may be taken on an off-agenda item(s) unless authorized by law.

5. PUBLIC HEARINGS

Public hearing items require expanded public notification per provisions in State law, directives of the Commission, or are those voluntarily placed by the Executive Officer to facilitate broader discussion.

a. Draft Budget for Fiscal Year 2026-27

The Commission will consider the adoption of a draft budget for the upcoming year.

Recommended Action: Adopt the draft resolution (No. 2026-05) approving the draft budget for Fiscal Year 2026-27, with the following conditions:

- a. Direct staff to distribute the draft budget for review and comment to the 25 funding agencies (20 special districts, 4 cities, and the County); and
- b. Direct staff to schedule a public hearing, pursuant to Government Code Section 56381, for consideration and adoption of a final budget for Fiscal Year 2026-27 no later than June 3, 2026.

6. OTHER BUSINESS

Other business items involve administrative, budgetary, legislative, or personnel matters and may or may not be subject to public hearings.

a. Pajaro Valley Health Care District Annual Report

The Commission will review the annual report submitted by the healthcare district outlining their opportunities and challenges as the newest special district in Santa Cruz County.

Recommended Action: Receive and file the 2026 PVHCD Annual Report.

b. Fiscal Year End Audit Report (FY 2024-25)

The Commission will consider the audited financial statements drafted by Davis Farr, LLP.

Recommended Action: Adopt the audit for Fiscal Year 2024-25.

c. Employee Performance Evaluation

The Commission will consider adjusting staff's salary based on their annual performance evaluation.

Recommended Action: Adopt the draft resolution (No. 2026-06) approving the salary adjustment for LAFCO's Executive Officer and Analyst.

d. Fire-Related Projects (Recurring Item)

The Commission will receive a verbal update on the ongoing reorganization efforts involving CSA 48 and other fire agencies.

Recommended Action: No action required; Informational item only.

7. WRITTEN CORRESPONDENCE

LAFCO staff receive written correspondence and other materials on occasion that may or may not be related to a specific agenda item. Any correspondence presented to the Commission will also be made available to the general public. Any written correspondence distributed to the Commission less than 72 hours prior to the meeting will be made available for inspection at the hearing and posted on LAFCO's website.

8. PRESS ARTICLES

LAFCO staff monitors newspapers, publications, and other media outlets for any news affecting local cities, districts, and communities in Santa Cruz County. Articles are presented to the Commission on a periodic basis.

a. Press Articles during the Month of March 2026

The Commission will receive an update on recent LAFCO-related news occurring around the county and throughout California.

Recommended Action: No action required; Informational item only.

9. COMMISSIONERS' BUSINESS

This is an opportunity for Commissioners to comment briefly on issues not listed on the agenda, provided that the subject matter is within the jurisdiction of the Commission. No discussion or action may occur or be taken, except to place the item on a future agenda if approved by a Commission majority. The public may address the Commission on these informational matters.

10. ADJOURNMENT

LAFCO's next regular meeting is scheduled for Wednesday, May 6, 2026 at 9:00 a.m. (Watsonville City Chambers).

ADDITIONAL NOTICES:Campaign Contributions

State law (Government Code Section 84308) requires that a LAFCO Commissioner disqualify themselves from voting on an application involving an "entitlement for use" (such as an annexation or sphere amendment) if, within the last twelve months, the Commissioner has received \$500 or more in campaign contributions from an applicant, any financially interested person who actively supports or opposes an application, or an agency (such as an attorney, engineer, or planning consultant) representing an applicant or interested participant. The law also requires any applicant or other participant in a LAFCO proceeding to disclose the amount and name of the recipient Commissioner on the official record of the proceeding. The Commission prefers that the disclosure be made on a standard form that is filed with LAFCO staff at least 24 hours before the LAFCO hearing begins. If this is not possible, a written or oral disclosure can be made at the beginning of the hearing. The law also prohibits an applicant or other participant from making a contribution of \$500 or more to a LAFCO Commissioner while a proceeding is pending or for 3 months afterward. Disclosure forms and further information can be obtained from the LAFCO office at Room #318-D, 701 Ocean Street, Santa Cruz, CA 95060 (phone 831-454-2055).

Contributions and Expenditures Supporting and Opposing Proposals

Pursuant to Government Code Sections §56100.1, §56300(b), §56700.1, §59009, and §81000 et seq., and Santa Cruz LAFCO's Policies and Procedures for the Disclosures of Contributions and Expenditures in Support of and Opposition to proposals, any person or combination of persons who directly or indirectly contributes a total of \$1,000 or more or expends a total of \$1,000 or more in support of or opposition to a LAFCO Proposal must comply with the disclosure requirements of the Political Reform Act (Section 84250). These requirements contain provisions for making disclosures of contributions and expenditures at specified intervals. Additional information may be obtained at the Santa Cruz County Elections Department, 701 Ocean Street, Room 210, Santa Cruz, CA 95060 (phone 831-454-2060). More information on the scope of the required disclosures is available at the web site of the Fair Political Practices Commission: 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).

Accommodating People with Disabilities

The Local Agency Formation Commission of Santa Cruz County does not discriminate on the basis of disability, and no person shall, by reason of a disability, be denied the benefits of its services, programs or activities. The Commission meetings are held in an accessible facility. If you wish to attend this meeting and will require special assistance in order to participate, please contact the LAFCO office at 831-454-2055 at least 24 hours in advance of the meeting to make arrangements. For TDD service, the California State Relay Service 1-800-735-2929 will provide a link between the caller and the LAFCO staff.

Late Agenda Materials

Pursuant to Government Code Section 54957.5 public records that relate to open session agenda items that are distributed to a majority of the Commission less than seventy-two (72) hours prior to the meeting will be available to the public at Santa Cruz LAFCO offices at 701 Ocean Street, #318-D, Santa Cruz, CA 95060 during regular business hours. These records, when possible, will also be made available on the LAFCO website at www.santacruzlafco.org. To review written materials submitted after the agenda packet is published, contact staff at the LAFCO office or in the meeting room before or after the meeting.



**LOCAL AGENCY FORMATION COMMISSION
OF SANTA CRUZ COUNTY**

DRAFT MINUTES

LAFCO REGULAR MEETING AGENDA

**Wednesday, March 4, 2026
Start Time - 9:00 a.m.**

1. ROLL CALL

Chair Rachél Lather called the meeting of the Local Agency Formation Commission of Santa Cruz County (LAFCO) to order at 9:03 a.m. and welcomed everyone in attendance. She asked staff to conduct a roll call.

The following Commissioners were present:

- Commissioner Jim Anderson
- Commissioner Joe Clarke (*Vice-Chair*)
- Commissioner Fred Keeley
- Commissioner Manu Koenig
- Commissioner Rachél Lather (*Chair*)
- Alternate Commissioner Eduardo Montesino
- Alternate Commissioner Lani Faulkner
- Alternate Commissioner John Hunt

Alternate Commissioner John Hunt will be a voting member on behalf of Commissioner Roger Anderson (Public).

The following LAFCO staff members were present:

- LAFCO Analyst, Francisco Estrada
- Legal Counsel, Joshua Nelson
- Executive Officer, Joe Serrano

2. EXECUTIVE OFFICER'S MESSAGE

2a. Virtual Meeting Process

Executive Officer Joe Serrano welcomed everyone to the Watsonville City Chambers and indicated that the meeting was being conducted through a hybrid approach with Commissioners and staff attending in-person while members of the public have the option to attend virtually or in-person.

Chair Rachél Lather moved on to the next agenda item.

3. ADOPTION OF MINUTES

Chair Rachél Lather requested public comments on the draft minutes. **Executive Officer Joe Serrano** noted no public comment on the item. Chair Lather closed public comment.

Chair Rachél Lather called for a motion. **Commissioner Jim Anderson** motioned for approval of the February 4th Meeting Minutes and **Commissioner Manu Koenig** seconded the motion.

Chair Rachél Lather called for a voice vote on the approval of the draft minutes.

MOTION: Jim Anderson

SECOND: Manu Koenig

FOR: Jim Anderson, Joe Clarke, John Hunt, Fred Keeley, Manu Koenig, and Rachél Lather.

AGAINST: None

ABSTAIN: None

MOTION PASSES: 6-0

4. ORAL COMMUNICATIONS

Chair Rachél Lather requested public comments on any non-agenda items. **Executive Officer Joe Serrano** noted no requests to provide public comment.

Chair Rachél Lather closed public comment and moved on to the next agenda item.

5. SPECIAL PRESENTATIONS

5a. CALAFCO Update

Chair Rachél Lather requested an update from CALAFCO Executive Director Michelle McIntyre regarding the statewide organization's recent achievements.

Executive Officer Joe Serrano introduced **Michelle McIntyre**, CALAFCO Executive Director. Executive Director McIntyre provided information to the Commission on her past experiences with LAFCOs and spoke on the recent developments and changes in the organization. She explained the rationale behind the amendments adopted to the bylaws regarding board eligibility, officer rotations, a Code of Conduct, and self-evaluations. Executive Officer Serrano added insights into working with Executive Director McIntyre.

Chair Rachél Lather requested public comments on the item. **Executive Officer Joe Serrano** indicated that there were no requests to address the Commission.

Commissioner John Hunt inquired about the member LAFCO's that left CALAFCO. **Executive Officer Joe Serrano** noted that the significant strides made in the past year have already convinced some LAFCOs to return. Michelle McIntyre also explained the issues with current membership due's structure and next steps for the organization.

Chair Rachél Lather moved to the next item since no Commission action was required.

6. PUBLIC HEARINGS

6a. “Monroe Avenue / Huntington Drive Annexation”

Chair Rachél Lather requested staff to provide a presentation to consider a single parcel annexation into the Santa Cruz County Sanitation District (SCCSD) to receive sewer service.

Executive Officer Joe Serrano explained that LAFCO received an application from a landowner requesting a single parcel annexation into the SCCSD to receive sewer services. Executive Officer Serrano indicated that SCCSD was in support of the proposal, stated that the action is consistent with LAFCO law and the Commission’s adopted policies, made note of two adjacent parcels, and recommended approving the draft resolution with its identified conditions.

Chair Rachél Lather requested public comments on the item. **Executive Officer Joe Serrano** indicated that there was a request to address the Commission.

Becky Steinbruner, a member of the public, inquired about the possibility of creating an “island.” **Executive Officer Joe Serrano** provided clarification on his recommendation regarding the two adjacent parcels which should be annexed in the foreseeable future.

Chair Rachél Lather opened the floor to Commission comments or clarifying questions. **Commissioner Jim Anderson** inquired about the term “most logical service provider.” **Executive Officer Joe Serrano** explained that SCCSD was the only and therefore most logical provider for the municipal service requested.

Chair Rachél Lather requested a motion approving staff recommendation. **Commissioner Jim Anderson** made the motion and **Commissioner Manu Koenig** seconded the motion.

Chair Rachél Lather called for a voice vote on staff recommendation: **Adopt the draft resolution (No. 2026-02) approving the single parcel annexation into the Santa Cruz County Sanitation District.**

MOTION: Jim Anderson
SECOND: Manu Koenig
FOR: Jim Anderson, Joe Clarke, John Hunt, Fred Keeley,
Manu Koenig, and Rachél Lather.
AGAINST: None
ABSTAIN: None

MOTION PASSES: 6-0

6b. City of Capitola Sphere Boundary Adjustment

Chair Rachél Lather requested staff to provide a presentation to consider amending the sphere of influence for the City of Capitola.

Executive Officer Joe Serrano explained that LAFCO completed a service review in 2022 and recommended the City analyze their current sphere of influence. The sphere was first adopted in 1975 and has not changed in several decades. The City hired a consultant to consider annexation of two potential areas. The analysis demonstrated that annexation of the proposed areas would not be a financially viable long-term option for the City. Executive Officer Serrano recommended adopting the draft resolution (No. 20262-03) approving a sphere reduction to better reflect the potential future for the City of Capitola.

Chair Rachél Lather requested public comments on the item. **Executive Officer Joe Serrano** indicated that there was a request to address the Commission.

Chloé Woodmansee, Capitola Assistant to the City Manager, expressed support for staff recommendation and thanked LAFCO staff for their partnership.

Chair Rachél Lather closed public comment and opened the floor to Commission comments or clarifying questions. **Commissioner Manu Koenig** expressed the benefits of having unincorporated areas within a city sphere as a precursor to eventual annexation and transfer of public service responsibilities to a municipality. **Executive Officer Joe Serrano** explained how the County and City would need to pursue a potential property tax exchange agreement to determine revenue distribution for any future annexation. Commissioner Koenig expressed support for the recommended actions.

Commissioner Lani Faulkner inquired about changes made if the Commission approves the proposed sphere amendment. **Executive Officer Joe Serrano** explained that a sphere of influence is a planning tool that does not restrict entities from having discussions about potential future boundary changes.

Commissioner Jim Anderson asked about the provision of services. **Executive Officer Joe Serrano** explained that one area of focus for consideration was an analysis on service delivery.

Commissioner John Hunt requested clarification on the potential annexation areas. **Executive Officer Joe Serrano** explained that the City may explore potential annexations in the future, but such action would not involve the Pleasure Point area. **Commissioner Joe Clarke** added insights from the Capitola City Council. Executive Officer Serrano explained there are many factors to consider when exploring a potential annexation. **Chloé Woodmansee**, Capitola Assistant to the City Manager, added that certain areas in Capitola have a strong community identity and may not support annexation at this time.

Chair Rachél Lather requested a motion approving staff recommendation. **Commissioner Manu Koenig** made the motion and **Commissioner Jim Anderson** seconded the motion.

Chair Rachél Lather called for a voice vote on staff recommendation: **Adopt the draft resolution (No. 2026-04) approving the sphere amendment for the City of Capitola.**

MOTION: Manu Koenig
SECOND: Jim Anderson
FOR: Jim Anderson, Joe Clarke, John Hunt, Fred Keeley, Manu Koenig, and Rachél Lather.
AGAINST: None
ABSTAIN: None

MOTION PASSES: 6-0

6b. Policies & Procedures Handbook – Proposed Amendments

Chair Rachél Lather requested a presentation to consider amendments to the comprehensive handbook to better reflect current LAFCO practices and guide staff in future decisions.

Executive Officer Joe Serrano stated that the comprehensive handbook is updated on an annual basis. This year's amendment includes three changes regarding political endorsements, updates to the salary schedules, and guidelines to waive allocation fees. Executive Officer Serrano recommended the Commission adopt the draft resolution with the identified conditions.

Chair Rachél Lather requested public comments on the item. **Executive Officer Joe Serrano** indicated that there was no request to address the Commission.

Chair Rachél Lather opened the floor to Commission comments or clarifying questions on the item. **Commissioner John Hunt** asked a clarifying question on the deferment request process. **Executive Officer Joe Serrano** explained that the policy provides discretion to the Commission to act on any request on a case-by-case basis.

Chair Rachél Lather requested a motion from the Commission. **Commissioner Joe Clarke** made the motion and **Commissioner Jim Anderson** provided a second.

Chair Rachél Lather called for a voice vote on the motion: **Adopt the draft resolution (No. 2026-04) approving the proposed amendments to LAFCO's Policies & Procedures Handbook.**

MOTION: Jim Anderson
SECOND: Manu Koenig
FOR: Jim Anderson, Joe Clarke, John Hunt, Fred Keeley, Manu Koenig, and Rachél Lather.
AGAINST: None
ABSTAIN: None

MOTION PASSES: 6-0

7. OTHER BUSINESS

7a. “Atkinson Lane / Brewington Avenue ESA” – Time Extension

Chair Rachél Lather requested staff to provide an update on the annexation requirement outlined in the 2021 extraterritorial service agreement involving the City of Watsonville.

Executive Officer Joe Serrano provided the Commission with a timeline of the Atkinson Lane/Brewington Avenue ESA and scheduled annexation. The landowner and the City acknowledged that more time is needed to complete the annexation process. Both parties are requesting an extension of six months to complete the annexation process. Executive Officer Serrano recommended the Commission approve the time extension request to submit an annexation application involving the subject parcel and the City.

Chair Rachél Lather requested public comments on the item. **Executive Officer Joe Serrano** noted a request to address the Commission.

Becky Steinbruner, a member of the public, asked about the County’s input on the process. **Executive Officer Joe Serrano** stated that once an application is submitted, LAFCO will coordinate with the affected parties, including the County.

Chair Rachél Lather closed public comment and opened the floor to Commission comments or clarifying questions. **Commissioner Jim Anderson inquired** about completion of the annexation process. **Executive Officer Joe Serrano** noted that LAFCO has been working closely with the applicant, MidPen Housing and they have indicated to LAFCO their intention to submit an application.

Chair Rachél Lather requested a motion from the Commission. **Commissioner Joe Clarke** motioned to approve staff recommendation and **Commissioner John Hunt** seconded the motion.

Chair Rachél Lather called for a voice vote on the motion: **Approve a six-month extension to submit an annexation application involving the subject parcel and the City of Watsonville.**

MOTION: Joe Clarke

SECOND: John Hunt

FOR: Jim Anderson, Joe Clarke, John Hunt, Fred Keeley, Manu Koenig, and Rachél Lather.

AGAINST: None

ABSTAIN: None

MOTION PASSES: 6-0

7b. Legislative Update

Chair Rachél Lather requested staff to provide a status update on the new legislative session and any LAFCO-related bills.

Executive Officer Joe Serrano explained to the Commission that the new legislative cycle has started, and staff provided information on a few LAFCO-related legislative bills. The Commission will be updated again in May and November 2026.

Chair Rachél Lather moved to the next item since no Commission action was required.

7c. Fire-Related Projects (Recurring Item)

Chair Rachél Lather requested staff to provide a verbal update on the ongoing reorganization efforts involving CSA 48 and other fire agencies.

Executive Officer Joe Serrano provided the Commission with an update on the draft service review scheduled to be presented in June 2026, on the initial meeting for the fire-related ad hoc committee, and noted that staff is currently coordinating with Pajaro Valley Fire Protection District to develop and host a community workshop to provide information on the proposed reorganization with CSA 48 and to respond to questions or concerns from constituents.

Chair Rachél Lather requested public comments on the item. **Executive Officer Joe Serrano** noted a request to address the Commission.

Becky Steinbruner, a member of the public, provided comments on issues related to county assessments for parcels and requested an audit be conducted.

Chair Rachél Lather closed public comments and moved to the next item since no Commission action was required.

8. WRITTEN CORRESPONDENCE

Chair Rachél Lather inquired whether there was any written correspondence submitted to LAFCO. **Executive Officer Joe Serrano** indicated that no written correspondence had been submitted.

Chair Rachél Lather moved to the next item since no Commission action was required.

9. PRESS ARTICLES

Chair Rachél Lather requested staff to provide a presentation on the press articles. **Executive Officer Joe Serrano** indicated that this item highlights LAFCO-related articles recently circulated in local newspapers.

Chair Rachél Lather moved to the next item since no Commission action was required.

10. COMMISSIONERS' BUSINESS

Chair Rachél Lather inquired whether any Commissioner would like to share any information. There were no requests from the Commission.

Chair Rachél Lather moved to the next item since no Commission action was required.

11. CLOSED SESSION

Chair Rachél Lather indicated that a closed session will be held to cover the performance evaluation of LAFCO staff. **Executive Officer Joe Serrano** noted that LAFCO’s legal counsel will host the closed session in a separate meeting room and requested that the Commission reconvene to the regular LAFCO meeting once the closed session is concluded.

12. ANNOUNCEMENTS FROM CLOSED SESSION

Chair Rachél Lather reconvened the meeting and noted that there was no reportable action.

13. ADJOURNMENT

Chair Rachél Lather adjourned the Regular Commission Meeting at 10:19 a.m. for the next regular LAFCO meeting scheduled for Wednesday, April 1, 2026 at 9:00 a.m. in the Watsonville City Chambers.

RACHÉL LATHER, CHAIRPERSON

Attest:

FRANCISCO ESTRADA, LAFCO ANALYST



Date: April 1, 2026
To: LAFCO Commissioners
From: Joe Serrano, Executive Officer
Subject: **Draft Budget for Fiscal Year 2026-27**

SUMMARY OF RECOMMENDATION

State law requires that LAFCO adopt a draft budget by May and a final budget by June of the same year. Staff noticed a public hearing in the Santa Cruz Sentinel on March 11, 2026, for the Commission to consider a draft budget for the upcoming fiscal year in a public forum. LAFCO’s funding agencies were also informed about the Commission’s consideration of the draft budget prior to the public hearing.

It is recommended that the Commission take the following actions:

1. Adopt the resolution (LAFCO No. 2026-05) approving the draft budget for Fiscal Year 2026-27, with the following conditions:
 - a. Direct staff to distribute the draft budget for review and comment to the 25 funding agencies (20 special districts, 4 cities, and the County); and
 - b. Direct staff to schedule a public hearing, pursuant to Government Code Section 56381, for consideration and adoption of a final budget for Fiscal Year 2026-27 no later than June 3, 2026.

EXECUTIVE OFFICER’S REPORT:

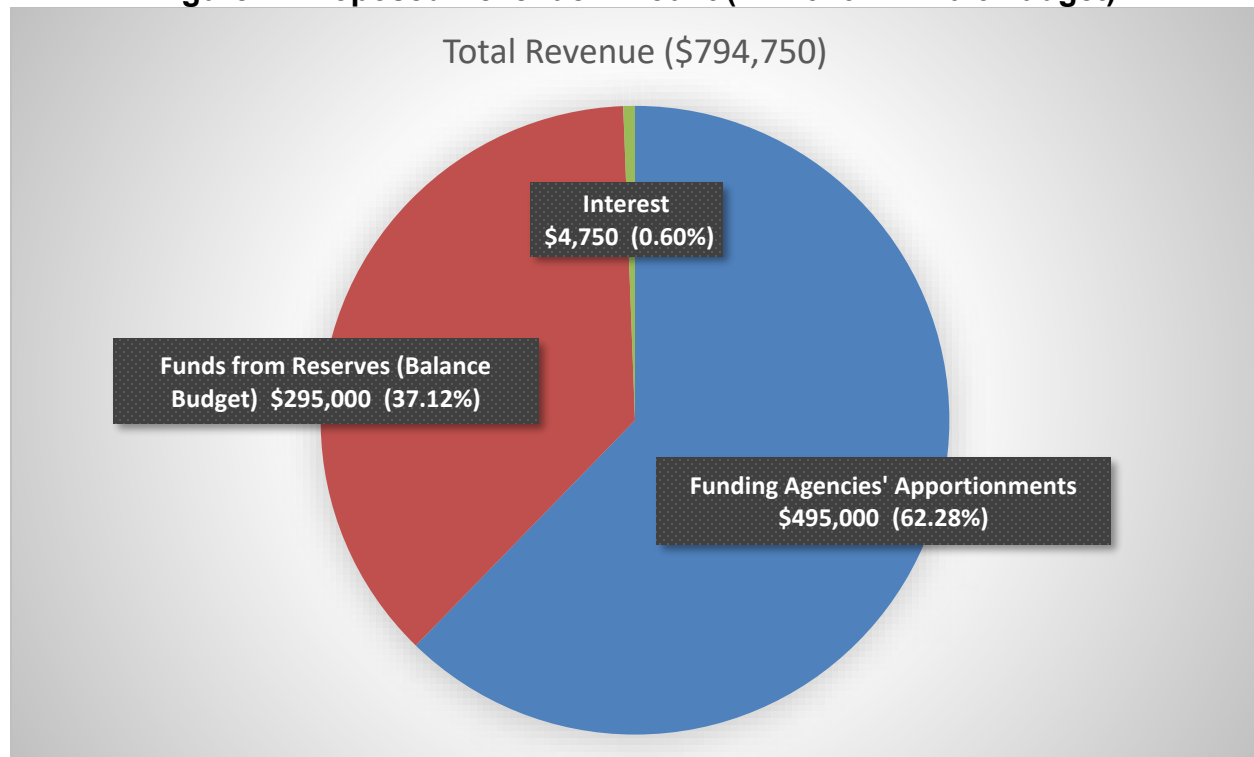
Government Code Section 56381(a) requires the Commission to hold a public hearing to adopt a draft and final budget each year. The proposed FY 2026-27 draft budget is presented in line-item detail for the Commission’s review and consideration (refer to **Attachment 1**). If the draft budget is approved by the Commission, it will be distributed to the Board of Supervisors, the cities, and the independent special districts for review and comment. Subsequently, the final budget with any submitted comments will be considered by the Commission at a second public hearing no later than the June 3, 2026 Regular LAFCO Meeting.

The proposed FY 2026-27 draft budget is balanced. Total expenses are projected to be \$594,750, representing half a percent (0.55%) increase from the current budget (FY 25-26 = \$591,500). The expected expenditures are covered by two key funding methods: projected revenues and a drawdown from LAFCO’s fund balance. The entire draft budget totals \$794,750 which represents an increase of less than half a percent (0.41%) from the current budget (FY 25-26 = \$791,500). The following pages provide a description and discussion of the revenues, expenditures, and fund balance contained in the FY 2026-27 draft budget.

REVENUES

The revenues in the proposed draft budget total \$794,750. There are three categories that comprise LAFCO's revenue: (1) County, Cities, and Special Districts Apportionments, (2) Interest, and (3) LAFCO's Fund Balance. As depicted in **Figure 1**, the apportionments from the funding agencies constitute approximately 62.28% of total revenues. The remaining revenue source derives from LAFCO's fund balance (37.12%) and interest (less than 1%).

Figure 1: Proposed Revenue Amount (FY 2026-27 Draft Budget)



County, Cities, and Special Districts Apportionments

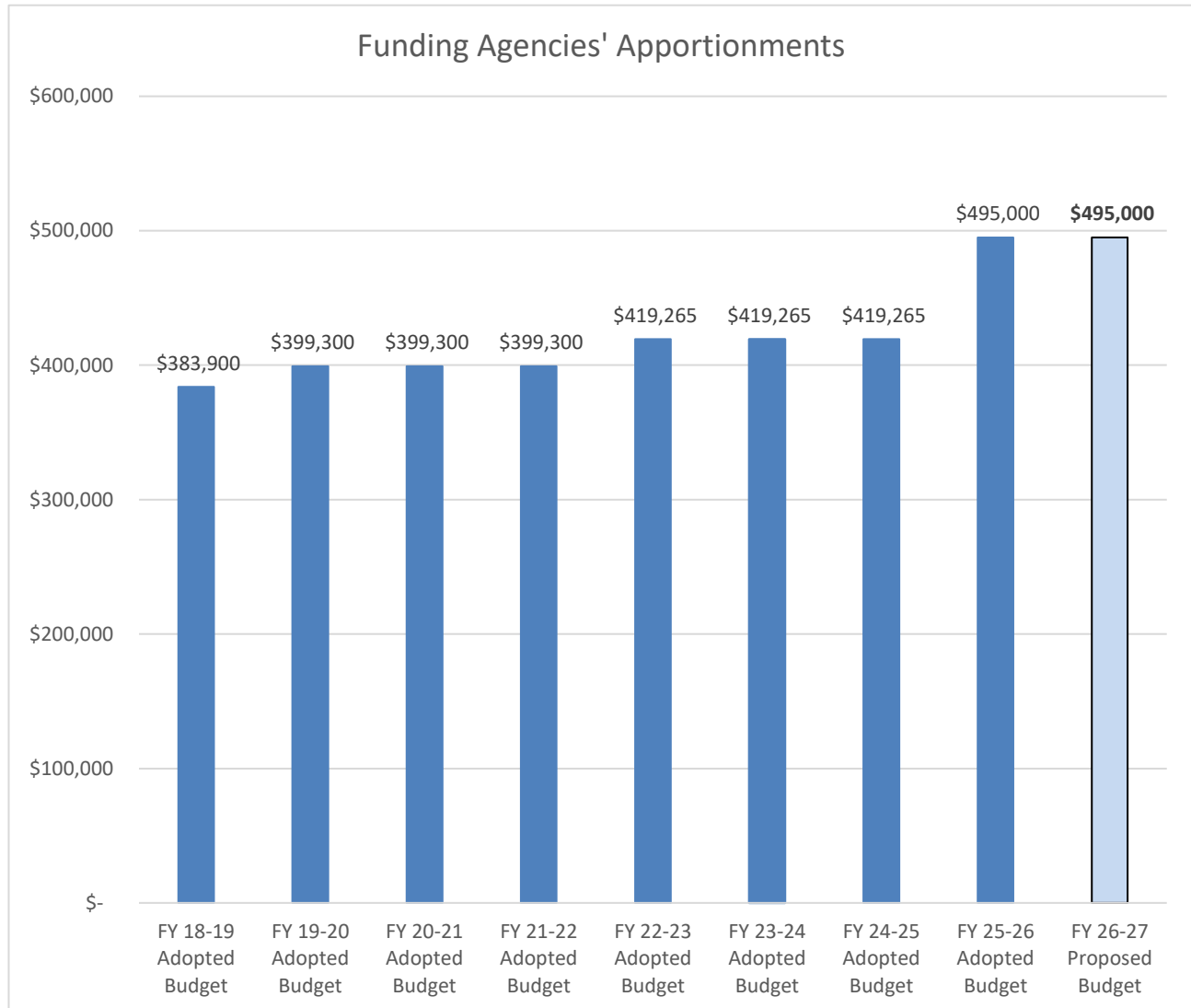
The apportionments from the funding agencies are LAFCO's primary source of revenue. The total apportionment for FY 2026-27 is \$495,000 which represents zero percent increase from the current budget (FY 2025-26 LAFCO Dues = \$495,000). **Figure 2** on page 3 compares the proposed apportionment amount during the last nine years. As the figure shows, LAFCO has kept the total allocation amount stagnant during a three year cycle to ensuring that the fiscal impact to our funding agencies are minimal.

Attachment 2 highlights the projected apportionments for each funding agency as part of this year's draft budget. Pursuant to State law, the total apportionment of \$495,000 is equally divided amongst the County, cities, and independent special districts. The apportionments for the individual cities and special districts are calculated by the County Auditor-Controller using the formula outlined in Government Code Section 56381(b)(1)(A), as discussed in the next page.

- **Cities (4 in total):** The cities' share shall be apportioned in proportion to each city's total revenues, as reported in the most recent edition of the Cities Annual Report published by the Controller, as a percentage of the combined city revenues within a county, or by an alternative method approved by a majority of cities representing the majority of the combined cities' populations.

- **Districts (20 in total):** The independent special districts' share shall be apportioned in proportion to each district's total revenues as a percentage of the combined total district revenues within a county. A district's total revenue shall be calculated for non-enterprise activities as total revenues for general purpose transactions less intergovernmental revenue, and for enterprise activities as total operating and nonoperating revenues less intergovernmental revenue, as reported in the most recent edition of the "Special Districts Annual Report" published by the Controller.

Figure 2: LAFCO Apportionments (FY 2018-19 to FY 2026-27)



Footnote: Allocations were increased by 5% (\$19,965) in FY 22-23 and remained unchanged until FY 25-26. The proposed increase in FY 25-26 was appx 18% or \$75,735. FY 26-27 is scheduled to have no increase.

Interest

This revenue category includes interest earned from the agency's payroll account. Since the Commission receives an influx of revenues at the beginning of each fiscal year from the funding agencies, the apportionments are deposited into one account which earns interest year-round. Staff withdraw funds from this account throughout the fiscal year to cover the agency's operational expenses. Given the current trends in rates, the draft budget for FY 2026-27 assumes that the interest accrued on the agency's payroll account may generate \$4,750 this upcoming year due to current economic conditions.

Fund Balance / Reserves

The Commission designates funds for all budget line items in order to operate the LAFCO office, including two recently developed reserve funds: a Litigation Reserve (\$100,000) and Contingency Reserve (\$100,000). If the Commission experiences any surplus at the end of the fiscal year, that carryover or “unreserved” amount is maintained in the agency’s payroll account. Historically, the Commission uses this amount to help balance the upcoming budget, if needed. Over the past several years, the use of these funds as part of the revenue assumptions has helped to avoid large fluctuations in the annual apportionments to the funding agencies. The total fund balance for the last six fiscal years is shown on the following page.

Table A: LAFCO’s Fund Balance (FY 19-20 to FY 25-26)

	FY 19-20 (Actual)	FY 20-21 (Actual)	FY 21-22 (Actual)	FY 22-23 (Actual)	FY 23-24 (Actual)	FY 24-25 (Actual)	FY 25-26 (Projected)
Fund Balance Amount (Year-End)	\$337,820	\$306,494	\$363,085	\$352,673	\$293,627	\$235,400	\$314,347
Funds earmarked for Contingency Reserves	-	-	-	-	-	-	\$100,000
Funds earmarked for Litigation Reserves	-	-	-	-	-	-	\$100,000
Unrestricted Funds	-	-	-	-	-	-	<u>\$114,347</u>
Total Funds used to Balance FY 26-27 Budget	-	-	-	-	-	-	\$295,000
Unrestricted Funds Left (Unused / Remaining)	-	-	-	-	-	-	<u>\$19,347</u>
Fund Balance Amount (Projected Year-End)	-	-	-	-	-	-	<u>\$314,347</u>

Reserve Policy

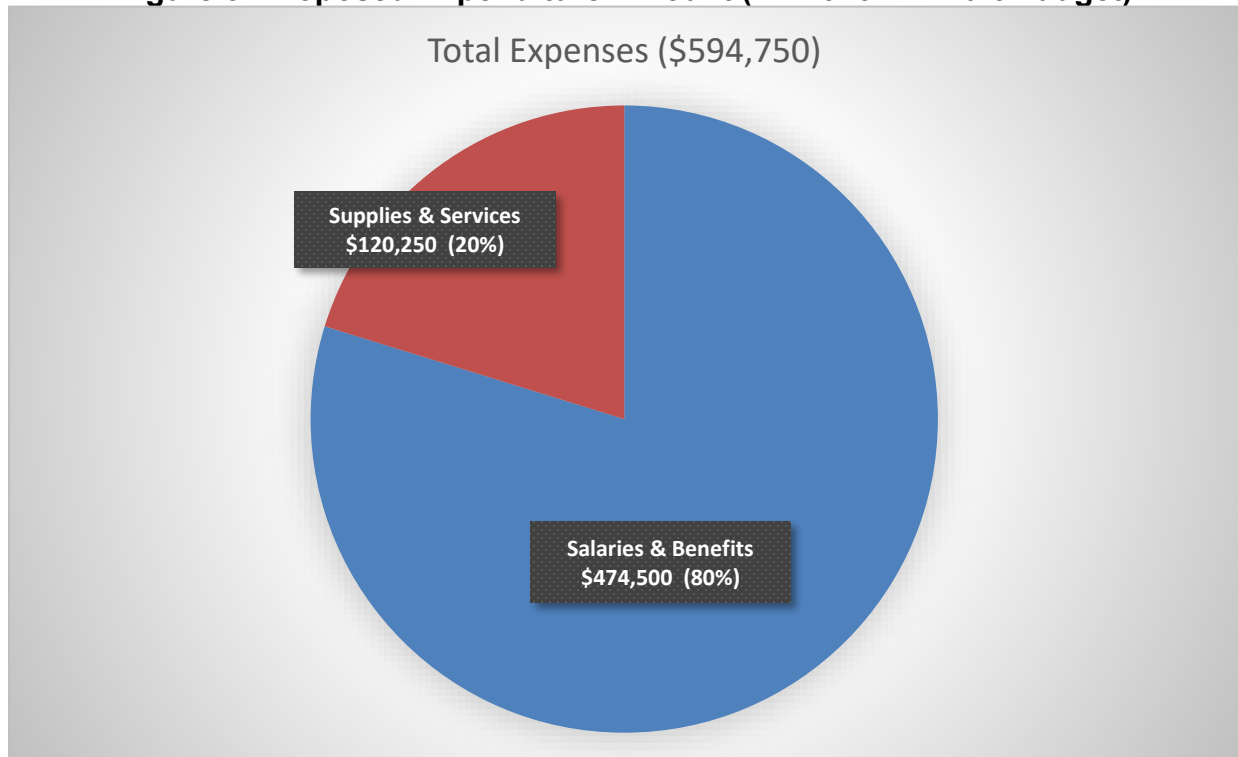
The Commission updated its Financial Policy in September 2023 to include guidance on maintaining two reserve funds: Litigation and Contingency Reserves¹. The policy indicates that as of July 1, 2024, LAFCO will have two reserve funds restricted to the agency’s account with the County of Santa Cruz. The Litigation Reserve holds restricted funds for costs related to agency legal challenges. Restricted funds are to cover any unforeseen future agency loss and/or urgency which includes but is not limited to property or equipment damage, loss, or theft. These funds may also be used to balance annual LAFCO budgets.

¹ Financial Policy: <https://santacruzlafco.org/wp-content/uploads/2024/03/PP-Handbook-Adopted-Version-3-6-24.pdf>

EXPENDITURES

The proposed budget expenditures reflect the necessary resources to support LAFCO's operations and to effectively manage the mandated projects that are not supported by applicant fees, such as preparing updates of agencies' spheres of influence, conducting municipal service reviews, and other staff assignments. The draft budget includes adjustments to specific budget categories based on past trends and actual expenditures. The Commission expenses are described in two categories: (1) Salaries & Benefits, and (2) Supplies & Services. The percentage of each category is depicted in **Figure 3** below and described briefly in the following sections. **Attachment 3** also provides a detailed narrative of all LAFCO expenses within these two categories.

Figure 3: Proposed Expenditure Amount (FY 2026-27 Draft Budget)



Salaries

Santa Cruz LAFCO will have two full-time professional staff members for the upcoming fiscal year. Total salaries for FY 2026-27 are expected to be \$290,000, which represents a 4% increase from the current budget for FY 2025-26 (\$280,000). The projections in the proposed budget also reflect the anticipated adjustments to staff's annual salaries. The following table shows the salary breakdown for staff members since FY 2020-21.

Table B: LAFCO Staff Salary (FY 20-21 to FY 25-26)

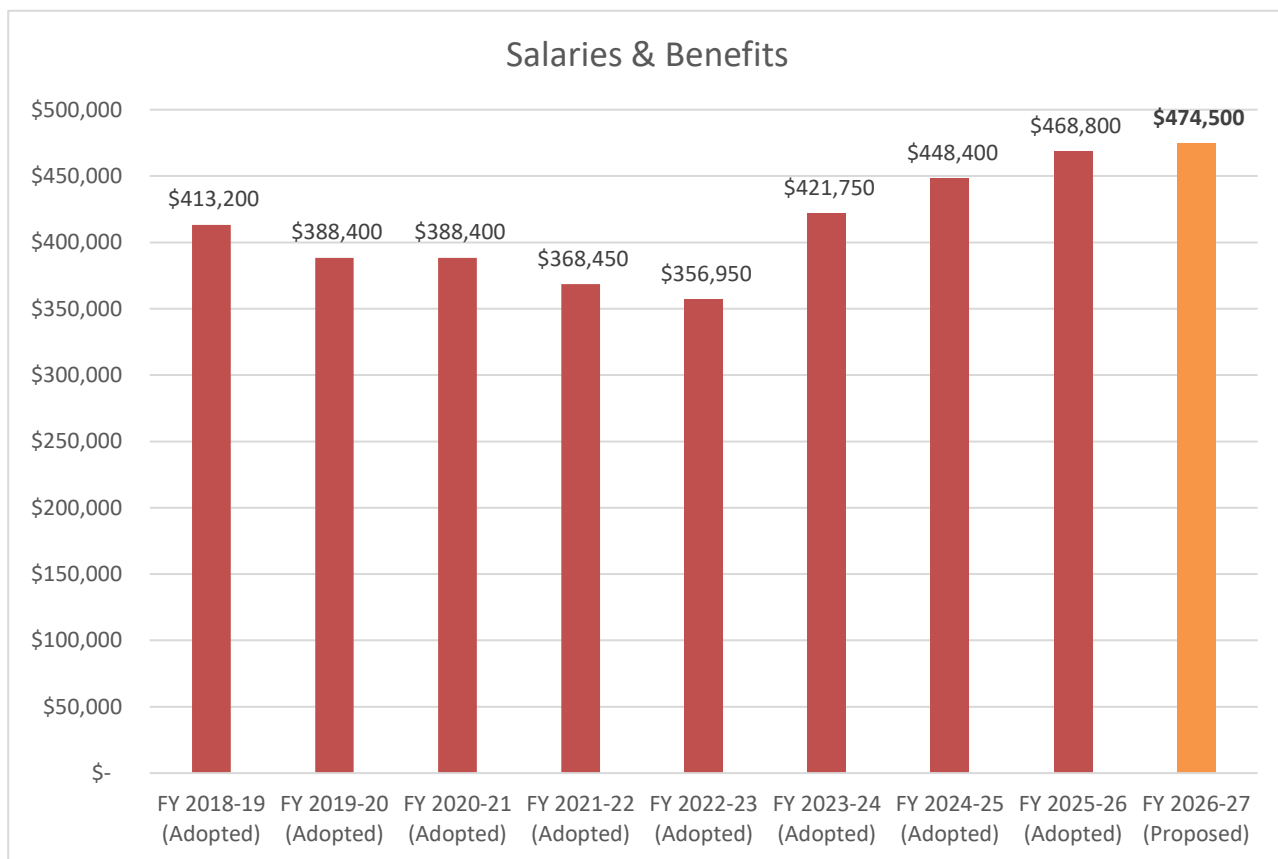
	FY 20-21 (Adopted)	FY 21-22 (Adopted)	FY 22-23 (Adopted)	FY 23-24 (Adopted)	FY 24-25 (Adopted)	FY 25-26 (Adopted)	FY 26-27 (Proposed)
Executive Officer	\$144,204	\$151,414	\$158,982	\$163,738	\$176,509	\$190,000	\$195,700
Commission Clerk	\$77,064	\$50,000	-	-	-	-	-
LAFCO Analyst	=	=	=	80,000	\$83,000	\$85,000	\$90,100
Salary Reserve	<u>\$24,132</u>	<u>\$18,586</u>	<u>\$41,018</u>	<u>\$1,262</u>	<u>\$491</u>	<u>\$50,000</u>	<u>\$4,200</u>
Total Salary Amount	\$245,400	\$220,000	\$200,000	\$245,000	\$260,000	\$280,000	\$290,000

Historically, the Commission has maintained a salary reserve balance to ensure that LAFCO has enough funds to cover salaries. Staff expects to have \$4,200 in salary reserve for FY 2026-27. As the Commission is aware, Santa Cruz LAFCO only has two active professional service agreements – one with Best, Best & Krieger for legal services and the other with Davis Farr LLP for auditing services. No other consultants are currently providing staff-level assistance. Additionally, the proposed budget has discontinued Overtime Pay and Extra Help budgetary expenses because these items have not been utilized in over a decade and LAFCO staff does not anticipate exhausting such expenses this upcoming fiscal year.

Benefits

The assumptions for the employee benefits (health, dental, life, and insurance) are typically based on information shared by the County of Santa Cruz, which provides benefits to LAFCO employees through a contractual agreement. The benefits for LAFCO staff mirror the benefits provided by the County to its employees. The proposed budget contains assumptions for retirement costs that are based on budgetary trends and figures provided by the California Public Employees’ Retirement System (CalPERS). Staff is expecting the retirement expenses could reach up to \$113,000 in the proposed budget (FY 2026-27). More information about CalPERS is discussed on page 7. **Figure 4** shows the total Salary & Benefits from FY 2018-19 to FY 2026-27.

Figure 4: Total Salaries & Benefits (FY 18-19 to FY 26-27)



As **Figure 4** shows, Salaries & Benefits have gradually increased for the last few fiscal years since the hiring of a full-time analyst. The proposed budget for FY 2026-27 will be approximately 1% or \$5,700 more than the current budget (FY 2025-26 = \$468,800).

LAFCO's Long-Term Liabilities (Pension Obligations)

LAFCO has been a member of CalPERS since August 16, 1972. Each year, the Commission provides an annual contribution towards the retirement system for coverage over current and retired LAFCO employees. CalPERS publishes valuation reports yearly to illustrate projected expenses, as shown in Attachment 4. The latest report indicated that LAFCO's minimum total employer contribution payment for FY 2026-27 would be \$75,459. The estimated amount was based on projected payroll for the contribution year. The valuation report also provides a breakdown of LAFCO's entire liability amount and pay-down schedule. At present, LAFCO's entire liability obligation under CalPERS is \$609,091. **Table C** shows how long it will take to pay off this pension obligation over time under three different scenarios.

Table C: Payment Schedule Alternative Options

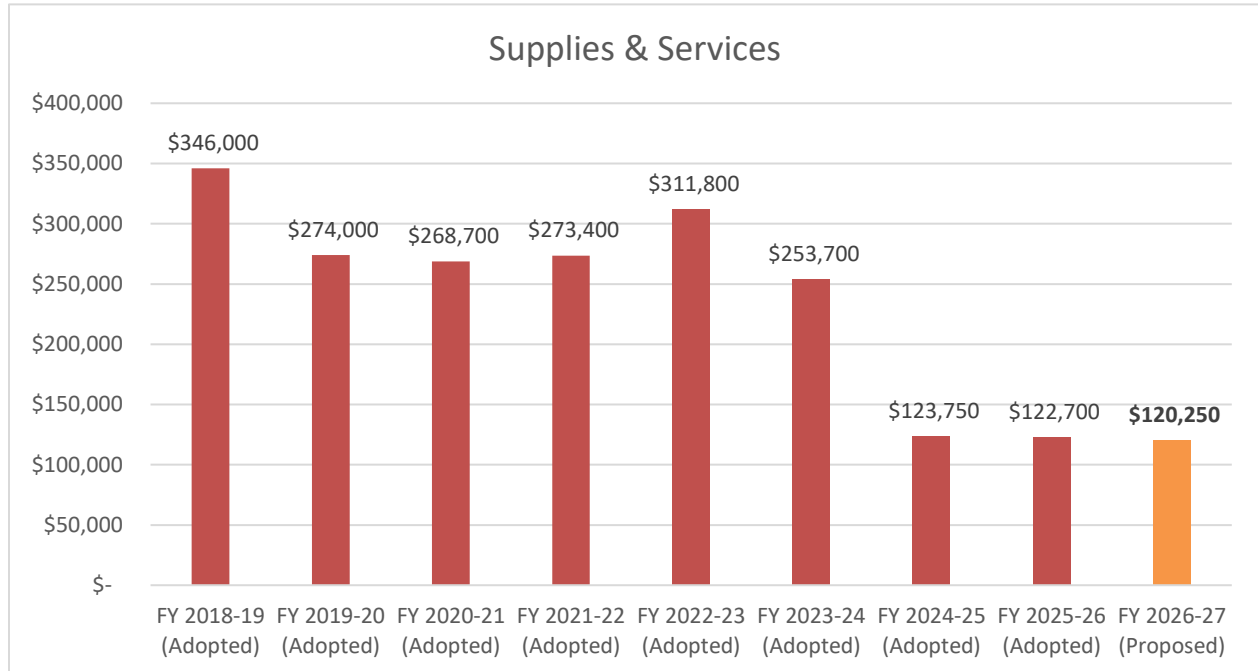
Date	Current Amortization		10-Year Amortization		5-Year Amortization	
6/30/2026	\$609,091	\$75,459	\$609,091	\$83,141	\$609,091	\$142,976
6/30/2027	\$572,529	\$76,456	\$564,588	\$83,141	\$502,752	\$142,976
6/30/2028	\$532,449	\$81,891	\$517,059	\$83,140	\$389,182	\$142,976
6/30/2029	\$484,025	\$81,099	\$466,299	\$83,141	\$267,889	\$142,976
6/30/2030	\$433,127	\$79,717	\$412,086	\$83,141	\$138,349	\$142,976
6/30/2031	\$380,197	\$79,716	\$354,187	\$83,141		
6/30/2032	\$323,669	\$79,719	\$292,350	\$83,140		
6/30/2033	\$263,294	\$79,717	\$226,310	\$83,141		
6/30/2034	\$198,815	\$79,717	\$155,778	\$83,140		
6/30/2035	\$129,950	\$17,682	\$80,451	\$83,141		
6/30/2036	\$120,514	\$17,687				
6/30/2037	\$110,432	\$17,687				
6/30/2038	\$99,663	\$17,683				
6/30/2039	\$88,166	\$17,684				
6/30/2040	\$75,885	\$17,686				
6/30/2041	\$62,769	\$17,684				
6/30/2042	\$48,763	\$14,967				
6/30/2043	\$36,612	\$37,204				
6/30/2044	\$652	\$674				

As the table shows, by paying the minimum amount, LAFCO is expected to pay off the existing obligation by June 30, 2044. If LAFCO elects to pay more than the minimum amount, then the pension obligation could be eliminated sooner. Under the 10-year amortization schedule, LAFCO can pay off the balance by June 30, 2035. Under the 5-year amortization schedule, LAFCO can pay off the balance by June 30, 2030. For the last few years, LAFCO has been paying the 10-year amortization amount in order to reduce the pension obligation at a faster rate. That said, LAFCO staff believes that having cash on hand is important to be prepared for any unanticipated expense. Therefore, 10-year amortization payments will be considered on an annual basis rather than an automatic approach. LAFCO staff is recommending that the commission move forward with a payment of \$83,141 for FY 2026-27. If LAFCO continues with this payment schedule, pension obligations may be vastly reduced and/or eliminated by 2035.

Supplies & Services

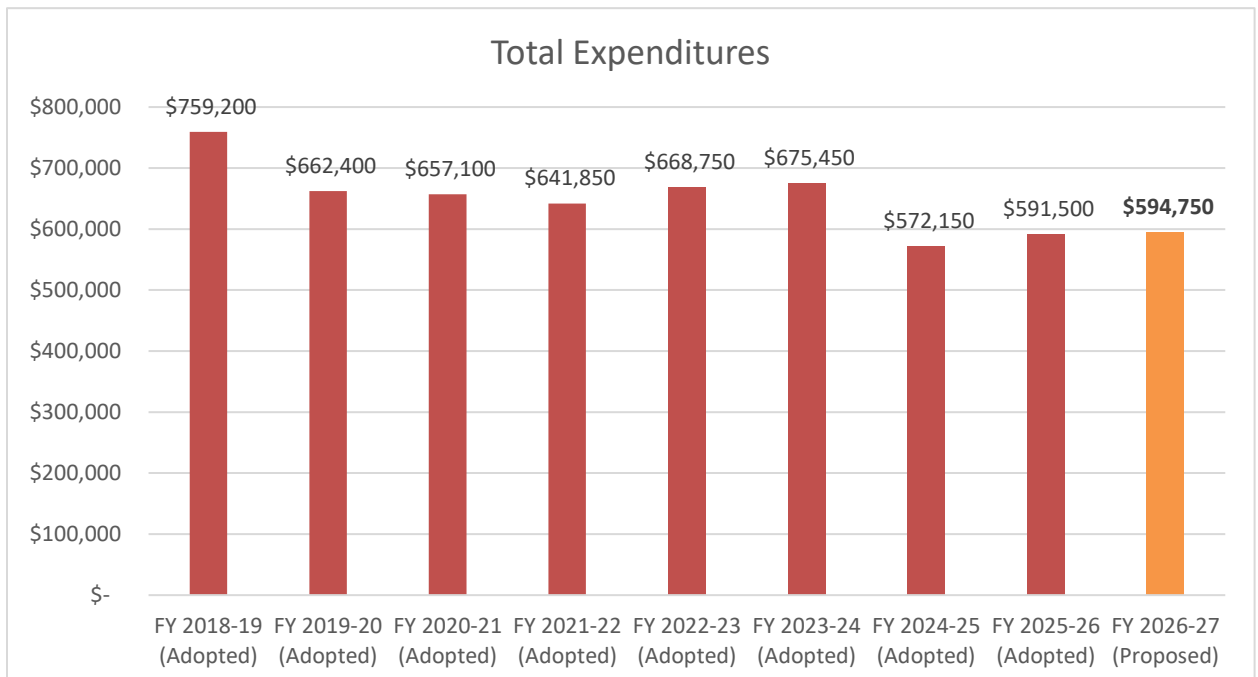
Overall, the Commission's operation demonstrates prudent management of agency expenses. Most of the identified expenditures in the draft budget for FY 2026-27 are the same amount or slightly lower than the current budget, with a few exceptions. **Figure 5** shows the total Supplies & Services from FY 2018-19 to FY 2024-25.

Figure 5: Total Supplies & Services (FY 18-19 to FY 26-27)



As **Figure 5** shows, Supplies & Services will decrease in the proposed budget by 2% or \$2,450. This is primarily due to a reduction in several budgetary items based on historical trends and LAFCO staff's ability to complete tasks in-house. **Figure 6** also depicts how Total Expenditures has decreased over the years.

Figure 6: Total Expenditures (FY 18-19 to FY 26-27)

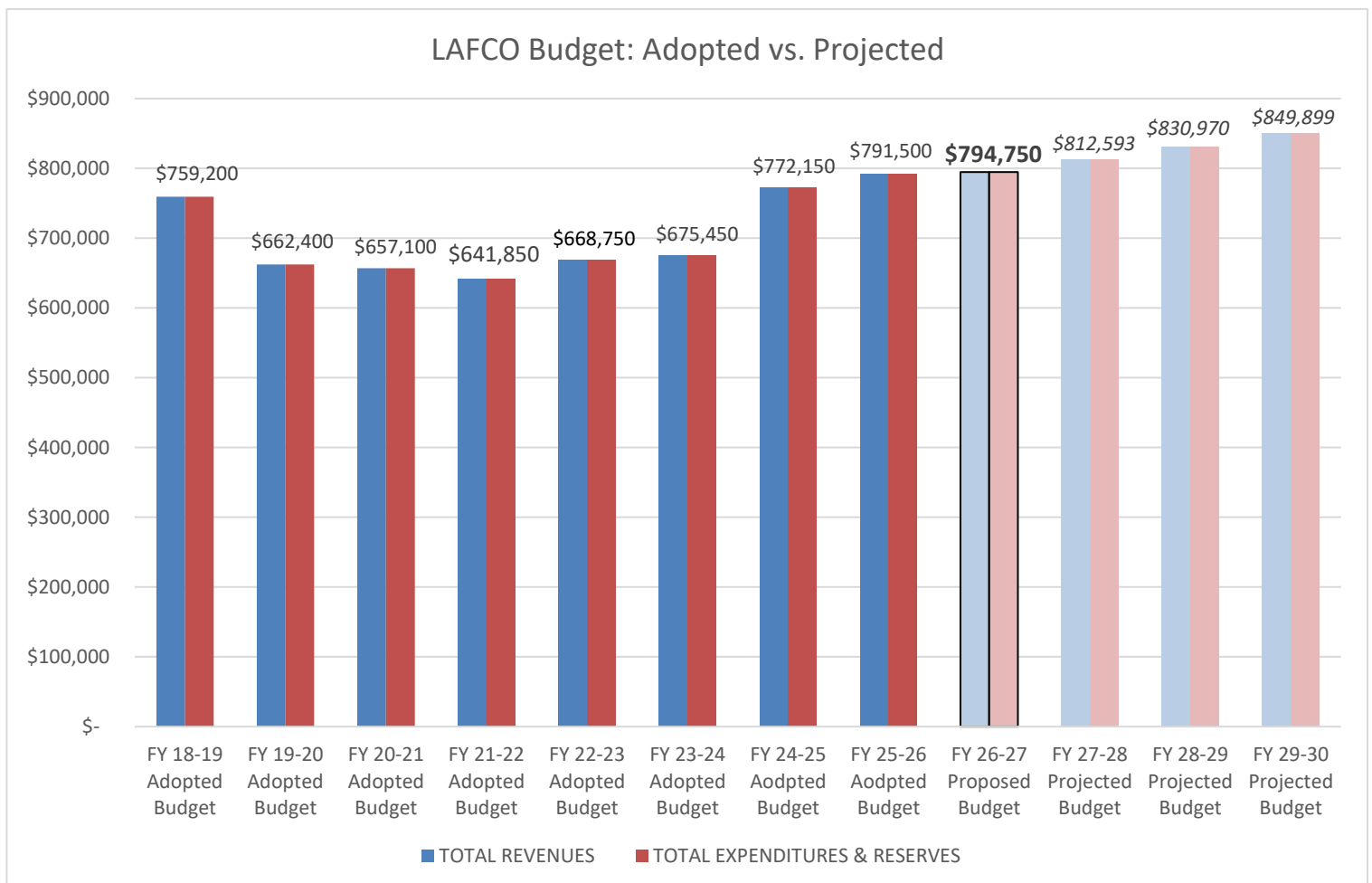


LAFCO BUDGET: PAST AND FUTURE PERSPECTIVE

This Commission strives to maximize funding and resources while maintaining an effective level of productivity. **Figure 7** shows how prudent management, coupled with staff changes, has resulted in significant decreases in overall expenses for the current budget (FY 2025-26) and a slight increase in the proposed budget (FY 2026-27). Projections can also help anticipate future changes or challenges to the LAFCO budget. In addition to Figure 7, **Attachment 5** offers a three-year budgetary outlook.

The projections are meant to be an informational tool for our funding agencies in preparation for potential increases in apportionments. For purposes of the three-year budget projection, expenditures were increased by 3% each year. This percentage is based on the latest Consumer Price Index. Please note that the projections shown are subject to change and should be used for discussion purposes only. That said, staff believes that increases to the funding agencies' apportionments may be needed in the future to cover inflation and rising costs outside the control of LAFCO.

Figure 7: Overview of Past, Proposed, and Projected LAFCO Budgets



Based on staff's projections, LAFCO's next three budgets may be subject to increases in overall expenditure. If that occurs, the funding agencies may see an increase in future apportionments. LAFCO staff will continue to find appropriate methods to keep annual expenses down as much as possible to minimize allocation increases. The draft budget for FY 2026-27 reflects the Commission's effort to maximize existing revenues and keep operating costs low.

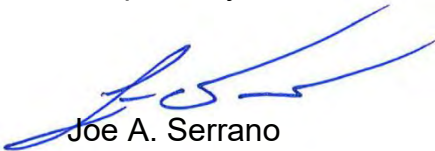
PUBLICATION / TRANSPARENCY

A public notice was published in the Sentinel Newspaper and posted on LAFCO's website on March 11, 2026 for public awareness. **Attachment 6** provides a copy of the public notice. Additionally, copies of the draft budget and all the supporting documents were shared with all the funding agencies on March 26, 2026.

STAFF RECOMMENDATION

The draft budget for FY 2026-27 is slightly higher than the current budget by only half a percent or \$3,250. Conservative budgetary management practices is the primary reason why the proposed budget continues to keep costs as low as possible. Additionally, the funding agencies did not see an increase in their apportionment under this draft budget. In conclusion, staff believes that the adopted work program, current level of operations, and any other activities can be accomplished with the proposed budget. Therefore, staff recommends the Commission adopt the resolution (refer to **Attachment 7**) approving the draft budget for FY 2026-27. A final budget will be presented to the Commission no later than Wednesday, June 3, 2026.

Respectfully Submitted,



Joe A. Serrano
Executive Officer

Attachments:

1. FY 2026-27 Draft Budget
2. FY 2026-27 Apportionments for Funding Agencies
3. Narrative of Budget Line Items (Expenditures)
4. CalPERS Actuarial Report (dated June 2024)
5. Three-year Budget Projections
6. Public Notice (dated March 11, 2026)
7. Draft Resolution (LAFCO No. 2026-05)

cc: County of Santa Cruz (Board of Supervisors, Auditor-Controller, and CAO)
Cities (Capitola, Santa Cruz, Scotts Valley, and Watsonville)
Independent Special Districts (20 in total)

FISCAL YEAR 2026-27	FY 25-26 Adopted Budget	FY 26-27 Proposed Budget	Budget Variance (\$)	Budget Variance (%)
REVENUE DESCRIPTION				
Interest	\$ 1,500	\$ 4,750	\$ 3,250	216.67%
Funding Agencies' Apportionments	\$ 495,000	\$ 495,000	\$ -	0.00%
LAFCO Processing Fees	\$ -	\$ -	\$ -	-
Medical Charges-Employee	\$ -	\$ -	\$ -	-
Reserves / Fund Balance	\$ 295,000	\$ 295,000	\$ -	0.00%
TOTAL REVENUES	\$ 791,500	\$ 794,750	\$ 3,250	0.41%
EXPENDITURE DESCRIPTION				
Regular Pay	\$ 280,000	\$ 290,000	\$ 10,000	3.57%
Holiday Pay	\$ 10,300	\$ 12,000	\$ 1,700	16.50%
Social Security	\$ 18,000	\$ 20,000	\$ 2,000	11.11%
PERS	\$ 113,000	\$ 105,000	\$ (8,000)	-7.08%
Insurances	\$ 45,000	\$ 45,000	\$ -	0.00%
Unemployment	\$ 1,000	\$ 1,000	\$ -	0.00%
Workers Comp	\$ 1,500	\$ 1,500	\$ -	0.00%
Total Salaries & Benefits	\$ 468,800	\$ 474,500	\$ 5,700	1.22%
Telecom	\$ 1,600	\$ 1,400	\$ (200)	-12.50%
Office Equipment	\$ 200	\$ 200	\$ -	0.00%
Memberships	\$ 7,800	\$ 7,800	\$ -	0.00%
Duplicating	\$ 200	\$ 100	\$ (100)	-50.00%
PC Software	\$ 700	\$ 650	\$ (50)	-7.14%
Postage	\$ 400	\$ 200	\$ (200)	-50.00%
Subscriptions	\$ 3,300	\$ 3,400	\$ 100	3.03%
Supplies	\$ 400	\$ 400	\$ -	0.00%
Accounting	\$ 11,500	\$ 15,000	\$ 3,500	30.43%
Attorney	\$ 15,000	\$ 13,000	\$ (2,000)	-13.33%
Data Service	\$ 14,000	\$ 15,000	\$ 1,000	7.14%
Director Fees	\$ 5,000	\$ 5,000	\$ -	0.00%
Prof. Services	\$ 38,000	\$ 35,000	\$ (3,000)	-7.89%
Legal Notices	\$ 4,000	\$ 2,500	\$ (1,500)	-37.50%
Rents	\$ 10,000	\$ 10,000	\$ -	0.00%
Misc. Expenses	\$ 4,500	\$ 4,500	\$ -	0.00%
Air Fare	\$ 600	\$ 600	\$ -	0.00%
Training	\$ 500	\$ 500	\$ -	0.00%
Lodging	\$ 2,000	\$ 2,000	\$ -	0.00%
Mileage	\$ -	\$ -	\$ -	-
Travel-Other	\$ -	\$ -	\$ -	-
Registrations	\$ 3,000	\$ 3,000	\$ -	0.00%
Total Services & Supplies	\$ 122,700	\$ 120,250	\$ (2,450)	-2.00%
TOTAL EXPENDITURES	\$ 591,500	\$ 594,750	\$ 3,250	0.55%
RESERVE DESCRIPTION				
Contingency Reserves	\$ 100,000	\$ 100,000	\$ -	-
Litigation Reserves	\$ 100,000	\$ 100,000	\$ -	-
Total Reserve Balance	\$ 200,000	\$ 200,000	\$ -	-
TOTAL EXPENDITURES & RESERVES	\$ 791,500	\$ 794,750	\$ 3,250	0.41%

Description	Operating Revenue	Non-Operating Revenue	Apportionment Basis Revenue latest Published State Controller's Report	Deduct Intergovernmental	Total less Intergovernmental	Calculate Proportionate Share	Fee Percentage Projection	FY 25-26 Total Allocation (Adopted)	FY 26-27 Total Allocation (Proposed)	Difference (\$)	Difference (%)
LAFCO Total 2024-2025 Working Budget			495,000					495,000.00	495,000.00	-	0%
Allocate 1/3 fee to County of Santa Cruz											
County of Santa Cruz			165,000.00			165,000.00	33.333%	165,000.00	165,000.00	-	0%
Allocate 1/3 fee to all Cities Revenue Factor			165,000.00								
City of Capitola			22,756,352	(2,048,605)	20,707,747	7,379.44	1.491%	7,379.44	7,379.44	-	0%
City of Santa Cruz			286,938,428	(21,271,583)	265,666,845	94,673.35	19.126%	94,673.35	94,673.35	-	0%
City of Scotts Valley			25,950,380	(3,763,800)	22,186,580	7,906.44	1.597%	7,906.44	7,906.44	-	0%
City of Watsonville			163,269,453	(8,817,235)	154,452,218	55,040.77	11.119%	55,040.77	55,040.77	-	0%
			498,914,613	(35,901,223)	463,013,390	165,000.00	33.333%	165,000.00	165,000.00	-	0%
Allocate 1/3 fee to Independent Districts -											
Annual Report			165,000.00								
Non-Enterprise											
Alba Park & Rec			316	0	316	0.36	0.000%	0.36	0.36	-	0%
Ben Lomond Fire Protection			1,216,550	(5,027)	1,211,523	1,379.00	0.279%	1,379.00	1,379.00	-	0%
Boulder Creek Fire Protection			1,510,459	(5,363)	1,505,096	1,713.00	0.346%	1,713.16	1,713.16	-	0%
Boulder Creek Park & Rec			598,967	(1,179)	597,788	680.43	0.137%	680.43	680.43	-	0%
Central Fire District (1)			45,311,814	(930,422)	44,381,392	50,516.62	10.205%	50,516.62	50,516.62	-	0%
Felton Fire Protection			1,056,293	(6,260)	1,050,033	1,195.19	0.241%	1,195.19	1,195.19	-	0%
La Selva Beach Park & Rec			261,722	(775)	260,947	297.02	0.060%	297.02	297.02	-	0%
Pajaro Valley Health Care District: new in FY26			536,063	0	536,063	610.17	0.123%	610.17	610.17	-	0%
Pajaro Valley Fire Protection			2,474,676	(9,942)	2,464,734	2,805.46	0.567%	2,805.46	2,805.46	-	0%
Pajaro Valley Public Cemetery			1,824,736	(4,324)	1,820,412	2,072.06	0.419%	2,072.06	2,072.06	-	0%
Pajaro Valley Water Management Agency			16,405,484	(2,525,638)	13,879,846	15,798.58	3.192%	15,798.58	15,798.58	-	0%
Santa Cruz County Resource Conserv.			5,493,644	(4,309,642)	1,184,002	1,347.68	0.272%	1,347.68	1,347.68	-	0%
Scotts Valley Fire Protection (2)			11,512,289	(812,685)	10,699,604	12,178.70	2.460%	12,178.70	12,178.70	-	0%
Zayante Fire Protection			735,943	(126,183)	609,760	694.05	0.140%	694.05	694.05	-	0%
Non-Enterprise Subtotal			88,938,956	(8,737,440)	80,201,516	91,288.32	18.441%	91,288.48	91,288.48	-	0%
Enterprise - Operating plus Non-Operating Revenue	Operating Revenue	Non-Operating Revenue	Total Revenue								
Central Santa Cruz County Water	965,956	196,908	1,162,864	(661)	1,162,203	1,322.86	0.267%	1,322.86	1,322.86	-	0%
Salsipuedes Sanitary	425,510	64,187	489,697	(121)	489,576	557.25	0.113%	557.25	557.25	-	0%
San Lorenzo Valley County Water (3)	12,139,561	2,288,100	14,427,661	(217,903)	14,209,758	16,174.10	3.267%	16,174.10	16,174.10	-	0%
Santa Cruz Port District	11,171,966	3,789,713	14,961,679	(607,393)	14,354,286	16,338.61	3.301%	16,338.61	16,338.61	-	0%
Scotts Valley County Water	7,605,864	1,417,849	9,023,713	(5,736)	9,017,977	10,264.61	2.074%	10,264.61	10,264.61	-	0%
Soquel Creek Water District	25,258,598	266,880	25,525,478	0	25,525,478	29,054.10	5.870%	29,054.09	29,054.09	-	0%
Enterprise Subtotal			65,591,092	(831,814)	64,759,278	73,711.53	14.891%	73,711.52	73,711.52	-	0%
Special District Total			154,530,048	(9,569,254)	144,960,794	164,999.85	33.332%	165,000.00	165,000.00	-	0%
Grand total						494,999.85	99.998%	495,000.00	495,000.00	-	0%

Footnotes:

(1) Total revenue used to calculate the apportionment for CFD is based on the data provided by CFD directly as the financial information was not available in the SCO's FY21-22 report due to 2021 consolidation

(2) Scotts Valley Fire includes Branciforte Fire for FY24 due to a merger

(3) Includes SLV Water, SLV Waste, and Lompico Water

Local Agency Formation Commission of Santa Cruz County
Budget Line Item Narrative FY 2026-27

Budget Line Item (Object Code)	Description
Salaries & Benefits	
51000 Regular Pay \$290,000 <u>Executive Officer</u> Current Salary: \$94.09 hourly rate <u>LAFCO Analyst</u> Current Salary: \$43.32 hourly rate	Total Salary Breakdown: Executive Officer \$195,700 LAFCO Analyst \$ 90,100 Salary Reserve* \$ 4,200 Total Salary \$290,000 *Salary Reserve: Allows for possible adjustments to staff salaries, cash out of administrative leave, and payment of unused leave upon termination of employment.
51005 Overtime Pay \$0	LAFCO staff may work overtime during periods of major projects and night meetings.
51010 Extra Help \$0	These funds may be used for temporary clerical assistance.
51015 Sick Leave \$0	This amount is based on historical trends.
51035 Holiday Pay \$12,000	Holiday pay is budgeted as a lump sum.
52010 Social Security \$20,000	This amount is based on a percentage of total salaries and historical trends.
52015 PERS \$113,000	This amount covers the Commission's contributions to the Public Employees Retirement System (PERS). Effective July 2026, the employer's share of the normal costs will decrease from 12.58% of salaries to 12.56% and the employer's lump sum payment of unfunded liability will be around \$84,000.
53010 Employee Insurance \$45,000	This amount provides for health insurance through PERS and for dental, eye care, life insurance, and limited disability insurance through the County's program. The employees pay a portion of the costs. The employees' contributions are budgeted as revenue, and reduce the net cost of this benefit to the Commission.
53015 Unemployment \$1,000	This amount is based on a percentage of total salaries and historical trends.
54010 Workers' Compensation \$1,500	The Commission obtains this coverage from the Special District Risk Management Authority (SDRMA).
Total Salaries & Benefits	\$474,500

Budget Line Item (Object Code)	Description
Services & Supplies	
61220 Telecom \$1,400	This amount covers the costs towards LAFCO's telephone system and annual usage.
61725 Maintenance of Office Equipment \$200	This amount covers the costs towards maintenance of LAFCO's copier and other office equipment.
62020 Memberships \$7,800	This amount provides for membership with the California Association of LAFCOs (CALAFCO), California Special Districts Association (CSDA), and any other relative group.
62111 Computer Hardware \$0	This amount covers any hardware needed to conduct administrative/operational projects.
62214 Duplicating \$100	This amount covers the costs to copy reports, maps or other relative material by the County or at a local printing shop.
62219 Software \$650	This amount covers any web-based software needed to conduct administrative/operational projects.
62221 Postage \$200	This amount covers the costs of mailing public notices and regular correspondence.
62222 Subscriptions \$3,400	This amount covers annual subscriptions including but not limited to LAFCO's web-based presentation platform (Prezi).
62223 Supplies \$400	This amount covers office-related supplies.
62310 Accounting \$15,000	This amount includes the cost of accounting services from the County Auditor (i.e. payroll, vendor payments, and auditing). This amount will also cover annual audits.
62304 Attorney \$13,000	This amount covers legal services from Best, Best & Krieger as LAFCO's general counsel.
62325 Data Services \$15,000	This amount covers the charges from the County I.T. Department regarding LAFCO's computers, printers, mapping system, and other database services.
62327 Director Fees \$5,000	This amount is calculated upon all 11 Commissioners being paid a \$50 stipend for their attendance to 10 meetings. Stipends will now be paid at the end of each fiscal year.
62330 Surveyor \$0	This amount covers map checking by the County Surveyor and map prints from the County Public Works Department.
62381 Professional Services \$35,000	This amount covers outside assistance when preparing service and sphere reviews or other special studies.
62420 Legal Notices \$2,500	This amount is used to pay for public hearing notices and other legal advertisement.

62610 Rent \$10,000	This amount covers the County's charges for LAFCO to rent its office on the third floor of the governmental center. The annual rent is \$9,843. Additionally, the County charges the Commission to store and retrieve LAFCO's old records in the County warehouse.
62856 Miscellaneous Expenses \$4,500	This amount is used for paying web-hosting costs, and filing fees including but not limited to the State Department of Tax & Fee Administration and the State Department of Fish and Wildlife.
62890 Books \$0	This amount is used to purchase LAFCO-related books and other written material.
62910 Airfare \$600	This amount is used to attend meetings that are in distant locations in California.
62912 Auto Rental \$0	This amount is based on historical trends.
62914 Education & Training \$500	This amount represents staff development courses and seminars.
62922 Lodging \$2,000	This amount covers overnight stays for Commissioners and staff attending training sessions, workshops, and annual conferences.
62924 Meals \$0	This amount is based on historical trends.
62926 Mileage \$0	This amount include mileage for LAFCO-related errands, and allowance for Commissioners and staff to attend conferences, seminars, CALAFCO board meetings, and other meetings.
62928 Travel \$0	This amount covers miscellaneous travel costs such as train fares, bus fares, parking, and bridge tolls.
62930 Registrations \$3,000	This amount covers workshop and conference registrations for Commissioners and staff when attending educational courses.
Total Services & Supplies	\$120,250

FY 2025-26 Budget Recap (Expenditure)

Salaries & Benefits	\$ 474,500
Services & Supplies	\$ <u>120,250</u>
Total Expenditure	\$ 594,750

California Public Employees' Retirement System

Actuarial Valuation for the Rate Plans of the Santa Cruz Local Agency Formation Commission in the Miscellaneous Risk Pool as of June 30, 2024

(CalPERS ID: 5405887055)
(Rate Plan IDs: 992, 26488)

Required Contributions for Fiscal Year

July 1, 2026 — June 30, 2027

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Section 1 – Employer Specific Information

Section 2 – Miscellaneous Risk Pool Actuarial Information

Section 1

California Public Employees' Retirement System

**Employer Specific Information
for the
Rate Plans of the
Santa Cruz Local Agency Formation
Commission
in the Miscellaneous Risk Pool**

**(CalPERS ID: 5405887055)
(Rate Plan IDs: 992, 26488)**

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Actuarial Certification

It is our opinion that the valuation has been performed in accordance with generally accepted actuarial principles as well as the applicable Standards of Practice promulgated by the Actuarial Standards Board. While this report, consisting of Section 1 and Section 2, is intended to be complete, our office is available to answer questions as needed. All of the undersigned are actuaries who satisfy the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* of the American Academy of Actuaries with regard to pensions.

Actuarial Methods and Assumptions

It is our opinion that the assumptions and methods, as recommended by the Chief Actuary and adopted by the CalPERS Board of Administration, are internally consistent and reasonable for this plan.

Randall Dziubek, ASA, MAAA
Deputy Chief Actuary, Valuation Services, CalPERS

Scott Terando, ASA, EA, MAAA, FCA, CFA
Chief Actuary, CalPERS

Actuarial Data and Rate Plan Results

To the best of my knowledge and having relied upon the attestation above that the actuarial methods and assumptions are reasonable as well as the information in Section 2 of this report, this report is complete and accurate and contains sufficient information to disclose, fully and fairly, the funded condition of the rate plans of the Santa Cruz Local Agency Formation Commission in the Miscellaneous Risk Pool and satisfies the actuarial valuation requirements of Government Code section 7504. This valuation and related validation work was performed by the CalPERS Actuarial Office. The valuation was based on the member and financial data as of June 30, 2024, provided by the various CalPERS databases and the benefits under this plan with CalPERS as of the date this report was produced. Section 1 of this report is based on the member and financial data for Santa Cruz Local Agency Formation Commission, while Section 2 is based on the corresponding information for all agencies participating in the Miscellaneous Risk Pool to which the plan belongs.

Matthew Biggart, ASA, MAAA
Actuary, CalPERS

Highlights and Executive Summary

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Introduction

This report presents the results of the June 30, 2024, actuarial valuation of the rate plans of the Santa Cruz Local Agency Formation Commission in the Miscellaneous Risk Pool of the California Public Employees' Retirement System (CalPERS). This actuarial valuation sets the minimum required contributions for fiscal year (FY) 2026-27.

Purpose of Section 1

This Section 1 report for the rate plans of the Santa Cruz Local Agency Formation Commission in the Miscellaneous Risk Pool of CalPERS was prepared by the Actuarial Office using data as of June 30, 2024. This report contains actuarial information for the following rate plan(s).

- 992, Miscellaneous Plan
- 26488, PEPRAs Miscellaneous Plan

The purpose of the valuation is to:

- Set forth the assets and accrued liabilities of these rate plans as of June 30, 2024;
- Determine the minimum required employer contributions for these rate plans for FY July 1, 2026, through June 30, 2027;
- Determine the required member contribution rate for FY July 1, 2026, through June 30, 2027, for employees subject to the California Public Employees' Pension Reform Act of 2013 (PEPRA); and
- Provide actuarial information as of June 30, 2024, to the CalPERS Board of Administration (board) and other interested parties.

The pension funding information presented in this report should not be used in financial reports subject to Governmental Accounting Standards Board (GASB) Statement No. 68 for a Cost Sharing Employer Defined Benefit Pension Plan. A separate accounting valuation report for such purposes is available on the CalPERS website (www.calpers.ca.gov).

The measurements shown in this actuarial valuation may not be applicable for other purposes. The agency should contact a CalPERS actuary before disseminating any portion of this report for any reason that is not explicitly described above.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; changes in actuarial policies; changes in plan provisions or applicable law; and differences between the required contributions determined by the valuation and the actual contributions made by the agency.

Assessment and Disclosure of Risk

This report includes the following risk disclosures consistent with the guidance of the Actuarial Standards of Practice:

- A "Scenario Test," projecting future results under different investment income returns.
- A "Sensitivity Analysis," showing the impact on current valuation results using alternative discount rates of 5.8% and 7.8%.
- A "Sensitivity Analysis," showing the impact on current valuation results assuming rates of mortality are 10% lower or 10% higher than our current post-retirement mortality assumptions adopted in 2021.
- Plan maturity measures indicating how sensitive a plan may be to the risks noted above.
- The funded status on a termination basis.
- A low-default-risk obligation measure (LDRM) of benefit costs accrued as of the valuation date.

Summary of Key Valuation Results

Below is a brief summary of key valuation results along with page references where more detailed information can be found.

Required Employer Contributions — page 8

	Fiscal Year 2025-26	Fiscal Year 2026-27
Employer Normal Cost Rates		
Rate Plan 992	12.58%	12.56%
Rate Plan 26488	7.96%	7.93%
Unfunded Accrued Liability (UAL) Contribution Amount	\$71,039	\$75,459
Paid either as		
Option 1) 12 Monthly Payments of	\$5,919.92	\$6,288.25
Option 2) Annual Prepayment in July	\$68,740	\$73,017

Member Contribution Rates — page 9

	Fiscal Year 2025-26	Fiscal Year 2026-27
Rate Plan 992	7.00%	7.00%
Rate Plan 26488	7.75%	7.75%

Projected Employer Contributions — page 13

Fiscal Year	Normal Cost (% of payroll)		Annual UAL Payment
	Rate Plan 992	Rate Plan 26488	
2027-28	12.6%	7.9%	\$76,000
2028-29	12.6%	7.9%	\$82,000
2029-30	12.6%	7.9%	\$81,000
2030-31	12.6%	7.9%	\$80,000
2031-32	12.6%	7.9%	\$80,000

Funded Status — Funding Policy Basis — page 11

	June 30, 2023	June 30, 2024
Entry Age Accrued Liability (AL)	\$2,339,666	\$2,386,914
Market Value of Assets (MVA)	1,623,256	1,725,735
Unfunded Accrued Liability (UAL) [AL – MVA]	\$716,410	\$661,179
Funded Ratio [MVA ÷ AL]	69.4%	72.3%

Summary of Valuation Data — Page 27

	June 30, 2023	June 30, 2024
Active Member Count	2	2
Annual Covered Payroll	\$240,162	\$248,720
Transferred Member Count	0	0
Separated Member Count	1	1
Retired Members and Beneficiaries Count	3	3

Changes Since the Prior Year's Valuation

Benefits

The standard actuarial practice at CalPERS is to recognize mandated legislative benefit changes in the first annual valuation following the effective date of the legislation. For pooled rate plans, voluntary benefit changes by plan amendment are generally included in the first valuation with a valuation date on or after the effective date of the amendment.

Please refer to the [Plan's Major Benefit Options](#) in this report and Appendix B of the Section 2 Report for a summary of the plan provisions used in this valuation.

Board Policy

On April 16, 2024, the board took action to modify the Funding Risk Mitigation Policy to remove the automatic change to the discount rate when the investment return exceeds various thresholds. Rather than an automatic change to the discount rate, a board discussion would be placed on the calendar. The 95th percentile return in the [Future Investment Return Scenarios](#) exhibit in this report, which includes returns high enough to trigger a board discussion, does not reflect any change in the discount rate.

Actuarial Methods and Assumptions

There are no significant changes to the actuarial methods or assumptions for the June 30, 2024, actuarial valuation.

Report Enhancements

Effective with the June 30, 2024, Actuarial Valuation, separate amortization schedules for each tier of benefits are no longer necessary. Multiple amortization schedules, and thus multiple Section 1 reports, will be combined. We believe this gives the employer a clearer picture of the pension plan's financial health and long-term costs.

Subsequent Events

This actuarial valuation report reflects fund investment return through June 30, 2024, as well as statutory changes, regulatory changes and board actions through January 2025.

CalPERS will be completing an Asset Liability Management (ALM) review process in November 2025 that will review the capital market assumptions and the CalPERS Total Fund Investment Policy and ascertain whether a change in the discount is warranted. In addition, the Actuarial Office will be presenting the findings of its Experience Study which reviews economic assumptions other than the discount rate as well as all demographic assumptions and makes recommendations to modify actuarial assumptions where appropriate. Any changes in actuarial assumptions will be reflected in the June 30, 2025, actuarial valuations.

The 2024 annual benefit limit under Internal Revenue Code (IRC) section 415(b) and annual compensation limits under IRC section 401(a)(17) and Government Code section 7522.10 were used for this valuation and are assumed to increase 2.3% per year based on the price inflation assumption. The actual 2025 limits, determined in October 2024, are not reflected.

To the best of our knowledge, there have been no other subsequent events that could materially affect current or future certifications rendered in this report.

Liabilities and Contributions

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Determination of Required Contributions

Contributions to fund the plan are determined by an actuarial valuation performed each year. The valuation employs complex calculations based on a set of actuarial assumptions and methods. See Appendix A in Section 2 for information on the assumptions and methods used in this valuation. The valuation incorporates all plan experience through the valuation date and sets required contributions for the fiscal year that begins two years after the valuation date.

Contribution Components

Two components comprise required contributions:

- Normal Cost — expressed as a percentage of pensionable payroll
- Unfunded Accrued Liability (UAL) Contribution — expressed as a dollar amount

Normal Cost represents the value of benefits allocated to the upcoming year for active employees. If all plan experience exactly matched the actuarial assumptions, normal cost would be sufficient to fully fund all benefits. The employer and employees each pay a share of the normal cost with contributions payable as part of the regular payroll reporting process. The contribution rate for Classic members is set by statute based on benefit formula whereas for PEPRA members it is based on 50% of the total normal cost.

When plan experience differs from the actuarial assumptions, UAL emerges. The new UAL may be positive or negative. If the total UAL is positive (i.e., accrued liability exceeds assets), the employer is required to make contributions to pay off the UAL over time. This is called the UAL Contribution component. There is an option to prepay this amount during July of each fiscal year, otherwise it is paid monthly.

In measuring the UAL each year, plan experience is split by source. Common sources of UAL include investment experience different than expected, non-investment experience different than expected, assumption changes and benefit changes. Each source of UAL (positive or negative) forms a base that is amortized, or paid off, over a specified period of time in accordance with the CalPERS [Actuarial Amortization Policy](#). The UAL Contribution is the sum of the payments on all bases. See the [Schedule of Amortization Bases](#) section of this report for an inventory of existing bases and Appendix A in Section 2 for more information on the amortization policy.

Required Employer Contributions

The required employer contributions in this report do not reflect any cost sharing arrangement between the agency and the employees. For employee contribution rates, see [Member Contribution Rates](#).

Required Employer Contributions	Fiscal Year 2026-27
Employer Normal Cost Rate	
Classic Rate Plan 992	12.56%
PEPRA Rate Plan 26488	7.93%
<i>Plus</i>	
Unfunded Accrued Liability (UAL) Contribution Amount[†]	\$75,459
<i>Paid either as</i>	
1) Monthly Payment	\$6,288.25
<i>Or</i>	
2) Annual Prepayment Option[‡]	\$73,017
<p>The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll and paid as payroll is reported) and the Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly(1) or prepaid annually(2) in dollars).</p> <p>[†]The required payment on amortization bases does not take into account any additional discretionary payment made after April 30, 2025.</p> <p>[‡]Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31).</p>	

Development of Normal Cost as a Percentage of Payroll

	Fiscal Year 2025-26	Fiscal Year 2026-27
Classic Rate Plan 992		
Base Total Normal Cost for Formula	18.87%	18.85%
Surcharge for Class 1 Benefits ¹	0.64%	0.64%
Plan's Total Normal Cost	19.51%	19.49%
Offset Due to Employee Contributions ²	(6.93%)	(6.93%)
Employer Normal Cost for Rate Plan 992	12.58%	12.56%
PEPRA Rate Plan 26488		
Base Total Normal Cost for Formula	15.71%	15.68%
Surcharge for Class 1 Benefits ¹	0.00%	0.00%
Plan's Total Normal Cost	15.71%	15.68%
Offset Due to Employee Contributions ²	(7.75%)	(7.75%)
Employer Normal Cost for Rate Plan 26488	7.96%	7.93%

¹ See [Surcharge for Class 1 Benefits](#) in the supplementary information section of this report.

² This is the expected employee contributions, taking into account individual benefit formula and any offset from the use of a modified formula, divided by projected annual payroll. For member contribution rates above the breakpoint for each benefit formula, see [Member Contribution Rates](#).

Member Contribution Rates

The required member contributions in this report do not reflect any cost sharing arrangement between the agency and the employees.

Classic Members

Each member contributes toward their retirement based upon the retirement formula. The standard Classic member contribution rate above the breakpoint, if any, is as described below.

<u>Benefit Formula</u>	<u>Percent Contributed above the Breakpoint</u>
Miscellaneous, 1.5% at age 65	2%
Miscellaneous, 2% at age 60	7%
Miscellaneous, 2% at age 55	7%
Miscellaneous, 2.5% at age 55	8%
Miscellaneous, 2.7% at age 55	8%
Miscellaneous, 3% at age 60	8%

Auxiliary organizations of the CSU system may elect reduced contribution rates for Miscellaneous members, in which case the contribution rate above the breakpoint is 6% if members are not covered by Social Security and 5% if they are.

PEPRA Members

The California Public Employees' Pension Reform Act of 2013 (PEPRA) established new benefit formulas, final compensation period, and contribution requirements for "new" employees (generally those first hired into a CalPERS-covered position on or after January 1, 2013). In accordance with Government Code Section 7522.30(b), "new members ... shall have an initial contribution rate of at least 50% of the normal cost rate." The normal cost rate for the plan is dependent on the benefit levels, actuarial assumptions and demographics of the risk pool, particularly members' entry age. Should the total normal cost rate of the plan change by more than 1% from the base total normal cost rate established for the plan, the new member rate shall be 50% of the new normal cost rate rounded to the nearest quarter percent.

The table below shows the determination of the PEPRA member contribution rates effective July 1, 2026, based on 50% of the total normal cost rate as of the June 30, 2024, valuation.

<u>Rate Plan Identifier</u>	<u>Benefit Group Name</u>	<u>Basis for Current Rate</u>		<u>Rates Effective July 1, 2026</u>			
		<u>Total Normal Cost</u>	<u>Member Rate</u>	<u>Total Normal Cost</u>	<u>Change in Normal Cost</u>	<u>Adj. Needed</u>	<u>Member Rate</u>
26488	PEPRA Miscellaneous Plan	15.43%	7.75%	15.68%	0.25%	No	7.75%

Breakdown of Entry Age Accrued Liability

Active Members	\$210,354
Transferred Members	0
Separated Members	3,120
Members and Beneficiaries Receiving Payments	<u>2,173,440</u>
Total	<u>\$2,386,914</u>

Allocation of Plan's Share of Pool's Experience

It is the policy of CalPERS to ensure equity within the risk pools by allocating the pool's experience gains/losses and assumption changes in a manner that treats each employer equitably and maintains benefit security for the members of the System while minimizing substantial variations in employer contributions. The pool's experience gains/losses and impact of assumption/method changes is allocated to the plan as follows:

1. Plan's Accrued Liability	\$2,386,914
2. Projected UAL Balance at 6/30/2024	674,485
3. Other UAL Adjustments (Golden Handshake, Prior Service Purchase, etc.)	0
4. Adjusted UAL Balance at 6/30/2024 for Asset Share	677,651
5. Pool's Accrued Liability ¹	24,701,567,178
6. Sum of Pool's Individual Plan UAL Balances at 6/30/2024 ¹	5,686,499,631
7. Pool's 2023-24 Investment (Gain)/Loss ¹	(476,088,386)
8. Pool's 2023-24 Non-Investment (Gain)/Loss ¹	305,188,638
9. Plan's Share of Pool's Investment (Gain)/Loss: $[(1) - (4)] \div [(5) - (6)] \times (7)$	(42,796)
10. Plan's Share of Pool's Non-Investment (Gain)/Loss: $(1) \div (5) \times (8)$	29,490
11. Plan's New (Gain)/Loss as of 6/30/2024: $(9) + (10)$	(13,306)
12. Increase in Pool's Accrued Liability due to Change in Assumptions ¹	0
13. Plan's Share of Pool's Change in Assumptions: $(1) \div (5) \times (12)$	0
14. Increase in Pool's Accrued Liability due to Funding Risk Mitigation ¹	0
15. Plan's Share of Pool's Change due to Funding Risk Mitigation: $(1) \div (5) \times (14)$	0
16. Offset due to Funding Risk Mitigation	0
17. Plan's Investment (Gain)/Loss: $(9) - (16)$	(42,796)

¹ Does not include plans that transferred to the pool on the valuation date.

Development of the Plan's Share of Pool's Assets

18. Plan's UAL: $(2) + (3) + (11) + (13) + (15)$	\$661,179
19. Plan's Share of Pool's Market Value of Assets (MVA): $(1) - (18)$	\$1,725,735

For a reconciliation of the pool's Market Value of Assets (MVA), information on the fund's asset allocation and a history of CalPERS investment returns, see [Section 2](#), which can be found on the CalPERS website (www.calpers.ca.gov).

Funded Status – Funding Policy Basis

The table below provides information on the current funded status of the plan under the funding policy. The funded status for this purpose is based on the market value of assets relative to the funding target produced by the entry age actuarial cost method and actuarial assumptions adopted by the board. The actuarial cost method allocates the total expected cost of a member's projected benefit (**Present Value of Benefits**) to individual years of service (the **Normal Cost**). The value of the projected benefit that is not allocated to future service is referred to as the **Accrued Liability** and is the plan's funding target on the valuation date. The **Unfunded Accrued Liability (UAL)** equals the funding target minus the assets. The UAL is an absolute measure of funded status and can be viewed as employer debt. The **Funded Ratio** equals the assets divided by the funding target. The funded ratio is a relative measure of the funded status and allows for comparisons between plans of different sizes.

	June 30, 2023	June 30, 2024
1. Present Value of Benefits	\$2,888,846	\$2,947,043
2. Entry Age Accrued Liability	2,339,666	2,386,914
3. Market Value of Assets (MVA)	1,623,256	1,725,735
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	\$716,410	\$661,179
5. Funded Ratio [(3) ÷ (2)]	69.4%	72.3%

A funded ratio of 100% (UAL of \$0) implies that the funding of the plan is on target and that future contributions equal to the normal cost of the active plan members will be sufficient to fully fund all retirement benefits if future experience matches the actuarial assumptions. A funded ratio of less than 100% (positive UAL) implies that in addition to normal costs, payments toward the UAL will be required. Plans with a funded ratio greater than 100% have a negative UAL (or surplus) but are required under current law to continue contributing the normal cost in most cases, preserving the surplus for future contingencies.

Calculations for the funding target reflect the expected long-term investment return of 6.8%. If it were known on the valuation date that future investment returns will average something greater/less than the expected return, calculated normal costs and accrued liabilities provided in this report would be less/greater than the results shown. Therefore, for example, if actual average future returns are less than the expected return, calculated normal costs and UAL contributions will not be sufficient to fully fund all retirement benefits. Under this scenario, required future normal cost contributions will need to increase from those provided in this report, and the plan will develop unfunded liabilities that will also add to required future contributions. For illustrative purposes, funded statuses based on a 1% lower and higher average future investment return (discount rate) are as follows:

	1% Lower Average Return	Current Assumption	1% Higher Average Return
Discount Rate	5.8%	6.8%	7.8%
1. Entry Age Accrued Liability	\$2,638,188	\$2,386,914	\$2,173,423
2. Market Value of Assets (MVA)	1,725,735	1,725,735	1,725,735
3. Unfunded Accrued Liability (UAL) [(1) – (2)]	\$912,453	\$661,179	\$447,688
4. Funded Ratio [(2) ÷ (1)]	65.4%	72.3%	79.4%

The [Risk Analysis](#) section of the report provides additional information regarding the sensitivity of valuation results to the expected investment return and other factors. Also provided in that section are measures of funded status that are appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities.

Additional Employer Contributions

The CalPERS amortization policy provides a systematic methodology for paying down a plan’s unfunded accrued liability (UAL) over a reasonable period of years. The projected schedule of required payments for this plan under the amortization policy is provided in [Amortization Schedule and Alternatives](#). Certain aspects of the policy such as 1) layered amortization bases (positive and negative) with different remaining payoff periods, and 2) the phase-in of required payments toward investment gains and losses, can result in volatility in year-to-year projected UAL payments. Provided below is information on how an Additional Discretionary Payment (ADP), together with your required UAL payment of \$75,459 for FY 2026-27, may better accomplish your agency’s specific objectives with regard to either smoothing out projected future payments or achieving a greater reduction in UAL than would otherwise occur when making only the minimum required payment. Such additional payments are allowed at any time and can also result in significant long-term savings.

Fiscal Year 2026-27 Employer Contribution Versus Agency Funding Objectives

The interest-to-payment ratio for the FY 2026-27 minimum required UAL payment is 52%, which means the required payment of \$75,459 includes \$38,897 of interest cost and results in a \$36,562 reduction in the UAL, as can be seen in [Amortization Schedule and Alternatives](#) (see columns labelled Current Amortization Schedule). If the interest-to-payment ratio is close to 100%, and the reduction in the UAL is small, it may indicate that required contributions will be increasing in the coming years, which would be shown in [Projected Employer Contributions](#). Another measure that can be used to evaluate how well the FY 2026-27 required UAL payment meets the agency’s specific funding objectives is the number of years required to pay off the existing UAL if the annual payment were held constant in future years. With an annual payment of \$75,459 it would take 11.5 years to pay off the current UAL. A result that is longer than the agency’s target funding period suggests that the option of supplementing the minimum payment with an ADP should be weighed against the agency’s budget constraints.

Provided below are select ADP options for consideration. Making such an ADP during FY 2026-27 does not require an ADP be made in any future year, nor does it change the remaining amortization period of any portion of unfunded liability. For information on permanent changes to amortization periods, see [Amortization Schedule and Alternatives](#). Agencies considering making an ADP should contact CalPERS for additional information.

Fiscal Year 2026-27 Employer Contributions — Illustrative Scenarios

If the Annual UAL Payment Each Year Were...	The Current UAL Would be Paid Off in...	This Would Require an ADP ¹ in FY 2026-27 of...	Plus the Estimated Normal Cost of...	Estimated Total Contribution
\$75,459	11.5 years	\$0	\$29,371	\$104,830
83,141	10 years	7,682	29,371	112,512
142,976	5 years	67,517	29,371	172,347

¹ The ADP amounts are assumed to be made in the middle of the fiscal year. A payment made earlier or later in the fiscal year would have to be less or more than the amount shown to have the same effect on the UAL amortization.

The calculations above are based on the projected UAL as of June 30, 2026, as determined in the June 30, 2024, actuarial valuation. New unfunded liabilities can emerge in future years due to assumption or method changes, changes in plan provisions, and actuarial experience different than assumed. Making an ADP illustrated above for the indicated number of years will not result in a plan that is exactly 100% funded in the indicated number of years. Valuation results will vary from one year to the next and can diverge significantly from projections over a period of several years.

Additional Discretionary Payment History

The following table provides a recent history of actual ADPs made to the plan through April 30, 2025.

Fiscal Year	ADP	Fiscal Year	ADP
2019-20	\$20,000	2022-23	\$0
2020-21	0	2023-24	26,513
2021-22	0	2024-25	0

Projected Employer Contributions

The table below shows the required and projected employer contributions (before cost sharing) for the next six fiscal years. The projection assumes that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. In particular, the investment return beginning with FY 2024-25 is assumed to be 6.80% per year, net of investment and administrative expenses. Future contribution requirements may differ significantly from those shown below. The actual long-term cost of the plan will depend on the actual benefits and expenses paid and the actual investment experience of the fund.

The normal cost rates for each rate plan are assumed to remain constant. However, the employer contribution amounts will vary due to changes in payroll. The actuarial valuation does not include payroll beyond the valuation date. For the most realistic projections, the employer should apply projected payroll amounts to the rates below based on the most recent information available, such as current payroll as well as any plans to fill vacancies or add or remove positions.

Rate Plan Identifier	Covered Payroll June 30, 2024	Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2024-25 and Beyond)				
		2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Normal Cost Rates (Percentage of Payroll)							
992	\$167,974	12.56%	12.6%	12.6%	12.6%	12.6%	12.6%
26488	80,746	7.93%	7.9%	7.9%	7.9%	7.9%	7.9%
UAL Payment		\$75,459	\$76,000	\$82,000	\$81,000	\$80,000	\$80,000

Unlike the normal cost rates, the required UAL payments are expected to vary significantly from the projections above due to experience, particularly investment experience. For projected contributions under alternate investment return scenarios, please see the [Future Investment Return Scenarios](#) exhibit. Our online pension plan projection tool, [Pension Outlook](#), is available in the Employers section of the CalPERS website. Pension Outlook can help plan and budget pension costs under various scenarios.

For ongoing plans, investment gains and losses are amortized using an initial 5-year ramp. For more information, please see Amortization of Unfunded Actuarial Accrued Liability in Appendix A of the Section 2 Report. This method phases in the impact of the change in UAL over a 5-year period in order to reduce employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years when there is a large investment loss, the relatively small amortization payments during the initial ramp period could result in contributions that are less than interest on the UAL (i.e. negative amortization) while the contribution impact of the increase in the UAL is phased in.

Schedule of Amortization Bases

Below is the schedule of the plan's amortization bases. Note that there is a two-year lag between the valuation date and the start of the contribution year.

- The assets, liabilities and funded status of the plan are measured as of the valuation date: June 30, 2024.
- The required employer contributions determined by the valuation are for the fiscal year beginning two years after the valuation date: FY 2026-27.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and the need to provide public agencies with their required employer contribution well in advance of the start of the fiscal year.

The Unfunded Accrued Liability (UAL) is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The UAL is rolled forward each year by subtracting the expected payment on the UAL for the fiscal year and adjusting for interest. The expected payment on the UAL for FY 2024-25 is based on the actuarial valuation two years ago, adjusted for additional discretionary payments made on or before April 30, 2025, if necessary, and the expected payment for FY 2025-26 is based on the actuarial valuation one year ago.

Reason for Base	Date Est.	Ramp Level 2026-27	Ramp Shape	Escalation Rate	Amort. Period	Balance 6/30/24	Expected Payment 2024-25	Balance 6/30/25	Expected Payment 2025-26	Balance 6/30/26	Minimum Required Payment 2026-27
Fresh Start	6/30/19	No Ramp		0.00%	9	485,545	62,033	454,455	62,033	421,251	62,033
Investment (Gain)/Loss	6/30/20	100%	Up Only	0.00%	16	19,816	1,191	19,933	1,589	19,646	1,986
Non-Investment (Gain)/Loss	6/30/20	No Ramp		0.00%	16	7,732	733	7,500	733	7,252	733
Assumption Change	6/30/21	No Ramp		0.00%	17	9,653	890	9,390	890	9,109	890
Net Investment (Gain)	6/30/21	80%	Up Only	0.00%	17	(215,929)	(8,876)	(221,439)	(13,314)	(222,738)	(17,753)
Non-Investment (Gain)/Loss	6/30/21	No Ramp		0.00%	17	(10,164)	(937)	(9,887)	(937)	(9,591)	(937)
Investment (Gain)/Loss	6/30/22	60%	Up Only	0.00%	18	289,661	6,226	302,924	12,452	310,654	18,679
Non-Investment (Gain)/Loss	6/30/22	No Ramp		0.00%	18	36,878	3,316	35,959	3,316	34,977	3,316
Fresh Start	6/30/23	No Ramp		0.00%	4	1,660	341	1,420	333	1,172	333
Investment (Gain)/Loss	6/30/23	40%	Up Only	0.00%	19	11,250	0	12,015	258	12,565	517
Non-Investment (Gain)/Loss	6/30/23	No Ramp		0.00%	19	38,383	0	40,993	3,686	39,971	3,686
Investment (Gain)/Loss	6/30/24	20%	Up Only	0.00%	20	(42,796)	0	(45,706)	0	(48,814)	(1,049)
Non-Investment (Gain)/Loss	6/30/24	No Ramp		0.00%	20	29,490	0	31,495	0	33,637	3,025
Total						661,179	64,917	639,052	71,039	609,091	75,459

The (gain)/loss bases are the plan's allocated share of the risk pool's (gain)/loss for the fiscal year as disclosed in [Allocation of Plan's Share of Pool's Experience](#) earlier in this report. These (gain)/loss bases will be amortized in accordance with the CalPERS amortization policy in effect at the time the base was established.

Amortization Schedule and Alternatives

The amortization schedule on the previous page(s) shows the minimum contributions required according to the CalPERS amortization policy. Each year, many agencies express a desire for a more stable pattern of payments or indicate interest in paying off the unfunded accrued liabilities more quickly than required. As such, we have provided alternative amortization schedules to help analyze the current amortization schedule and illustrate the potential savings of accelerating unfunded liability payments.

Shown on the following page are future year amortization payments based on 1) the current amortization schedule reflecting the individual bases and remaining periods shown on the previous page, and 2) alternative "fresh start" amortization schedules using two sample periods that would both result in interest savings relative to the current amortization schedule. To initiate a fresh start, please contact a CalPERS actuary.

The current amortization schedule typically contains both positive and negative bases. Positive bases result from plan changes, assumption changes, method changes or plan experience that increase unfunded liability. Negative bases result from plan changes, assumption changes, method changes, or plan experience that decrease unfunded liability. The combination of positive and negative bases within an amortization schedule can result in unusual or problematic circumstances in future years, such as:

- When a negative payment would be required on a positive unfunded actuarial liability; or
- When the payment would completely amortize the total unfunded liability in a very short time period, and results in a large change in the employer contribution requirement.

In any year when one of the above scenarios occurs, the actuary will consider corrective action such as replacing the existing unfunded liability bases with a single "fresh start" base and amortizing it over an appropriate period.

The current amortization schedule on the following page may appear to show that, based on the current amortization bases, one of the above scenarios will occur at some point in the future. It is impossible to know today whether such a scenario will in fact arise since there will be additional bases added to the amortization schedule in each future year. Should such a scenario arise in any future year, the actuary will take appropriate action based on guidelines in the CalPERS [Actuarial Amortization Policy](#).

Amortization Schedule and Alternatives (continued)

Date	Current Amortization Schedule		Alternative Schedules			
	Balance	Payment	10 Year Amortization		5 Year Amortization	
			Balance	Payment	Balance	Payment
6/30/2026	609,091	75,459	609,091	83,141	609,091	142,976
6/30/2027	572,529	76,456	564,588	83,141	502,752	142,976
6/30/2028	532,449	81,891	517,059	83,140	389,182	142,976
6/30/2029	484,025	81,099	466,299	83,141	267,889	142,975
6/30/2030	433,127	79,717	412,086	83,141	138,349	142,976
6/30/2031	380,197	79,716	354,187	83,141		
6/30/2032	323,669	79,719	292,350	83,140		
6/30/2033	263,294	79,717	226,310	83,141		
6/30/2034	198,815	79,717	155,778	83,140		
6/30/2035	129,950	17,682	80,451	83,141		
6/30/2036	120,514	17,687				
6/30/2037	110,432	17,687				
6/30/2038	99,663	17,683				
6/30/2039	88,166	17,684				
6/30/2040	75,885	17,686				
6/30/2041	62,769	17,684				
6/30/2042	48,763	14,967				
6/30/2043	36,612	37,204				
6/30/2044	652	674				
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
6/30/2049						
Total		890,129		831,407		714,879
Interest Paid		281,038		222,316		105,788
Estimated Savings				58,722		175,250

Employer Contribution History

The table below provides a recent history of the employer contribution requirements for the plan, as determined by the annual actuarial valuation. Changes due to prepayments or plan amendments after the valuation report was finalized are not reflected.

Valuation Date	Contribution Year	Employer Normal Cost Rate		Unfunded Liability Payment
		Rate Plan 992	Rate Plan 26488	
06/30/2015	2017-18	8.921%	N/A	\$24,727
06/30/2016	2018-19	9.409%	N/A	29,911
06/30/2017	2019-20	10.221%	N/A	35,565
06/30/2018	2020-21	11.031%	N/A	52,786
06/30/2019	2021-22	10.88%	N/A	64,090
06/30/2020	2022-23	10.87%	N/A	64,632
06/30/2021	2023-24	12.47%	7.68%	60,501
06/30/2022	2024-25	12.52%	7.87%	66,608
06/30/2023	2025-26	12.58%	7.96%	71,039
06/30/2024	2026-27	12.56%	7.93%	75,459

Funding History

The table below shows the recent history of the actuarial accrued liability, share of the pool's market value of assets, unfunded accrued liability, funded ratio and annual covered payroll.

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Unfunded Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll
06/30/2015	\$1,553,337	\$1,139,411	\$413,926	73.4%	\$176,550
06/30/2016	1,628,548	1,129,342	499,206	69.3%	182,410
06/30/2017	1,727,049	1,228,262	498,787	71.1%	192,897
06/30/2018	1,870,733	1,302,843	567,890	69.6%	203,965
06/30/2019	2,182,496	1,586,457	596,039	72.7%	184,716
06/30/2020	2,284,043	1,655,830	628,213	72.5%	217,096
06/30/2021	2,263,000	1,830,498	432,502	80.9%	196,615
06/30/2022	2,303,306	1,616,659	686,647	70.2%	153,941
06/30/2023	2,339,666	1,623,256	716,410	69.4%	240,162
06/30/2024	2,386,914	1,725,735	661,179	72.3%	248,720

Risk Analysis

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Future Investment Return Scenarios

Analysis using the investment return scenarios from the Asset Liability Management process completed in 2021 was performed to determine the effects of various future investment returns on required employer UAL contributions. The CalPERS [Funding Risk Mitigation Policy](#) stipulates that when the investment return exceeds the discount rate by at least 2% the board will consider adjustments to the discount rate. The projections below use a discount rate of 6.8% for all scenarios even though an annual return of 10.8% is high enough to trigger a board discussion on the discount rate. The projections also assume that all other actuarial assumptions will be realized and that no further changes in assumptions, contributions, benefits, or funding will occur.

The employer normal cost rates are not affected by investment returns, and since no future assumption changes are being reflected, the projected employer normal cost rates for every future investment return scenario are the same as those shown earlier in this report. See [Projected Employer Contributions](#) for more information on projecting the employer normal cost.

The first table shows projected UAL contribution requirements if the fund were to earn either 3.0% or 10.8% annually. These alternate investment returns were chosen because 90% of long-term average returns are expected to fall between them over the 20-year period ending June 30, 2044.

Assumed Annual Return FY 2024-25 through FY 2043-44	Projected Employer UAL Contributions				
	2027-28	2028-29	2029-30	2030-31	2031-32
3.0% (5th percentile)	\$78,000	\$87,000	\$91,000	\$96,000	\$105,000
10.8% (95th percentile)	\$75,000	\$77,000	\$70,000	\$50,000	\$0

Required UAL contributions outside of this range are also possible. In particular, whereas it is unlikely that investment returns will average less than 3.0% or greater than 10.8% over a 20-year period, the likelihood of a single investment return less than 3.0% or greater than 10.8% in any given year is much greater. The following analysis illustrates the effect of an extreme, single year investment return.

The portfolio has an expected volatility (or standard deviation) of 12.0% per year. Accordingly, in any given year there is a 16% probability that the annual return will be -5.2% or less and a 2.5% probability that the annual return will be -17.2% or less. These returns represent one and two standard deviations below the expected return of 6.8%.

The following table shows the effect of one and two standard deviation investment losses in FY 2024-25 on the FY 2027-28 contribution requirements. Note that a single-year investment gain or loss decreases or increases the required UAL contribution amount incrementally for each of the next five years, not just one, due to the 5-year ramp in the amortization policy. However, the contribution requirements beyond the first year are also impacted by investment returns beyond the first year. Historically, significant downturns in the market are often followed by higher than average returns. Such investment gains would offset the impact of these single year negative returns in years beyond FY 2027-28.

Assumed Annual Return for Fiscal Year 2024-25	Required Employer UAL Contributions	Projected Employer UAL Contributions
	2026-27	2027-28
(17.2%) (2 standard deviation loss)	\$75,459	\$87,000
(5.2%) (1 standard deviation loss)	\$75,459	\$82,000

- Without investment gains (returns higher than 6.8%) in FY 2025-26 or later, projected contributions rates would continue to rise over the next four years due to the continued phase-in of the impact of the illustrated investment loss in FY 2024-25.
- The Pension Outlook Tool can be used to model projected contributions for these scenarios beyond FY 2027-28 as well as to model other investment return scenarios.

Discount Rate Sensitivity

The discount rate assumption is calculated as the sum of the assumed real rate of return and the assumed annual price inflation, currently 4.5% and 2.3%, respectively. Changing either the price inflation assumption or the real rate of return assumption will change the discount rate. The sensitivity of the valuation results to the discount rate assumption depends on which component of the discount rate is changed. Shown below are various valuation results as of June 30, 2024, assuming alternate discount rates by changing the two components independently. Results are shown using the current discount rate of 6.8% as well as alternate discount rates of 5.8% and 7.8%. The rates of 5.8% and 7.8% were selected since they illustrate the impact of a 1.0% increase or decrease to the 6.8% assumption.

Sensitivity to the Discount Rate Due to Varying the Real Rate of Return Assumption

As of June 30, 2024	1% Lower Real Return Rate	Current Assumptions	1% Higher Real Return Rate
Discount Rate	5.8%	6.8%	7.8%
Price Inflation	2.3%	2.3%	2.3%
Real Rate of Return	3.5%	4.5%	5.5%
a) Total Normal Cost			
Rate Plan 992	24.53%	19.49%	15.66%
Rate Plan 26488	19.63%	15.68%	12.68%
b) Accrued Liability	\$2,638,188	\$2,386,914	\$2,173,423
c) Market Value of Assets	\$1,725,735	\$1,725,735	\$1,725,735
d) Unfunded Liability/(Surplus) [(b) - (c)]	\$912,453	\$661,179	\$447,688
e) Funded Ratio	65.4%	72.3%	79.4%

Sensitivity to the Discount Rate Due to Varying the Price Inflation Assumption

As of June 30, 2024	1% Lower Price Inflation	Current Assumptions	1% Higher Price Inflation
Discount Rate	5.8%	6.8%	7.8%
Price Inflation	1.3%	2.3%	3.3%
Real Rate of Return	4.5%	4.5%	4.5%
a) Total Normal Cost			
Rate Plan 992	20.43%	19.49%	17.79%
Rate Plan 26488	16.54%	15.68%	14.26%
b) Accrued Liability	\$2,450,792	\$2,386,914	\$2,247,974
c) Market Value of Assets	\$1,725,735	\$1,725,735	\$1,725,735
d) Unfunded Liability/(Surplus) [(b) - (c)]	\$725,057	\$661,179	\$522,239
e) Funded Ratio	70.4%	72.3%	76.8%

Mortality Rate Sensitivity

The following table looks at the change in the June 30, 2024, plan costs and funded status under two different longevity scenarios, namely assuming rates of post-retirement mortality are 10% lower or 10% higher than our current mortality assumptions adopted in 2021. This type of analysis highlights the impact on the plan of a change in the mortality assumption.

As of June 30, 2024	10% Lower Mortality Rates	Current Assumptions	10% Higher Mortality Rates
a) Total Normal Cost			
Rate Plan 992	19.82%	19.49%	19.18%
Rate Plan 26488	15.95%	15.68%	15.43%
b) Accrued Liability	\$2,443,974	\$2,386,914	\$2,334,472
c) Market Value of Assets	\$1,725,735	\$1,725,735	\$1,725,735
d) Unfunded Liability/(Surplus) [(b) - (c)]	\$718,239	\$661,179	\$608,737
e) Funded Ratio	70.6%	72.3%	73.9%

Maturity Measures

As pension plans mature they become more sensitive to risks. Understanding plan maturity and how it affects the ability of a pension plan sponsor to tolerate risk is important in understanding how the pension plan is impacted by investment return volatility, other economic variables and changes in longevity or other demographic assumptions.

Since it is the employer that bears the risk, it is appropriate to perform this analysis on a pension plan level considering all rate plans. The following measures include only the rate plans covered in this report. One way to look at the maturity level of CalPERS and its plans is to look at the ratio of a plan's retiree liability to its total liability. A pension plan in its infancy will have a very low ratio of retiree liability to total liability. As the plan matures, the ratio increases. A mature plan will often have a ratio above 60%-65%.

Ratio of Retiree Accrued Liability to Total Accrued Liability	June 30, 2023	June 30, 2024
1. Retiree Accrued Liability	\$2,187,947	\$2,173,440
2. Total Accrued Liability	\$2,339,666	\$2,386,914
3. Ratio of Retiree AL to Total AL [(1) ÷ (2)]	94%	91%

Another measure of the maturity level of CalPERS and its plans is the ratio of actives to retirees, also called the support ratio. A pension plan in its infancy will have a very high ratio of active to retired members. As the plan matures and members retire, the ratio declines. A mature plan will often have a ratio near or below one.

To calculate the support ratio for the rate plan, retirees and beneficiaries receiving a continuance are each counted as one, even though they may have only worked a portion of their careers as an active member of this rate plan. For this reason, the support ratio, while intuitive, may be less informative than the ratio of retiree liability to total accrued liability above.

For comparison, the support ratio for all CalPERS public agency plans as of June 30, 2023, was 0.78 and was calculated consistently with how it is for the individual rate plan. Note that to calculate the support ratio for all public agency plans, a retiree with service from more than one CalPERS agency is counted as a retiree more than once.

Support Ratio	June 30, 2023	June 30, 2024
1. Number of Actives	2	2
2. Number of Retirees	3	3
3. Support Ratio [(1) ÷ (2)]	0.67	0.67

Maturity Measures (continued)

The actuarial calculations supplied in this communication are based on various assumptions about long-term demographic and economic behavior. Unless these assumptions (e.g., terminations, deaths, disabilities, retirements, salary increases, investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise required employer contributions from one year to the next. Therefore, employer contributions will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio

Shown in the table below is the asset volatility ratio (AVR), which is the ratio of market value of assets to payroll. Plans that have a higher AVR experience more volatile employer contributions (as a percentage of payroll) due to investment return. For example, a plan with an AVR of 8 may experience twice the contribution volatility due to investment return volatility than a plan with an AVR of 4. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as a plan matures.

Liability Volatility Ratio

Also shown in the table below is the liability volatility ratio (LVR), which is the ratio of accrued liability to payroll. Plans that have a higher LVR experience more volatile employer contributions (as a percentage of payroll) due to changes in liability. For example, a plan with an LVR of 8 is expected to have twice the contribution volatility of a plan with an LVR of 4 when there is a change in accrued liability, such as when there is a change in actuarial assumptions. It should be noted that this ratio indicates a longer-term potential for contribution volatility, since the AVR, described above, will tend to move closer to the LVR as the funded ratio approaches 100%.

Contribution Volatility	June 30, 2023	June 30, 2024
1. Market Value of Assets	\$1,623,256	\$1,725,735
2. Payroll	\$240,162	\$248,720
3. Asset Volatility Ratio (AVR) [(1) ÷ (2)]	6.8	6.9
4. Accrued Liability	\$2,339,666	\$2,386,914
5. Liability Volatility Ratio (LVR) [(4) ÷ (2)]	9.7	9.6

Maturity Measures History

Valuation Date	Ratio of Retiree Accrued Liability to Total Accrued Liability	Support Ratio	Asset Volatility Ratio	Liability Volatility Ratio
06/30/2017	11%	1.00	6.4	9.0
06/30/2018	10%	1.00	6.4	9.2
06/30/2019	82%	0.67	8.6	11.8
06/30/2020	78%	0.67	7.6	10.5
06/30/2021	97%	0.67	9.3	11.5
06/30/2022	95%	0.33	10.5	15.0
06/30/2023	94%	0.67	6.8	9.7
06/30/2024	91%	0.67	6.9	9.6

Funded Status – Termination Basis

The funded status measured on a termination basis is an estimated range for the financial position of the plan had the contract with CalPERS been terminated as of June 30, 2024. The accrued liability on a termination basis (termination liability) is calculated differently from the plan’s ongoing funding liability. For the termination liability calculation, both compensation and service are frozen as of the valuation date and no future pay increases or service accruals are assumed. This measure of funded status is not appropriate for assessing the need for future employer contributions in the case of an ongoing plan, that is, for an employer that continues to provide CalPERS retirement benefits to active employees. Unlike the actuarial cost method used for ongoing plans, the termination liability is the present value of the benefits earned through the valuation date.

A more conservative investment policy and asset allocation strategy was adopted by the board for the Terminated Agency Pool. The Terminated Agency Pool has limited funding sources since no future employer contributions will be made. Therefore, expected benefit payments are secured by risk-free assets and benefits security for members is increased while limiting the funding risk. However, this asset allocation has a lower expected rate of return than the remainder of the PERF and consequently, a lower discount rate assumption. The lower discount rate for the Terminated Agency Pool results in higher liabilities for terminated plans.

The discount rate used for actual termination valuations is a weighted average of the 10-year and 30-year Treasury yields where the weights are based on matching asset and liability durations as of the termination date. The discount rates used in the following analysis is based on 20-year Treasury bonds, which is a good proxy for most plans. The discount rate upon contract termination will depend on actual Treasury rates on the date of termination, which varies over time, as demonstrated below.

Valuation Date	20-Year Treasury Rate	Valuation Date	20-Year Treasury Rate
06/30/2015	2.83%	06/30/2020	1.18%
06/30/2016	1.86%	06/30/2021	2.00%
06/30/2017	2.61%	06/30/2022	3.38%
06/30/2018	2.91%	06/30/2023	4.06%
06/30/2019	2.31%	06/30/2024	4.61%

As Treasury rates are variable, the table below shows a range for the termination liability using discount rates 1% below and above the 20-year Treasury rate on the valuation date. The price inflation assumption is the 20-year Treasury breakeven inflation rate, that is, the difference between the 20-year inflation indexed bond and the 20-year fixed-rate bond.

The Market Value of Assets (MVA) also varies with interest rates and will fluctuate depending on other market conditions on the date of termination. Since it is not possible to approximate how the MVA will change in different interest rate environments, the results below use the MVA as of the valuation date.

	Discount Rate: 3.61% Price Inflation: 2.45%	Discount Rate: 5.61% Price Inflation: 2.45%
1. Termination Liability ¹	\$3,305,934	\$2,659,745
2. Market Value of Assets (MVA)	1,725,735	1,725,735
3. Unfunded Termination Liability [(1) – (2)]	\$1,580,199	\$934,010
4. Funded Ratio [(2) ÷ (1)]	52.2%	64.9%

¹ The termination liabilities calculated above include a 5% contingency load. The contingency load and other actuarial assumptions can be found in Appendix A of the Section 2 report.

In order to terminate, first contact our Pension Contract Services unit to initiate a Resolution of Intent to Terminate. The completed Resolution will allow a CalPERS actuary to provide a preliminary termination valuation with a more up-to-date estimate of the plan’s assets and liabilities. Before beginning this process, please consult with a CalPERS actuary.

Funded Status – Low-Default-Risk Basis

Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, requires the disclosure of a low-default-risk obligation measure (LDROM) of benefit costs accrued as of the valuation date using a discount rate based on the yields of high quality fixed income securities with cash flows that replicate expected benefit payments. Conceptually, this measure represents the level at which financial markets would value the accrued plan costs, and would be approximately equal to the cost of a portfolio of low-default-risk bonds with similar financial characteristics to accrued plan costs.

As permitted in ASOP No. 4, the Actuarial Office uses the Entry Age Actuarial Cost Method to calculate the LDROM. This methodology is in line with the measure of “benefit entitlements” calculated by the Bureau of Economic Analysis and used by the Federal Reserve to report the indebtedness due to pensions of plan sponsors and, conversely, the household wealth due to pensions of plan members.

As shown below, the discount rate used for the LDROM is 5.35%, which is the Standard FTSE Pension Liability Index¹ discount rate as of June 30, 2024.

Selected Measures on a Low-Default-Risk Basis	June 30, 2024
Discount Rate	5.35%
1. Accrued Liability – Low-Default-Risk Basis (LDROM)	
a) Active Members	\$294,611
b) Transferred Members	0
c) Separated Members	3,120
d) Members and Beneficiaries Receiving Payments	2,468,160
e) Total	<u>\$2,765,891</u>
2. Market Value of Assets (MVA)	<u>1,725,735</u>
3. Unfunded Accrued Liability – Low-Default-Risk Basis [(1e) – (2)]	\$1,040,156
4. Unfunded Accrued Liability – Funding Policy Basis	<u>661,179</u>
5. Present Value of Unearned Investment Risk Premium [(3) – (4)]	<u>\$378,977</u>

The difference between the unfunded liabilities on a low-default-risk basis and on the funding policy basis represents the present value of the investment risk premium that must be earned in future years to keep future contributions for currently accrued plan costs at the levels anticipated by the funding policy.

Benefit security for members of the plan relies on a combination of the assets in the plan, the investment income generated from those assets, and the ability of the plan sponsor to make necessary future contributions. If future returns fall short of 6.8%, benefit security could be at risk without higher than currently anticipated future contributions.

The funded status on a low-default-risk basis is not appropriate for assessing the sufficiency of plan assets to cover the cost of settling the plan’s benefit obligations (see [Funded Status – Termination Basis](#)), nor is it appropriate for assessing the need for future contributions (see [Funded Status – Funding Policy Basis](#)).

¹ This index is based on a yield curve of hypothetical AA-rated zero-coupon corporate bonds whose maturities range from 6 months to 30 years. The index represents the single discount rate that would produce the same present value as discounting a standardized set of liability cash flows for a fully open pension plan using the yield curve. The liability cash flows are reasonably consistent with the pattern of benefits expected to be paid from the entire Public Employees’ Retirement Fund for current and former plan members. A different index, hence a different discount rate, may be needed to measure the LDROM for a subset of the fund, such as a single rate plan or a group of retirees.

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Normal Cost by Benefit Group

The table below displays the Total Normal Cost broken out by benefit group as of the valuation date, June 30, 2024. The Total Normal Cost is the annual cost of service accrual for the fiscal year for active employees and can be viewed as the long-term contribution rate for the benefits contracted. Generally, the normal cost for a benefit group subject to more generous benefit provisions will exceed the normal cost for a group with less generous benefits. Future measurements of the Total Normal Cost for each group may differ significantly from the current values due to such factors as: changes in economic and demographic assumptions, changes in plan benefits or applicable law.

Rate Plan Identifier	Benefit Group Name	Total Normal Cost as of June 30, 2024	Offset due to Employee Contributions as of June 30, 2024	Employer Normal Cost as of June 30, 2024	Number of Actives	Payroll on 6/30/2024
992	Miscellaneous Plan	19.49%	6.93%	12.56%	1	\$167,974
26488	PEPRA Miscellaneous Plan	<u>15.68%</u>	<u>7.75%</u>	<u>7.93%</u>	<u>1</u>	<u>80,746</u>
	<i>Hypothetical Plan Totals¹</i>	<i>18.25%</i>	<i>7.20%</i>	<i>11.06%</i>	<i>2</i>	<i>\$248,720</i>

¹ The hypothetical employer normal cost and contribution rates for the total plan are provided for illustrative purposes only and are based on the payroll as of the valuation date. This snapshot of the cost of providing benefits can be compared from one valuation date to the next as members retire from older tiers and are replaced by members in new tiers. The employer normal cost rate for contribution purposes varies by rate plan and applies to the covered payroll of members in each respective rate plan.

Note that if a Benefit Group above has multiple bargaining units, each of which has separately contracted for different benefits such as Employer Paid Member Contributions, then the Normal Cost shown for the respective benefit level does not reflect those differences.

Summary of Valuation Data

The table below shows a summary of the plan's member data upon which this valuation is based:

	June 30, 2023	June 30, 2024
Active Members		
Counts	2	2
Average Attained Age	N/A	39.9
Average Entry Age to Rate Plan	N/A	36.6
Average Years of Credited Service	N/A	3.3
Average Annual Covered Pay	\$120,081	\$124,360
Annual Covered Payroll	\$240,162	\$248,720
Present Value of Future Payroll	\$3,088,088	\$3,145,664
Transferred Members		
Counts	0	0
Separated Members		
Counts	1	1
Retired Members and Beneficiaries*		
Counts	3	3
Average Annual Benefits	\$56,196	\$57,319
Total Annual Benefits	\$168,587	\$171,956

Counts of members included in the valuation are counts of the records processed by the valuation. Multiple records may exist for those who have service in more than one valuation group. This does not result in double counting of liabilities.

* Values include community property settlements.

Status of PEPRA Transition

The California Public Employees' Pension Reform Act of 2013 (PEPRA), which took effect in January 2013, changed CalPERS retirement benefits and placed compensation limits on new members joining CalPERS on or after January 1, 2013. One of the objectives of PEPRA was to improve the ability of employers to manage the costs of retirement benefits for their members. While such changes can reduce future benefit costs in a meaningful way, the full impact on employer contributions will not occur until all active members are subject to the rules and provisions of PEPRA. The table below illustrates the status of this transition as of June 30, 2024.

	Classic	PEPRA	PEPRA as a Percent of Total
Active Members			
Count	1	1	50.0%
Average Attained Age	38.3	41.5	
Average Entry Age	33.0	40.3	
Average Years of Credited Service	5.4	1.3	
Average Annual Covered Payroll	\$167,974	\$80,746	
Annual Covered Payroll	\$167,974	\$80,746	32.5%
Present Value of Future Payroll	\$2,124,282	\$1,021,382	32.5%
Transferred Members			
Count	0	0	N/A
Separated Members			
Count	0	1	100.0%
Retired Members and Beneficiaries Receiving Payments			
Count	3	0	0.0%
Average Annual Benefit	\$57,319	\$0	
Total Annual Benefits	\$171,956	\$0	0.0%
Accrued Liabilities			
Active Members	\$189,475	\$20,879	9.9%
Transferred Members	0	0	N/A
Separated Members	0	3,120	100.0%
Retired Members and Beneficiaries	<u>2,173,440</u>	<u>0</u>	<u>0.0%</u>
Total	\$2,362,915	\$23,999	1.0%

Surcharge for Class 1 Benefits

This plan has the following Class 1 benefit provisions which result in the surcharges indicated:

Class 1 benefit provisions	Rate Plan 992	Rate Plan 26488
One Year Final Compensation (FAC 1)	<u>0.64%</u>	<u>N/A</u>
Surcharge for Class 1 Benefits	0.64%	0.00%

Plan's Major Benefit Options

Shown below is a summary of the major optional benefits for which the agency has contracted. A description of principal standard and optional plan provisions is in Section 2.

Rate Plan 992	Benefit Group	
Member Category	Misc	
Demographics		
Actives	Yes	
Transfers/Separated	No	
Receiving	Yes	
Benefit Provision		
Benefit Formula	2% @ 55	
Social Security Coverage	Yes	
Full/Modified	Full	
Employee Contribution Rate	7.00%	
Final Average Compensation Period	One Year	
Sick Leave Credit	Yes	
Non-Industrial Disability	Standard	
Industrial Disability	No	
Pre-Retirement Death Benefits		
Optional Settlement 2	Yes	
1959 Survivor Benefit Level	No	
Special	No	
Alternate (firefighters)	No	
Post-Retirement Death Benefits		
Lump Sum	\$2,000	
Survivor Allowance (PRSA)	No	
COLA	2%	

Plan's Major Benefit Options (Continued)

Shown below is a summary of the major optional benefits for which the agency has contracted. A description of principal standard and optional plan provisions is in Section 2.

Rate Plan 26488	Benefit Group	
Member Category	Misc	
Demographics		
Actives	Yes	
Transfers/Separated	Yes	
Receiving	No	
Benefit Provision		
Benefit Formula	2% @ 62	
Social Security Coverage	Yes	
Full/Modified	Full	
Employee Contribution Rate	7.75%	
Final Average Compensation Period	Three Year	
Sick Leave Credit	Yes	
Non-Industrial Disability	Standard	
Industrial Disability	No	
Pre-Retirement Death Benefits		
Optional Settlement 2	Yes	
1959 Survivor Benefit Level	No	
Special	No	
Alternate (firefighters)	No	
Post-Retirement Death Benefits		
Lump Sum	\$2,000	
Survivor Allowance (PRSA)	No	
COLA	2%	

Section 2

California Public Employees' Retirement System

Risk Pool Actuarial Valuation Information

[Section 2](#) may be found on the CalPERS website (www.calpers.ca.gov) in the Forms & Publications section

5A: ATTACHMENT 5

	FY 25-26 Adopted Budget	FY 26-27 Proposed Budget	FY 27-28 Projected Budget	FY 28-29 Projected Budget	FY 29-30 Projected Budget
REVENUE DESCRIPTION					
Interest	\$ 1,500	\$ 4,750	\$ 5,000	\$ 5,000	\$ 5,000
Funding Agencies' Apportionments	\$ 495,000	\$ 495,000	\$ 557,593	\$ 625,970	\$ 694,899
LAFCO Processing Fees	\$ -	\$ -	\$ -	\$ -	\$ -
Medical Charges-Employee	\$ -	\$ -	\$ -	\$ -	\$ -
Copy Charges	\$ -	\$ -	\$ -	\$ -	\$ -
Reserves / Fund Balance	\$ 295,000	\$ 295,000	\$ 250,000	\$ 200,000	\$ 150,000
TOTAL REVENUES	\$ 791,500	\$ 794,750	\$ 812,593	\$ 830,970	\$ 849,899
EXPENDITURE DESCRIPTION					
Regular Pay	\$ 280,000	\$ 290,000	\$ 298,700	\$ 307,661	\$ 316,891
Overtime Pay	\$ -	\$ -	\$ -	\$ -	\$ -
Extra Help	\$ -	\$ -	\$ -	\$ -	\$ -
Sick Leave	\$ -	\$ -	\$ -	\$ -	\$ -
Holiday Pay	\$ 10,300	\$ 12,000	\$ 12,360	\$ 12,731	\$ 13,113
Social Security	\$ 18,000	\$ 20,000	\$ 20,600	\$ 21,218	\$ 21,855
PERS	\$ 113,000	\$ 105,000	\$ 108,150	\$ 111,395	\$ 114,736
Insurances	\$ 45,000	\$ 45,000	\$ 46,350	\$ 47,741	\$ 49,173
Unemployment	\$ 1,000	\$ 1,000	\$ 1,030	\$ 1,061	\$ 1,093
Workers Comp	\$ 1,500	\$ 1,500	\$ 1,545	\$ 1,591	\$ 1,639
Total Salaries & Benefits	\$ 468,800	\$ 474,500	\$ 488,735	\$ 503,397	\$ 518,499
Telecom	\$ 1,600	\$ 1,400	\$ 1,442	\$ 1,485	\$ 1,530
Office Equipment	\$ 200	\$ 200	\$ 206	\$ 212	\$ 219
Memberships	\$ 7,800	\$ 7,800	\$ 8,034	\$ 8,275	\$ 8,523
Hardware	\$ -	\$ -	\$ -	\$ -	\$ -
Duplicating	\$ 200	\$ 100	\$ 103	\$ 106	\$ 109
PC Software	\$ 700	\$ 650	\$ 670	\$ 690	\$ 710
Postage	\$ 400	\$ 200	\$ 206	\$ 212	\$ 219
Subscriptions	\$ 3,300	\$ 3,400	\$ 3,502	\$ 3,607	\$ 3,715
Supplies	\$ 400	\$ 400	\$ 412	\$ 424	\$ 437
Accounting	\$ 11,500	\$ 15,000	\$ 15,450	\$ 15,914	\$ 16,391
Attorney	\$ 15,000	\$ 13,000	\$ 13,390	\$ 13,792	\$ 14,205
Data Service	\$ 14,000	\$ 15,000	\$ 15,450	\$ 15,914	\$ 16,391
Director Fees	\$ 5,000	\$ 5,000	\$ 5,150	\$ 5,305	\$ 5,464
Surveyor	\$ -	\$ -	\$ -	\$ -	\$ -
Prof. Services	\$ 38,000	\$ 35,000	\$ 36,050	\$ 37,132	\$ 38,245
Legal Notices	\$ 4,000	\$ 2,500	\$ 2,575	\$ 2,652	\$ 2,732
Rents	\$ 10,000	\$ 10,000	\$ 10,300	\$ 10,609	\$ 10,927
Misc. Expenses	\$ 4,500	\$ 4,500	\$ 4,635	\$ 4,774	\$ 4,917
Books	\$ -	\$ -	\$ -	\$ -	\$ -
Air Fare	\$ 600	\$ 600	\$ 618	\$ 637	\$ 656
Auto Rental	\$ -	\$ -	\$ -	\$ -	\$ -
Training	\$ 500	\$ 500	\$ 515	\$ 530	\$ 546
Lodging	\$ 2,000	\$ 2,000	\$ 2,060	\$ 2,122	\$ 2,185
Meals	\$ -	\$ -	\$ -	\$ -	\$ -
Mileage	\$ -	\$ -	\$ -	\$ -	\$ -
Travel-Other	\$ -	\$ -	\$ -	\$ -	\$ -
Registrations	\$ 3,000	\$ 3,000	\$ 3,090	\$ 3,183	\$ 3,278
Total Services & Supplies	\$ 122,700	\$ 120,250	\$ 123,858	\$ 127,573	\$ 131,400
RESERVE DESCRIPTION					
Contingency Reserves	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Litigation Reserves	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Total Reserve Balance	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
TOTAL EXPENDITURES & RESERVES	\$ 791,500	\$ 794,750	\$ 812,593	\$ 830,970	\$ 849,899

Footnote: 3% increase based on March 2026 Consumer Price Index (CPI)



**NOTICE OF PUBLIC HEARING
LOCAL AGENCY FORMATION COMMISSION**

NOTICE IS HEREBY GIVEN that at 9:00 a.m., Wednesday, April 1, 2026, the Local Agency Formation Commission of Santa Cruz County (LAFCO) will hold a public hearing on the following item:

- **Draft Budget for Fiscal Year 2026-27:** Adoption of a draft budget for the upcoming fiscal year. The final budget is scheduled to be considered on May 6, 2026. The review, approval, and notice of this budget will be consistent with Government Code Section 56381.

In compliance with the California Environmental Quality Act (CEQA), LAFCO staff is scheduled to prepare a Categorical Exemption for the proposals listed above. Instructions for members of the public to participate in-person or remotely are available in the Agenda and Agenda Packet: <https://santacruzlafco.org/meetings/>. During the meeting, the Commission will consider oral or written comments from any interested person. Maps, written reports, environmental review documents and further information can be obtained by contacting LAFCO's staff at (831) 454-2055 or from LAFCO's website at www.santacruzlafco.org. LAFCO does not discriminate on the basis of disability, and no person shall, by reason of a disability, be denied the benefits of its services, programs or activities. If you wish to attend this meeting and require special assistance in order to participate, please contact the LAFCO office at least 24 hours in advance of the meeting to make arrangements.

A handwritten signature in blue ink, appearing to read 'Joe A. Serrano', written over a horizontal line.

Joe A. Serrano
Executive Officer
Date: March 11, 2026

LOCAL AGENCY FORMATION COMMISSION OF SANTA CRUZ COUNTY
RESOLUTION NO. 2026-05

On the motion of Commissioner
duly seconded by Commissioner
the following resolution is adopted:

RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION
ADOPTING A DRAFT BUDGET FOR FISCAL YEAR 2026-27

WHEREAS, California Government Code Section 56381(a) requires the Local Agency Formation Commission of Santa Cruz County (“LAFCO” or “Commission”) to adopt draft and final budgets each year by May and June, respectively; and

WHEREAS, the Commission’s Executive Officer prepared a written report outlining recommendations with respect to anticipated work activities and budgetary needs in Fiscal Year 2026-27; and

WHEREAS, the proposed budget was advertised in the Santa Cruz Sentinel Newspaper on March 11, 2026 for consideration at the April 1, 2026 LAFCO Meeting; and

WHEREAS, the Commission heard and fully considered all the evidence on a draft budget during a public hearing held on April 1, 2026; and

WHEREAS, the draft and final budget will allow the Commission to fulfill the programs and purposes of the Cortese-Knox-Hertzberg Act because it will allow the Commission to prepare the state-mandated service reviews in a timely manner; and

WHEREAS, the Commission will consider adoption of a final budget for Fiscal Year 2026-27 during a public hearing no later than June 3, 2026.

NOW, THEREFORE, BE IT RESOLVED, the Commission hereby adopts a draft budget for the fiscal year beginning July 1, 2026 in the amount of \$794,750 with the budget to be funded by the participating agencies of \$495,000 (apportionment basis calculated and collected by the County Auditor-Controller’s Office).

PASSED AND ADOPTED by the Local Agency Formation Commission of Santa Cruz County this 1st day of April 2026.

AYES:

NOES:

ABSTAIN:

RACHÉL LATHER, CHAIRPERSON

Attest:

Approved as to form:

Joe A. Serrano, Executive Officer

Joshua Nelson, LAFCO Counsel



Santa Cruz Local Agency Formation Commission

Date: April 1, 2026
To: LAFCO Commissioners
From: Joe Serrano, Executive Officer
Subject: **Pajaro Valley Health Care District Annual Report**

SUMMARY OF RECOMMENDATION

This commission adopted the first service and sphere review for the Pajaro Valley Health Care District (PVHCD) in November 2025 in accordance with Senate Bill 969 and Government Code Sections 56425 and 56430. LAFCO’s report included several recommendations, including the submittal of regular annual reports and status updates to the commission. The Pajaro Valley Health Care District has submitted its April 2026 Annual Report in accordance with LAFCO’s 2025 service and sphere review.

It is recommended that the Commission receive and file the annual report.

EXECUTIVE OFFICER’S REPORT:

Senate Bill 969 required PVHCD to submit annual updates to LAFCO addressing the six mandatory service review determinations. These updates support LAFCO’s ongoing oversight of the District following the 2025 Service & Sphere Review, which identified financial instability as the District’s most critical challenge. The 2026 annual report, as shown in **Attachment 1**, provides updated information on population trends, disadvantaged communities, facility capacity, financial condition, shared service opportunities, and governance practices.

CONCLUSION

While PVHCD has demonstrated progress in governance, transparency, and planning, its financial instability remains the overriding concern. The District’s structural deficits, debt obligations, and vulnerability to external disruptions (ex. cyberattack) continue to pose risks to long-term service viability. As a result, PVHCD is considered a financially vulnerable special district and an agency of ongoing concern for LAFCO. Therefore, LAFCO staff will continue to monitor the District closely and may recommend additional review actions if conditions worsen. The next status update will be provided to the commission on June 3, 2026.

Respectfully Submitted,

Joe A. Serrano
Executive Officer

Attachment: 2026 PVHCD Annual Report



Executive Summary

The Pajaro Valley Health Care District's (PVHCD) April 2026 Annual Report to LAFCO demonstrates clear compliance with the statutory requirements of SB 969 and directly advances the recommended actions outlined in LAFCO's 2025 Service & Sphere Review for the District. The report provides complete, data-driven responses to all six mandatory determinations under Government Code Section 56430 and documents meaningful progress in governance, service delivery, financial oversight, and long-term planning.

Compliance with SB 969 Requirements

SB 969 required the healthcare district to maintain transparent governance practices, ensure accountability, and provide clear reporting on service capacity, financial condition, and community needs. The District's 2026 submission satisfies these obligations in the following ways:

- **Comprehensive Service Review Determinations:**
The report fully addresses all six statutory components, including population projections, disadvantaged community characteristics, facility capacity, financial condition, shared service opportunities, and governance structure.
- **Transparency and Governance:**
The District continues to meet SB 929 website transparency standards and has completed the transition to zone-based elections ahead of the March 2027 statutory deadline, with the first by-zone election scheduled for November 2026.
- **Operational Accountability:**
The District provides detailed reporting on staffing, facility ownership, service offerings, and planned capital improvements, demonstrating adherence to state expectations for operational clarity and public accountability.

Alignment with LAFCO's 2025 Service & Sphere Review Recommendations

The 2026 report also reflects substantial progress toward the strategic and operational improvements recommended by LAFCO in its 2025 review:

- **Regional Collaboration and Shared Services:**
Consistent with LAFCO's call for expanded partnerships, the District and Hospital boards have directed leadership to pursue strategic collaborations with regional healthcare systems to strengthen financial sustainability, expand provider participation, and improve service integration.

- **Infrastructure Modernization:**
Planned capital projects (including emergency department expansion, imaging upgrades, and energy-efficiency improvements) directly support LAFCO’s recommendation to maintain and modernize essential healthcare infrastructure.
- **Financial Oversight and Long-Term Stability:**
The report provides transparent financial disclosures, including audited deficits, revenue composition, debt obligations, and the impacts of the 2024 cyberattack. These disclosures align with LAFCO’s emphasis on improved financial reporting and long-term fiscal planning.
- **Focus on Disadvantaged Communities:**
The District’s analysis of socioeconomic and health-access disparities within Pajaro Valley aligns with LAFCO’s directive to prioritize service equity and address the needs of disadvantaged unincorporated communities.

Conclusion

Overall, the PVHCD’s April 2026 annual report demonstrates that the District is meeting the statutory requirements of SB 969 and is actively implementing the strategic, financial, and governance improvements recommended in LAFCO’s 2025 Service & Sphere Review. The District’s continued focus on transparency, regional collaboration, infrastructure investment, and service equity positions it to better meet the healthcare needs of the Pajaro Valley community in the years ahead.

PVHCD Report to LAFCO, April 2026

Determinations – Pajaro Valley Health Care District (Updated)

The following provides an analysis of the six components required by Government Code Section 56430 for a Service Review for the Pajaro Valley Health Care District:

1. Growth and Population Projections for the Affected Area

The Pajaro Valley Health Care District (District) spans approximately 108 square miles across southern Santa Cruz County and northern Monterey County. It includes Watsonville and unincorporated communities such as Pajaro, Freedom, Corralitos, Las Lomas, and Aromas. The 2025 population is estimated at 93,000. AMBAG estimates a 3% population growth, 6% employment growth, and 13% housing stock growth in Watsonville by 2050.¹

2. Location and Characteristics of Disadvantaged Unincorporated Communities

The District serves areas with significant socioeconomic challenges, including Pajaro, which experienced severe flooding in 2023 and faces persistent housing and income disparities. In the District, 17.6% of adults are without health insurance (compared to 11.0% nationally), 11.5% live in linguistic isolation (compared to 4.2% nationally), and only 69.4% of adults have had a routine checkup in the last two years (compared to 77.7% nationally). In addition, over 2,500 households with children receive SNAP funding, and over 1,900 people age 65+ live below the poverty level.²

3. Present and Planned Capacity of Public Facilities and Adequacy of Public Services

The District operates Watsonville Community Hospital (Hospital), a 106-bed acute care facility with an SPC-5 seismic rating, ensuring post-earthquake operability. The hospital offers emergency services, inpatient and surgical care, advanced cardiac procedures, maternity and pediatric care (including Level II NICU), diagnostic imaging, and specialty programs. The District employs 625 staff and owns multiple facilities, including the hospital campus and outpatient clinics. Planned improvements include emergency department expansion, imaging upgrades, roof and HVAC repairs, and energy efficiency improvements. These projects aim to maintain adequate capacity and modernize infrastructure.

¹ Final Draft 2026 Regional Growth Forecast, AMBAG.

https://ambag.org/sites/default/files/2024-10/Final%20Draft%202026%20RGF_092024_Combined.pdf

² DataShare Santa Cruz County, Pajaro Valley Health Care District Dashboard.

<https://www.datasharescc.org/?module=indicators&controller=index&action=indicatorsearch&doSearch=1&showComparisons=1&l=455539>, data accessed 3/6/2026



4. Financial Ability of the Agency to Provide Services

The District remains financially distressed. Audited statements show consecutive deficits: \$30 million (2022), \$13.1 million (2023), and \$94,648 (2024), with an unaudited 2025 loss of \$23.2 million. Financial auditors have issued a going concern warning citing liquidity risks and debt burden. Total revenue in 2025 was \$134.7 million. The District relies heavily on patient revenue (93% of total) and has secured bond financing (\$116 million authorized; \$53.35 million issued) for infrastructure improvements and state loans to stabilize operations. A cyberattack in late 2024 further strained cash flow, though recovery efforts are underway.

5. Status of, and Opportunities for, Shared Facilities

The District owns the Hospital building along with the adjacent office building on the property and leases additional clinic space in Watsonville. While internal coordination exists between the District and its hospital corporation, LAFCO has encouraged expanded collaboration with neighboring districts and regional health agencies to improve service integration and financial resilience.

The District and Hospital boards have advised staff leadership to seek out strategic partnerships with local and regional healthcare systems, with the goals of creating economies of scale for hospital operations, encouraging more physicians and providers to use the facility, and creating a more financially sustainable model for the long-run. The District feels this is critical, particularly in the face of current and impending federal and state cuts to reimbursement and insurance coverage rates among its citizens.

6. Accountability for Community Service Needs, Including Governmental Structure and Operational Efficiencies

The District is governed by a five-member elected Board of Directors. The District complies with SB 929 website transparency requirements and maintains public access to agendas, budgets, and audits. Zone-based elections must be implemented by March 2027 per Health & Safety Code, and that work was completed in November 2025 with the first by-zone election taking place in November 2026.



Santa Cruz Local Agency Formation Commission

Date: April 1, 2026
To: LAFCO Commissioners
From: Joe Serrano, Executive Officer
Subject: **Fiscal Year End Audit Report (FY 2024-25)**

SUMMARY OF RECOMMENDATION

In 2024, several LAFCOs issued a joint Request for Proposals for auditing services. Four bids were submitted and after conducting interviews, Santa Cruz LAFCO selected Davis Farr LLP as its independent auditor. The Commission approved the contract with the auditing firm on June 5, 2024¹. Under the agreement, Davis Farr LLP will conduct six audits from FY 2023-24 to FY 2028-29. This report will focus on the second audit completed by Davis Farr LLP regarding LAFCO’s most recent fiscal year (FY 2024-25).

It is recommended that the Commission adopt the audit for Fiscal Year 2024-25.

EXECUTIVE OFFICER’S REPORT:

For additional transparency, Santa Cruz LAFCO is now subject to independent financial audits on an annual basis. This year marks the second time Santa Cruz LAFCO will conduct an independent audit, with four more to be subsequently developed by Davis Farr LLP. Staff is satisfied with the quality of the work produced by Davis Farr LLP and today is presenting the Commission with the final audit and supporting letters for FY 2024-25. **Attachment 1** provides a copy of the full audit. In addition, the auditing firm provided LAFCO with a letter (**Attachment 2**) indicating that they found no significant issues with LAFCO’s finances or internal operations.

Key Takeaway

While the auditor identified no corrections or recommendations, the audit again made clear that LAFCO should continue the consideration of increasing its future allocations and discontinue the practice of relying on reserves to balance upcoming budgets. The audited financial statements noted that in FY 2024-25, LAFCO’s total revenues were \$450,227 and total expenses were \$549,698 – which results in a deficit of approximately \$99,000. However, this financial gap has always been offset by LAFCO’s healthy reserves. This has been a historical practice, but reserves are reaching a point where they can no longer subsidize the difference on an annual basis. Reserves are typically meant for unexpected expenditures rather than for regular operations. Therefore, staff will continue gradually increasing the allocations for member agencies in the following fiscal years to minimize (and ultimately discontinue) the reliance of the Commission’s reserves.

¹ 6/5/24 LAFCO Report: https://santacruzlafco.org/wp-content/uploads/2024/05/6a.0-Audit-Firm-Selection-Staff-Report_Hyperlinked.pdf

CONCLUSION

With the completion of the FY 2024-25 audit, we will soon be looking to get started with our next audit (FY 2025-26). Staff would like to extend their appreciation to the auditing firm for their professionalism, timeliness, and patience as we successfully completed Santa Cruz LAFCO's second independent audit. In conclusion, staff is recommending that the Commission approve the audit for FY 2024-25.

Respectfully Submitted,



Joe A. Serrano
Executive Officer

Attachments:

1. FY 2024-25 Audit
2. Independent Auditor's Report

SANTA CRUZ LOCAL AGENCY
FORMATION COMMISSION

Basic Financial Statements

Year ended June 30, 2025

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

Year ended June 30, 2025

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Independent Auditor's Report

Board of Commissioners
Santa Cruz Local Agency Formation Commission
Santa Cruz, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of the Santa Cruz Local Agency Formation Commission (**the "Commission"**), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the **Commission'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 activities and the major fund of the Commission as of June 30, 2025, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described further in Notes 2 and 8 to the financial statements, during the year ended June 30, 2025, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences. As a result, the beginning net position has been restated. Our opinion is not modified with respect to this matter.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (**GAAS**). **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 the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The Commission's 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 the

Commission's ability to continue as a going concern for one year after the date that the financial statements are issued.

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 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, 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 the Commission'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 the Commission'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, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of the Plan's Proportionate Share of the Net Pension Liability and the Schedule of Plan Contributions*** 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 February 24, 2026 on our consideration of the Commission'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 solely 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 Commission's **internal control over financial reporting and compliance**.

DavisFarrLLP

Irvine, California
February 24, 2026

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2025

This section of the Santa Cruz Local Agency Formation **Commission's** (the Commission) basic financial statements presents our analysis of the **Commission's** financial performance during the year ended June 30, 2025, and other significant conditions and events. This section should be read in conjunction with the financial statements which follow. The fiscal year ended June 30, 2025 is **the first year of implementation of the Management's Discussion and Analysis and as such includes** information only related to the year then ended. In future years, when prior-year information is available, a comparative analysis of data will be presented.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the Commission's operations in more detail than the government-wide statements by providing information about the Commission's most significant revenues and expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of two parts - *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the Commission.

The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Commission's overall financial status. The remaining statements are *fund financial statements* that focus on *individual parts* of the Commission, reporting the Commission's operations in *more detail* than the government-wide statements. The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

Reporting the Commission as a Whole

The accompanying government-wide financial statements include two statements that present financial data for the Commission as a whole. One of the most important questions asked about the Commission's finances is, "Is the Commission as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Commission's net position and changes in net position. You can think of the Commission's net position - the difference between assets and liabilities - as one way to measure the Commission's financial health, or *financial position*.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Management’s Discussion and Analysis

Year ended June 30, 2025

Over time, *increases and decreases* in the Commission's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Commission's revenues, to assess the *overall health* of the Commission.

Reporting the Commission’s Major Funds

The fund financial statements provide detailed information about the Commission's most significant funds - not the Commission as a whole. Some funds are required to be established by State law or by bond covenants. However, the Commission establishes other special funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain revenues.

Governmental fund - All of the Commission's basic services are reported in a governmental fund, which focuses on how money flows into and out of that fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Commission's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in a reconciliation following the fund financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A summary of the government-wide *Statement of Net Position* follows:

Table 1
Statement of Net Position
June 30, 2025

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Assets:			
Current assets	\$ 248,465	300,693	(52,228)
Total assets	<u>248,465</u>	<u>300,693</u>	<u>(52,228)</u>
Deferred outflows of resources	<u>236,919</u>	<u>305,963</u>	<u>(69,044)</u>
Liabilities:			
Current liabilities	60,354	33,237	27,117
Non-current liabilities	647,547	685,838	(38,291)
Total liabilities	<u>707,901</u>	<u>719,075</u>	<u>(11,174)</u>
Deferred inflows of resources	<u>41,764</u>	<u>29,175</u>	<u>12,589</u>
Net position:			
Unrestricted	<u>(264,281)</u>	<u>(141,594)</u>	<u>(122,687)</u>
Total net position	<u>\$ (264,281)</u>	<u>(141,594)</u>	<u>(122,687)</u>

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2025

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

A closer examination reveals that Net Position between the years decreased by \$122,687.

A summary of the government-wide *Statement of Activities* follows:

Table 2
Statement of Activities
Year Ended June 30, 2025

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Revenues:			
Apportionments	\$ 419,265	419,265	-
Charges for Services	7,668	13,911	(6,243)
Investment Income and Other Revenues	<u>23,294</u>	<u>19,386</u>	<u>3,908</u>
Total revenues	<u>450,227</u>	<u>452,562</u>	<u>(2,335)</u>
Expenses:			
General Government	<u>549,698</u>	<u>514,514</u>	<u>35,184</u>
Total expenditures	<u>549,698</u>	<u>514,514</u>	<u>35,184</u>
Changes in net position	<u>(99,471)</u>	<u>(61,952)</u>	<u>(37,519)</u>
Beginning net position, as previously reported	(141,594)	(79,642)	(61,952)
Restatement for implementation of GASB 101	<u>(23,216)</u>	<u>-</u>	<u>(23,216)</u>
Net position - beginning, as restated	<u>(164,810)</u>	<u>(79,642)</u>	<u>(85,168)</u>
Ending net position	<u>\$ (264,281)</u>	<u>(141,594)</u>	<u>(122,687)</u>

The increase or decrease in net position can provide an indication as to whether the overall financial position of the Commission improved or deteriorated during the year. In fiscal year 2025, the Commission saw a decrease in financial position.

GENERAL FUND BUDGET

Major deviations between the budget of the General Fund and its actual operating results were as follows:

- Total general fund revenues were higher due to increases in planning study service revenue and investment income.
- Several pension and retiree, health year-end calculations, are not budgeted for as they are prepared at the governmental-wide level and not the fund level.
- Total expenditure was lower than budgeted by approximately \$69,804, mainly due to cost savings on contracted services, training, and travel.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2025

LONG-TERM LIABILITIES

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Net Pension Liability	\$ 627,013	676,972	(49,959)
Compensated Absences *	<u>68,448</u>	<u>52,770</u>	<u>15,678</u>
Total Liabilities	<u>\$ 695,461</u>	<u>729,742</u>	<u>(34,281)</u>

* Compensated absences have been restated for FY24 as a result of the implementation of GASB 101.

The compensated absences liability represents the value of unused vacation pay that employees have accrued as of the end of the fiscal year. Additional information on long-term liabilities may be found in Note 4 and 8 of the notes to financial statements.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the County and local agencies with a general overview of the Commission's finances and show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joe Serrano, Executive Director, at (831) 454-2055.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Statement of Net Position

June 30, 2025

	<u>Governmental Activities</u>
Assets:	
Cash and investments (note 3)	\$ 246,304
Accounts receivable	7
Prepaid expenses	<u>2,154</u>
Total assets	<u>248,465</u>
Deferred outflows of resources:	
Deferred amounts from pension (note 5)	<u>236,919</u>
Total deferred outflows of resources	<u>236,919</u>
Liabilities:	
Current Liabilities	
Accounts payable	4,812
Accrued liabilities	7,628
Compensated absences (note 4)	<u>47,914</u>
Total current liabilities	<u>60,354</u>
Non-current liabilities	
Compensated absences (note 4)	20,534
Net pension liability (note 5)	<u>627,013</u>
Total non-current liabilities	<u>647,547</u>
Total liabilities	<u>707,901</u>
Deferred inflows of resources:	
Deferred amounts from pension (note 5)	<u>41,764</u>
Total deferred inflows of resources	<u>41,764</u>
Net position:	
Unrestricted	<u>(264,281)</u>
Total net position	<u>\$ (264,281)</u>

See accompanying notes to the basic financial statements

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Statement of Activities

Year ended June 30, 2025

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General government	\$ <u>549,698</u>	<u>7,668</u>	<u>-</u>	<u>-</u>	\$ <u>(542,030)</u>
Total governmental activities	\$ <u>549,698</u>	<u>7,668</u>	<u>-</u>	<u>-</u>	<u>(542,030)</u>
		General revenues:			
		Apportionments			419,265
		Investment income			17,333
		Other revenues			<u>5,961</u>
		Total general revenues			<u>442,559</u>
		Change in net position			<u>(99,471)</u>
		Net position - beginning, as previously reported			(141,594)
		Restatement for implementation of GASB 101 (note 8)			<u>(23,216)</u>
		Net position - beginning, as restated			<u>(164,810)</u>
		Net position, end of year			\$ <u>(264,281)</u>

See accompanying notes to the basic financial statements

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Balance Sheet - Governmental Fund

June 30, 2025

	<u>General Fund</u>
<u>Assets</u>	
Cash	\$ 246,304
Accounts receivable	7
Prepaid expenses	<u>2,154</u>
Total assets	<u>\$ 248,465</u>
 <u>Liabilities and Fund Balance</u>	
Liabilities:	
Accounts payable	\$ 4,812
Accrued liabilities	<u>7,628</u>
Total liabilities	<u>12,440</u>
Fund balance:	
Nonspendable	2,154
Unassigned	<u>233,871</u>
Total fund balance	<u>236,025</u>
Total liabilities and fund balance	<u>\$ 248,465</u>

See accompanying notes to the basic financial statements

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION
Reconciliation of the Balance Sheet of Governmental Fund
to the Statement of Net Position

June 30, 2025

Fund balances of governmental funds		\$ 236,025
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Long-Term Liability Transactions

Long-term liabilities are not due and payable in the current period and, accordingly, are not reported in the government fund statements:

Net pension liability		(627,013)
Compensated absences		(68,448)

Deferred Outflows and Inflows of Resources

Certain deferred outflows and inflows of resources are not due and payable in the current period and are not current assets or financial resources, therefore these items are not reported in the governmental funds:

Deferred outflows - pensions		236,919
Deferred inflows - pensions		<u>(41,764)</u>

Net position of governmental activities		<u>\$ (264,281)</u>
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See accompanying notes to the basic financial statements

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

**Statement of Revenues, Expenditures, and Changes in
Fund Balance - Governmental Fund**

Year ended June 30, 2025

Revenues:	
Apportionments	\$ 419,265
Charges for services	7,668
Investment income	17,333
Other revenue	<u>5,961</u>
Total revenues	<u>450,227</u>
Expenditures:	
General government:	
Salaries and benefits	426,077
Service and supplies	69,564
Travel and training	5,876
Rent	<u>829</u>
Total expenditures	<u>502,346</u>
Excess (deficiency) of revenues over/(under) expenditures	<u>(52,119)</u>
Net change in fund balance	(52,119)
Fund balance at beginning of year	<u>288,144</u>
Fund balance at end of year	<u>\$ 236,025</u>

See accompanying notes to the basic financial statements

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

**Reconciliation of the Statement of Revenues, Expenditures, and
Change in Fund Balance of Governmental Fund to the Statement of Activities**

Year ended June 30, 2025

Net changes in fund balances - total governmental funds \$ (52,119)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Long-Term Liability Transactions

Some expenses reported in the Statement of Activities do not require the use
of current financial resources:

Net change in compensated absences (15,678)

Pension expense reported in the governmental funds include the actual
contributions made in the fiscal year. Pension expense reported in the
Statement of Activities includes the changes in the liabilities and related
deferred outflows/inflows of resources.

Net change in net pension liability and related deferred outflow/inflow (31,674)

Change in net position of governmental activities \$ (99,471)

See accompanying notes to the basic financial statements

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(1) Nature of Organization

The Santa Cruz Local Agency Formation Commission (the Commission) is an independent agency created in 1963, by the state legislature. The Commission works closely with citizens, the county, cities and special districts on a variety of issues concerning the organization of **local governments, jurisdiction changes, and public services. The Commission's statutory purpose** includes discouraging urban sprawl, preserving agricultural land, and encouraging orderly boundaries based upon local circumstances and conditions, and promoting adequate public services. From its creation in 1963 to June 30, 2001, the County of Santa Cruz funded the Commission. Beginning July 1, 2001, the Cortese/Knox/Hertzberg Local Reorganization **Act redefined the Commission's responsibilities** and established a new funding method and process. The Commission, after accounting for charges and services, is now funded in equal thirds by (1) the County of Santa Cruz (2) the cities and (3) the independent special districts in Santa Cruz. The Commission adopts its annual budget by June 15 of each year and transmits it to each of the member organizations.

(2) Summary of Significant Accounting Policies

The financial statements of the Santa Cruz Local Agency Formation Commission (the Commission) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. **The more significant of the government's accounting policies are described below.**

(a) Basis of Accounting and Measurement Focus

The *basic financial statements* of the Commission are composed of the following:

- (a) Government-wide financial statements
- (b) Fund financial statements
- (c) Notes to the basic 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 the Commission.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a function or segment. Program revenues include charges for services that are restricted to meeting the operational or capital requirements of a particular function or segment. Use of money and other items not properly included among program revenues are reported instead as general revenues.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the *accrual basis of accounting*, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures.

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Commission uses an availability period of 60 days for all revenues.

Charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period.

Other revenue items are considered to be measurable and available when cash is received from the government.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund **balance (net current assets) is considered to be a measure of "available spendable resources."** Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses **of "available spendable resources" during a period.**

Due to the nature of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current position, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Net Position Flow Assumption – When an expenditure is incurred for purposes for which **both restricted and unrestricted net position is available, the Commission’s policy is to apply restricted fund balance first.**

Fund Balance Flow Assumption – When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the **Commission’s policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.**

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as a separate column in the fund financial statements.

(b) Fund Classifications

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance – This includes amounts that are prepaid and do not **constitute “available spendable resources”, even though they are a component of net current assets.**

Restricted Fund Balance – This includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Commission action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Commission but does not require a formal action like a resolution or ordinance. The Commission may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has not yet been granted.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

The Commission reports the following major governmental fund:

The General Fund is used to account for resources traditionally associated with the organization, which are not required legally or by sound financial management to be accounted for in another fund.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

(c) Cash and Cash equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. Investments are reported in the accompanying balance sheet at fair value.

(d) Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. **These unobservable inputs reflect the Commission's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the Commission's own data.**

(e) Member Allocations of Cost

All member organizations are required to pay an allocation of costs of the annual **Commission's budget**.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

(f) Compensated Absences

The Commission implemented GASB Implementation Statement No. 101 for accounting and reporting of compensated absences. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. It is the Commission's **policy to permit employees to accumulate earned but unused vacation and sick time (compensated absences)**. The balance of unpaid vacation time on June 30, 2025, is recorded as a noncurrent liability.

The Commission offers employees paid time off benefits for vacation and sick leave.

Vacation Accrual

Regular full-time employees will accrue vacation according to continuous years of service in accordance with the schedule below.

<u>Years of Service Completed</u>	<u>Vacation Days Accrual per Year</u>
1 to 5 years	16
5 to 10 years	21
10 to 15 years	26
15+ years	31

Sick Leave Payout

All employees are entitled to six (6) days of sick leave per year and will accrue up to a maximum of one hundred eighty (180) days. Upon separation from the Commission, accrued unused sick leave up to a maximum of 450 hours shall be paid to employees with one or more years of service in accordance with the following schedule:

<u>Years of Service Completed</u>	<u>Sick Leave Payout</u>
1 to 5 years	10%
5 to 10 years	50%
10+ years	75%

Sick leave pay will be calculated based on the employee's last hourly rate of pay.

(g) Net Position

Net position represents the difference between assets and liabilities and is classified into three components as follows:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Restricted – This component of net position consists of assets which are legally restricted by outside parties for use for a specific purpose.

Unrestricted – This component of net position consists of net position that does not meet **the definition of “restricted” or “net investment in capital assets”**. Designated net position represents unrestricted assets which are segregated by the Commission for specific future uses.

(h) 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 Commission’s **California Public Employees’ Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan’s fiduciary net position have been** determined on the same basis as it is 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. Investments are reported at fair value.

Valuation Date (VD)	June 30, 2023
Measurement Date (MD)	June 30, 2024
Measurement Period (MP)	July 1, 2023 to June 30, 2024

(i) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission reports deferred outflows related to pensions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission reports deferred inflows related to pensions.

(j) Use of Estimates

The preparation 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 disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(3) Cash and investments

The Commission maintains all of its cash in the Santa Cruz County Treasury. The County **Treasurer pools and invests the Commission's cash with other funds under its control. Interest** earned on pooled investments is apportioned quarterly into participating funds based upon each fund's average daily balance.

Cash and investments held at June 30, 2025 consisted of the following:

County Treasurer Pooled Investments	\$	246,264
Petty Cash		<u>40</u>
Total Cash and Investments	\$	<u>246,304</u>

Investment Authorized by the California Government Code and the **Entity's** Investment Policy

The Commission's investment policy only authorizes investment in the local government investment pool administered by the County of Santa Cruz.

The Commission's investment policy does not contain any specific provisions intended to limit the Commission's exposure to interest rate risk, credit risk, and concentration of credit risk.

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 changes in market interest rates.

Custodial Credit Risk

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. **The California Government Code and the Commission's investment policy do not** contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. 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 Santa Cruz County Investment Pool).

Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating **required by (where applicable) the California Government Code and the Commission's investment policy**, and the actual rating as of the year end for each investment type.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(3) Cash and investments (Continued)

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Not Rated</u>
Santa Cruz County Investment Pool	\$ 246,264	N/A	\$ 246,264
Total	<u>\$ 246,264</u>		<u>\$ 246,264</u>

Concentration of Credit Risk

The investment policy of the Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. **All of the Commission's cash is held in the Santa Cruz County Investment Pool.**

Investment in Santa Cruz County Investment Pool

The Commission is a participant in the Santa Cruz County Investment Pool that is regulated by the California Government Code. **The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at the amounts based upon the Commission's pro-rata share of the fair value provided by the Santa Cruz County Investment Pool for the entire Santa Cruz County Investment Pool portfolio.** The balance available for withdrawal is based on the accounting records maintained by the Santa Cruz Investment Pool.

(4) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2025:

	<u>Balance July 1, 2024</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2025</u>	<u>Due Within One Year</u>
Compensated Absences *	<u>\$ 52,770</u>	<u>15,678</u>	<u>-</u>	<u>68,448</u>	<u>47,914</u>

*Beginning balances of compensated absences have been restated and current year changes are reported as a net addition or deletion, as a result of the implementation of GASB 101.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(5) Retirement Plan

Plan Description

All qualified employees are eligible to participate in the Commission's 2.0% at 55 (Miscellaneous Plan) Employee Pension Plan, cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Commission 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.

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 based on years of credited service, equal to one year of full-time employment. Classic members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after ten years of service.

The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at the measurement date June 30, 2024, are summarized as follows:

Benefit Formula	2% at 55
Benefit Vesting Schedule	5 years of service
Required Employee Contribution Rates	6.93%
Required Employer Contribution Rates	12.52%

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 July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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. The Commission is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Commission contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions. For the fiscal year ended June 30, 2025, the Commission's contribution to the Plan was \$92,406.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(5) Retirement Plan (Continued)

The Commission reported a net pension liability for its proportionate share of the net pension liability of \$627,013 as of June 30, 2025. **The Commission's net pension liability is measured** as the proportionate share of the net pension liability. The net pension liability of the Plan at June 30, 2025 was measured as of June 30, 2024. The total pension liability at June 30, 2024 for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023. **The Commission's proportion of the net pension liability was based on** a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The following table shows the Commission's proportionate share of the net pension liability over the measurement period:

	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability/(Asset)
Balance at June 30, 2023	\$ 2,373,720	1,696,749	676,971
Balance at June 30, 2024	<u>2,412,604</u>	<u>1,785,591</u>	<u>627,013</u>
Net changes during 2023-2024	<u>\$ 38,884</u>	<u>88,842</u>	<u>(49,958)</u>

The Commission's proportionate share of the net pension liability for the Plan was as follows:

Proportion - June 30, 2024	0.01354%
Proportion - June 30, 2025	<u>0.01296%</u>
Change - Increase (Decrease)	-0.00058%

For the year ended June 30, 2025, the Commission recognized a pension expense of \$124,081.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 92,406	-
Changes of Assumptions	16,116	-
Differences Between Actual and Expected Experience	54,211	(2,115)
Difference between employer's contribution and proportionate share of contribution	38,090	(1,575)
Net difference between projected and actual earnings on pension plan investments	36,096	-
Adjustments due to difference in proportions	<u>-</u>	<u>(38,074)</u>
Total	<u>\$ 236,919</u>	<u>(41,764)</u>

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(5) Retirement Plan (Continued)

The \$92,406 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal 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 noted below:

Fiscal Year Ending June 30,	Deferred Outflows (Inflows) of Resources
2026	\$ 32,301
2027	80,507
2028	2,311
2029	(12,370)
2030	-
Thereafter	-

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net pension are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expenses.

The amortization period differs depending on the source of the gain or loss:

Net Difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(5) Retirement Plan (Continued)

Actuarial Assumptions

The collective total pension liability for the June 30, 2024 measurement period was determined by an actuarial valuation as of June 30, 2023, with update procedures used to roll forward the total pension liability to June 30, 2024. The collective total pension liability was based on the following assumptions:

Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Actuarial Cost Method	Entry-Age Actuarial Cost Method
Actuarial Assumptions	
Discount Rate	6.90%
Inflation	2.30%
Projected Salary Increase	Varies by entry age and service
Mortality ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

¹The 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.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those **assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.** Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The table below presents **the Commission's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.**

	1% Decrease (5.90%)	Discount Rate (6.90%)	1% Increase (7.90%)
Net Pension Liability	\$ 952,571	627,013	359,031

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(5) Retirement Plan (Continued)

Long-Term Expected Rate of Return

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return.

The expected real rates of return by asset class are as follows:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return (a), (b)</u>
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-cap 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	<u>100.00%</u>	

(a) An expected inflation of 2.30% used for this period.

(b) Figures are based on the 2021 Asset Liability Management study.

Pension Plan Fiduciary Net Position

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

(6) Risk Management

The Commission is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Commission has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources. In addition, the Commission has an agreement with the County of Santa Cruz (the County) in which the Commission shall be **included in the County's risk pool, and the County shall provide** liability insurance, defense, and indemnification to the Commission and its officers. There have been no claims in the last **two fiscal years, and there were no reductions in the Commission's insurance coverage during** the year ending June 30, 2025.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(7) Related Party Transactions

The Commission and the County entered into a County Services Agreement to provide workers' compensation insurance, employee benefits administration, payroll, information technology support, and billing and collection services. The total amount paid by the Commission to the County for the year ended June 30, 2025 was \$55,500.

(8) Restatement of Beginning Balance

The Commission implemented GASB Statement No. 101: Compensated Absences during the fiscal year ended June 30, 2025. This adjustment recognized vacation, administrative and sick leave and includes salary-related payments, such as applicable payroll taxes, that are more likely than not to be used or settled in the future.

	<u>Governmental Activities</u>
Net position - beginning, as previously stated	\$ (141,594)
Restatement for implementation of GASB 101	<u>(23,216)</u>
Net position - beginning, as restated	<u>\$ (164,810)</u>

REQUIRED SUPPLEMENTARY INFORMATION

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Schedule of the Plan's Proportionate Share of Net Pension Liability

Last Ten Years*

Measurement Date	<u>06/30/24</u>	<u>06/30/23</u>
Proportion of the Collective Net Pension Liability	0.01296%	0.01354%
Proportionate Share of the Collective Net Pension Liability	\$ 627,013	676,972
Covered Payroll	\$ 242,238	171,912
Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll	258.84%	393.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	0.00928%	0.00959%

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes in Assumptions: The discount rate was reduced from 7.15% to 6.90% as of June 30, 2021.

*Fiscal year 2024 was the first year of implementation. Therefore, only two years are shown.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund**

Year ended June 30, 2025

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues:				
Apportionments	\$419,265	419,265	419,265	-
Planning studies services	-	-	7,668	7,668
Investment income	1,500	1,500	17,333	15,833
Other revenue	-	-	5,961	5,961
Total revenues	<u>420,765</u>	<u>420,765</u>	<u>450,227</u>	<u>29,462</u>
Expenditures:				
General government:				
Salaries and benefits	448,400	448,400	426,077	22,323
Service and supplies	105,600	105,600	69,564	36,036
Travel and training	8,150	8,150	5,876	2,274
Utilities	10,000	10,000	829	9,171
Total expenditures	<u>572,150</u>	<u>572,150</u>	<u>502,346</u>	<u>69,804</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(151,385)</u>	<u>(151,385)</u>	<u>(52,119)</u>	<u>99,266</u>
Net change in fund balances	(151,385)	(151,385)	(52,119)	99,266
Fund balances at beginning of year	<u>288,144</u>	<u>288,144</u>	<u>288,144</u>	-
Fund balances at end of year	<u>\$136,759</u>	<u>136,759</u>	<u>236,025</u>	<u>99,266</u>

See accompanying notes to required supplementary information.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to Required Supplementary Information

Year ended June 30, 2025

(1) Budgetary Reporting

The Commission established accounting control through formal adoption of an annual budget for the General Fund. The budget is prepared on a basis consistent with generally accepted accounting principles. The adopted budget can be amended by the Commission to change both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Increases and decreases in revenue and appropriations and transfers between funds require the Commission's approval. However, the Executive Officer may authorize changes within funds. Expenditures may not exceed total appropriations at the individual fund level. It is the practice of the Commission's management to review the budget monthly and provide quarterly updates to the Commission.

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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*

Board of Commissioners
Santa Cruz Local Agency Formation Commission
Santa Cruz, California

Independent Auditor's Report

We have audited, in accordance with the 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 the governmental activities and each major fund of the Santa Cruz Local Agency Formation Commission (the "Commission"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated February 24, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing 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 the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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.

DavisFarrLLP

Irvine, California
February 24, 2026.



Davis Farr LLP

18201 Von Karman Avenue | Suite 1100 | Irvine, CA 92612

Main: 949.474.2020 | Fax: 949.263.5520

Board of Commissioners
Santa Cruz Local Agency Formation Commission
Santa Cruz, California

We have audited the financial statements of the governmental activities, each major fund, of the Santa Cruz Local Agency Formation Commission (the "Commission") as of and for the year ended June 30, 2025, and have issued our report thereon dated February 24, 2026. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated January 12, 2026, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Commission 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.

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, have complied with all relevant ethical requirements regarding independence under the American Institute of Certified Public Accountants ("AICPA") independence standards, contained in the Code of Professional Conduct.

We identified independence threats related to the preparation of financial statements and proposing journal entries. We have applied certain safeguards to reduce the threats to an acceptable level, including using an independent party within the firm to perform a quality

control review of the financial statements and obtaining confirmation from the Commission management that their review of the financial statements included comparing the financial statements and footnotes to the underlying accounting records.

Significant Risks Identified

We have identified the following significant risks:

- The new compensated absences accounting standard, Governmental Accounting Standards Board (GASB) Statement No. 101. As a result, we reviewed the Commission's calculations and ensured the financial statements and footnotes are accurate and complete.
- Management override of internal controls over financial reporting and compliance – We identified the risk that management of the entity may have the ability to override controls that the organization has implemented. Management may override the organization's controls in order to modify the financial records with the intent of manipulating the financial statements to overstate the entity's financial performance or with the intent of concealing fraudulent transactions.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Commission is included in Note 2 to the financial statements. The Commission changed the accounting policies related to compensated absences by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 101, Compensated Absences, and risk disclosures related to government vulnerabilities due to concentrations and constraints by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 102, Certain Risk Disclosures, in the fiscal year ended June 30, 2025. Accordingly, the cumulative effect of the accounting changes related to GASB 101 as of the beginning of the year has been reported in the Statement of Activities. 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 is:

- Management's estimate of the Net Pension Liability and related Deferred Inflows and Outflows is based on information provided by actuarial reports. We evaluated the key factors and assumptions used to develop the Net Pension Liability and related Deferred

Inflows and Outflows 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 the Commission's financial statements relate to the Pension Plan disclosures in Note 5 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Significant Unusual Transactions

For the purposes of this communication, professional standards require us to disclose to you significant unusual transactions identified during our audit. Our audit procedures did not identify any significant unusual transactions.

Identified or Suspected Fraud

We have not identified or obtained information indicating 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 also 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. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

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. 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.

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 Commission's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the letter dated February 24, 2026.

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 Commission, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, 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 Commission's auditors.

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.

This report is intended solely for the information and use of the Board of Commissioners and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

DavisFarrLLP

Irvine, California
February 24, 2026



Santa Cruz Local Agency Formation Commission

Date: April 1, 2026
To: LAFCO Commissioners
From: Joe Serrano, Executive Officer
Subject: **Employee Performance Evaluation**

SUMMARY OF RECOMMENDATION

The Commission reviews the performance of LAFCO staff on an annual basis. Recommendations from the Personnel Committee are also evaluated when considering changes to staff’s salaries and benefits. Changes to these areas are discussed and voted upon in an open session. Any changes that occur to staff’s salaries and benefits are implemented by resolution.

It is recommended that the Commission adopt the draft resolution (LAFCO No. 2026-06) approving the salary adjustment for LAFCO’s Executive Officer and Analyst.

EXECUTIVE OFFICER’S REPORT:

The Commission reviewed staff’s performance evaluations in closed session during the March 4th LAFCO Meeting. After the meeting, LAFCO’s legal counsel informed staff that the Commission will consider implementing a 3.00% cost of living adjustment (COLA) increase for both employees (Analyst and Executive Officer). Additionally, the Commission will consider implementing a 3.57% salary increase to the LAFCO Analyst based on their performance during the 2025 calendar year. The proposed salary increases are consistent with the Commission’s adopted policy on salaries.

Attachment 1 provides a copy of the draft resolution reflecting the proposed salary amendments. If approved, the salary change will go into effect retroactively starting January 1, 2026. This retroactive start date reflects how the performance evaluations are typically adopted and implemented. However, the Commission maintains discretion on changing the start date of any new salary amount.

Respectfully Submitted,

Joe A. Serrano
Executive Officer

Attachment: Draft Resolution No. 2026-06

LOCAL AGENCY FORMATION COMMISSION OF SANTA CRUZ COUNTY
RESOLUTION NO. 2026-06

On the motion of Commissioner
duly seconded by Commissioner
the following resolution is adopted:

RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION
APPROVING THE ADJUSTMENTS TO STAFF'S SALARIES AND BENEFITS

WHEREAS, on June 7, 2000, the Local Agency Formation Commission of Santa Cruz County ("Commission") adopted a Personnel Policy specifying an annual process to review staff's performance and their salaries and benefits; and

WHEREAS, pursuant to this Personnel Policy, the Personnel Committee reviewed the performance evaluation for LAFCO's Executive Officer on February 18, 2026; and

WHEREAS, the Personnel Committee presented their findings and recommendations to the entire Commission during a Closed Session on March 4, 2026; and

WHEREAS, this Commission discussed the Personnel Committee's report and determined that adjustment to staff's salaries were warranted.

NOW, THEREFORE, BE IT RESOLVED that effective January 1, 2026; the Executive Officer is granted a 3% increase in salary from the current hourly rate of \$91.35 to \$94.09; the LAFCO Analyst is granted a 6.57% increase in salary from the current hourly rate of \$40.65 to \$43.32. The Auditor-Controller is requested to make the appropriate retroactive changes.

PASSED AND ADOPTED by the Local Agency Formation Commission of Santa Cruz County this 1st day of April 2026.

AYES:

NOES:

ABSTAIN:

RACHÉL LATHER, CHAIRPERSON

Attest:

Approved as to form:

Joe A. Serrano
Executive Officer

Joshua Nelson
LAFCO Counsel



Date: April 1, 2026
To: LAFCO Commissioners
From: Francisco Estrada, LAFCO Analyst
Subject: **Press Articles during the month of March 2026**

SUMMARY OF RECOMMENDATION

LAFCO staff monitors local newspapers, publications, and other media outlets for any news affecting local agencies or LAFCOs around the State. Articles are presented to the Commission on a periodic basis. This agenda item is for informational purposes only and does not require any action. Therefore, it is recommended that the Commission receive and file the Executive Officer's report.

EXECUTIVE OFFICER'S REPORT

The following is a summary of recent press articles. Full articles are attached.

Article #1: "Reorganization ensures reliable services from Newcastle Fire". The article, dated March 12, provides a detailed summary on the benefits associated with a reorganization between the Newcastle Fire Protection District and Placer Hills Fire Protection District. Included in these benefits to the public are a higher level of medical service, competitive salaries, modern fire equipment, and maintaining their ISO-4 insurance rating. The article also explains why there are structural deficits in their annual budgets and how the reorganization will offer long-term financial viability.


Article #2: "City of Los Altos begins process for annexation of fire department". The article, dated March 17, provides information on Los Alto's City Council decision to annex the city's fire department to Santa Clara County Fire at their most recent council meeting. The initiation process will begin with an application submission request for annexation to Santa Clara Count LAFCO by April 2026 for a June public hearing. The annexation proposal also has received support from local leaders, and although the city would see a decrease in property taxes, there would also be an equal or greater reduction in expenditures as well.

Article #3: "Crisis threatening community hospitals didn't have to happen". The editorial, dated March 18, was written by the Pajaro Valley Health Care District Chief Executive Officer Stephen Gray and discusses how community hospitals throughout the state are struggling due to the low Medi-Cal reimbursement rates and federal delays approving California's hospital fee program. This financial crisis is directly affecting Watsonville Community Hospital, which has lost approximately \$28 million per year in Medicaid reimbursements. At present, California ranks 41st in the nation for Medicaid reimbursement, causing major losses for community hospitals that treat large numbers of Medi-Cal patients.

Article #4: “Santa Cruz County Supervisor Justin Cummings to run unopposed for second term”. The article, dated March 20, announces that Supervisor Justin Cummings will run for the Third District Supervisor seat unopposed during the upcoming June 2nd primary election. Supervisor Cummings, who also sits on LAFCO, is currently wrapping up his first term as the Supervisor for the Third District which encompasses most of Santa Cruz City and the entire North Coast region that extends past Davenport and includes areas within the San Lorenzo Valley including Boony Doon.

Article #5: “Goleta Takes Step Towards Expanding Sphere of Influence”. The article, dated March 23, notes that the City of Goleta in Santa Barbara County is seeking a sphere amendment which may allow them to explore possible annexations in the future. At present, the City’s sphere boundary is coterminous (exactly the same) as the city limits. The article also indicates that County staff and members of the Board of Supervisors support the proposed sphere expansion.

Respectfully Submitted,



Francisco Estrada
LAFCO Analyst

Attachments:

1. “Reorganization ensures reliable services from Newcastle Fire”
2. “City of Los Altos begins process for annexation of fire department”
3. “Crisis threatening community hospitals didn’t have to happen”
4. “Santa Cruz County Supervisor Justin Cummings to run unopposed for second term”
5. “Goleta Takes Step Towards Expanding Sphere of Influence”

GUEST EDITORIAL

Reorganization ensures reliable services from Newcastle Fire

By **Jim Heisterkamp**

Mar 12, 2026 8:00 AM



The Newcastle Fire Protection District (FPD) Board of Directors would like to thank former Placer County Supervisor Jim Holmes for his recent editorial explaining the reorganization of the Placer Hills FPD and Newcastle FPD ("An overview of Placer Hills, Newcastle FD reorganization," Friday, March 6, 2026, Placer Herald/Roseville Press Tribune/Loomis News, page A4).

We would like to offer additional information regarding the benefits the reorganization will provide to the community of Newcastle and how we arrived at the reorganization.

For 10 years, Newcastle FPD has had the same command staff: Fire Chief, Battalion Chiefs, Fire Marshall and Administration support all provided by Placer Hills FPD under contract at a fraction of the cost the district

would have paid for just a fire chief and administration support. This team, along with Newcastle's six (6) fire emergency staff, will not change under the reorganization – same faces, same caring culture.

With this reorganization, the district would be able to offer you a higher level of medical service by up-skilling our emergency team from Basic Life Support to Advanced Life Support. Every call for help moving forward would have a certified paramedic on that call, the highest level of medical care in the field. To this point, the cost of this service for Newcastle has been prohibitive.

This reorganization will afford our firefighters a modern standard of living, including competitive salary, retirement pension and healthcare comparable to other fire departments in the area. In addition, the district will be able to provide job advancement within the organization. This will help prevent the loss of our loyal fire team who elected not to ask for any salary increase last year for the sake of the district.

The Newcastle fire station will have access to the modern fire apparatus and lifesaving equipment that will ensure we have the best equipment available to serve our community in the future, plus maintain our current ISO-4 insurance rating.

Today, the Newcastle FPD has a board of five district residents acting on your behalf. In the future, the new board will start out with two legacy Newcastle FPD members and three legacy Placer Hills FPD members. This will be a single district with you as our constituents. In the future, the elections will be district wide without consideration of whether you are from a legacy district. There is no change in your ability to voice your opinion at a district meeting. The new board works for you.

When Proposition 13 became effective in the late 1970s, county tax rates for special districts were frozen at current levels, including fire protection districts. For the Newcastle FPD, this meant approximately 3 cents of every tax dollar collected within the Newcastle FPD would go toward fire protection.

Neighboring fire districts had their tax rates frozen as well. For example, Penryn FPD receives about 5.5 cents, South Placer FPD about 12 cents and Placer Hills FPD receives about 6.5 cents.

Newcastle FPD happens to be one of the most impacted in the region because of the shortfall in property tax allocation. As part of the Local Agency Formation Commission (LAFCO) process for the reorganization, the Newcastle FPD asked Placer County if there could be a reallocation of taxes equal to the Placer Hills FPD tax rate, but this request was unsuccessful.

As a result of the shortfalls caused by fixed Prop 13 allocations, most fire districts have special assessments. Newcastle FPD currently has two special assessments for additional funding; the last assessment passed in 2012.

Over the last four years, expenses have outpaced fixed revenues. Newcastle FPD has seen approximately 20-percent increase in expenses, but revenue has only grown with inflation at about 10 percent over that period, or 2.5 percent annually.

During the LAFCO process when the financial analysis came back the combined district did not have long-term financial viability.

As we noted earlier, Newcastle does not have the tax revenue other districts possess. Consequently, it was

determined to use Placer Hills FPD Measure A and place it onto Newcastle FPD parcels to make up the additional funding needed so the newly reorganized fire district would be financially sustainable well into the future. Placer Hills has three assessments, including Measure A, and Newcastle parcels will have three assessments, including Measure A.

It is true that reorganization will add \$220 yearly, plus inflation factor, but this will prevent a financial disaster in the next few years.

If the district had to hire a new chief and support staff, it would require the current tax assessments, plus an additional assessment in the range of \$500 per year. This would exclude improved salaries or benefits, not provide Advanced Life Support or replace worn equipment.

Residents deserve clear information as they consider this LAFCO process. At its core, this decision is about ensuring Newcastle continues to receive reliable fire and emergency services from their Fire Station 41, not just today, but in the future – this reorganization ensures that happens.

Jim Heisterkamp is chair of the Newcastle Fire District Board of Directors.



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Skyridge eighth-grade boys capture first league basketball championship

[losaltosonline.com](https://www.losaltosonline.com)

City of Los Altos begins process for annexation of fire department

Christina Casillas Staff Writer/christinac@latc.com

5–6 minutes

Los Altos City Council OK'd the first step in the annexation process of the city's fire department to Santa Clara County Fire at last week's City Council meeting.

Annexation is the addition of a smaller territory or entity into a larger established one. In this case, the Los Altos Fire Department would be annexed to Santa Clara County Fire. While a change, the city currently contracts with Santa Clara County Fire for its fire protection and emergency medical services.

There will be no change to such services, Assistant City Manager Jon Maginot told council. Emergency calls will continue to be answered by the Los Altos Police Department while fire and emergency medical calls will be transferred to the county.

The first step of the annexation process is the initiation of the Local Agency Formation Commission of Santa Clara County (LAFCO) annexation process. Santa Clara County LAFCO is a state-mandated agency that oversees the boundaries and districts of cities and special districts, according to the county's LAFCO website.

In June 2025, City Council instructed staff to explore what options the city had in regards to fire protection services, and on Oct. 28, 2025, the city approved non automatic renewal of the current

contract.

City staff explored four options, Maginot said. These included the negotiation of a new contract with Santa Clara County Fire, annexation into the County Fire district, partnership with another service provider or the creation of an internal fire department.

“After looking at the various benefits and drawbacks of each option, we’ve come forward with the recommendation to move forward with annexation into the County Fire District,” Maginot said.

Los Altos has been contracting with Santa Clara County Fire (both the Santa Clara County Fire Department and the Santa Clara County Central Fire Protection District, which is the special district for fire protection services) since 1996. For 30 years, the city has been renewing its contract with Santa Clara County Fire in 10-year intervals, Maginot told City Council.

Annexation into Santa Clara County Fire would include the transfer of property tax from the city to the district. There is no fiscal impact on individuals’ property taxes.

While the city would see a decrease in property tax revenue, there are some benefits, Maginot said.

“We would see an equal or greater reduction in expenditures that we’re paying to County Fire,” Maginot said.

Annexation would also include the transfer of the city’s two fire stations to the county and a \$1.5 million lump sum payment for deferred maintenance, “...That the city was responsible for that we put on hold due to various budget and financial decisions,” Maginot said.

Council members were overwhelmingly supportive of the annexation. Councilmember Larry Lang said that fires in Southern California last year highlighted just how catastrophic those disasters can be, and how it’s crucial to have a well-prepared and

resourced fire response team.

“One of the things I think we learned from the fires in Southern California recently is that those kinds of configurations are regional threats,” Lang said. “The fire’s going to be very disinterested in where city boundaries are if such a thing were to happen. ... I think this is going to be of great service to our community, as well as a sensible financial thing.”

Members of the community, including current and former County Fire employees, also backed the annexation.

“You’re being protected by the best fire department in California, plain and simple,” Bob Hagg, who’s now retired but previously served as a Santa Clara County Fire Department captain at the El Monte fire station, said during public comment.

The annexation received support from the Santa Clara County Board of Supervisors March 10, Maginot told council members. In addition to council’s approval, the Board’s approval was needed for the application to move forward.

The LAFCO application is due April 2 and the city aims for a hearing before LAFCO June 3. LAFCO approval should come in the fall, and the annexation would be effective Jan. 1, 2027.

Staff are set to return to council April 14 and present the financial aspects of the annexation for council consideration and approval.

[santacruzsentinel.com](https://www.santacruzsentinel.com)

Guest Commentary | Crisis threatening community hospitals didn't have to happen

Santa Cruz Sentinel

4–5 minutes

By Stephen Gray

On a recent Sunday morning, one of our community members woke up in severe pain and checked into our emergency room. After a series of tests, she was diagnosed with diverticulitis and told she would need surgery. She was in pain and shivering.

But here's what she wrote to me afterward: "The aides, nurses, technicians and doctors totally took care of me." She described a nurse who made her laugh when she needed it most. She talked about surgeons who answered every question, gave her real information, and were "gentle." Her doctor even called her at home the next morning to check in. By Wednesday, she was back to her yoga stretches and arm weights.

That letter sits on my desk. It's a reminder of why Watsonville Community Hospital exists, why we fight so hard to keep it open, and that our overall plan of focusing on our patients and our community is working. But it faces an uphill battle on multiple fronts.

For one, California ranks 41st in the nation in Medicaid reimbursement rates. Our state — one of the wealthiest economies in the world — pays among the lowest rates in the country for the

care of its most vulnerable residents. Watsonville Community Hospital loses approximately \$28 million per year caring for Medi-Cal patients, according to the state's published data. Hospitals like ours don't continuously need to be "saved" because we're mismanaged or plan poorly. We need saving because we're doing exactly what a community hospital is supposed to do, and we're not being paid fairly to do it. Action from Sacramento is critical.

In the short-term, the most immediate threat to our community-based mission is a bureaucratic delay in Washington, D.C. And it's costing us between \$14 million and \$18 million in cash that we should already have received.

Here's what's happening: California operates what's called a Hospital Fee Program, a financing mechanism used by dozens of states to draw down additional federal Medicaid matching funds. Here's how it works: hospitals pay into a state fund, the state uses those dollars to leverage federal matching money from the Centers for Medicare & Medicaid Services (an agency within the U.S. Department of Health and Human Services), and the combined funds are redistributed back to hospitals to help offset the chronically low reimbursement rates they receive for caring for Medi-Cal patients. It's a widely used and important system that's been in place for years with support from Democrats and Republicans alike.

The problem is that the Centers for Medicare & Medicaid Services must approve the program every year — and right now, it isn't doing so in a timely manner. The agency's delays are holding up hundreds of millions of dollars owed to California hospitals. For Watsonville Community Hospital alone, that means \$14 million to \$18 million we are expecting but have not received. For a community hospital of our size, operating with limited reserves inherited from a 2021 bankruptcy when the hospital was privately

owned, that amount of money is not an abstraction. It is an immediate cash crisis.

Meanwhile, guided by a comprehensive strategic plan that was developed with the help of national experts, we are working hard to keep the hospital not just open, but ensure it can thrive: Measure N, passed by local voters in 2024, is funding critical facility upgrades, including new MRI and CT scanners coming online soon. Quality and safety ratings have improved. Patient experience scores are up. We are actively working to identify an operating partner to help ensure long-term financial stability, because we understand the challenging health care landscape and are committed to growing services for this community.

Through all of these ups and downs, our caregivers keep showing up to deliver professional care every day — with heart. The nurse who made a nervous patient laugh. The surgeon who called her at home the morning after discharge. The team that stayed by her side for nine hours on a Sunday until they had answers. That is Watsonville Community Hospital.

These caregivers deserve a system that supports the work they do. So does every patient who walks through our doors.

We're holding up our end. It's time our government leaders held up theirs.

Stephen Gray serves as CEO of Watsonville Community Hospital.

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Santa Cruz County Supervisor Justin Cummings to run unopposed for second term

PK Hattis

7–9 minutes

SANTA CRUZ — Santa Cruz County residents have a number of competitive election contests to closely track this spring, but the race for 3rd District supervisor won't be one of them.

Supervisor Justin Cummings will run for the seat [unopposed in the June 2 primary](#) after the March 6 candidate filing deadline came and went without any challengers stepping forward, all but guaranteeing him a second term.

Cummings, 43, told the Sentinel he views the lack of opposition as a strong vote of confidence from his constituents.

“The fact that no one came up to run against me I think really goes to show how much work we've put in to really try to balance all the competing interests and needs in the community and really figure out solutions that will work,” said Cummings. “I think as a result of that, people are confident in my ability to be in this position and trust my ability to be responsive to the community concerns.”

The [3rd District includes](#) most of Santa Cruz and the entire North Coast region that extends past Davenport and moves slightly east to include areas within and in close proximity to the San Lorenzo Valley, including Big Basin Redwoods State Park and Bonny Doon.

Cummings became the [first Black person to ever serve on the county Board of Supervisors](#) when he was sworn in for his first term in December 2022. He [succeeded Ryan Coonerty](#) who stepped away from the role after two terms in office and is running for Santa Cruz mayor this year. Like Coonerty, Cummings came to the supervisor role with experience in Santa Cruz politics. He served four years on the Santa Cruz City Council, including a stint as mayor in 2020.

Cummings wrote in a media release announcing his unopposed candidacy that his focus during his first term was on promoting government transparency and engagement, building strong relationships with the community, responding to constituent needs and actively incorporating ideas he receives from the community into his policymaking decisions in order to promote public participation.

Among the initiatives he said he was proud to lead and support were continued streamlining for the 2020 CZU Lightning Complex fires recovery, advancing worker protections through a countywide project labor agreement and, most recently, opposing federal efforts to open up the California coastline to [offshore oil drilling](#) and [seabed mining](#) — a fight that will continue for months and possibly years to come. Cummings also helped lead the effort to pass [Measure K in 2024](#), a half-cent sales tax increase in unincorporated territory, and he was a key voice in pushing forward the [county's ban on selling filtered cigarettes](#), a policy that was later adopted by the cities of Santa Cruz and Capitola.

“Being able to get not just the county but two other jurisdictions to support that policy was a real accomplishment for us,” he said.

Cummings said he was also proud to have championed policies that [capped short-term rentals](#) and pushed back against a [low-impact camp ordinance](#). Recently, Cummings helped secure a building in Davenport that is now used as the [North Coast Sheriff's](#)

[Service Center](#) and he said he worked alongside Rep. Jimmy Panetta to secure funding needed to begin constructing Segment 5 of the Coastal Rail Trail, which will eventually open up near the service center.



Supervisor Justin Cummings speaks at the grand opening of the North Coast Sheriff's Service Center in Davenport last month. Cummings and his office helped find and secure the building for county use. (PK Hattis — Santa Cruz Sentinel file)

Given the depth of the county's housing crisis, Cummings added that affordability has been a big focus during his first term, pushing him to prioritize policies such as inclusionary housing requirements, tenant protections, legal services, rent subsidies and programs that seek to prevent homelessness.

But it wasn't just the scope and volume of issues the county faced that forced Cummings to hit the ground running during the early weeks of his tenure in countywide office. Only a few months into his term, Cummings won the attention and support of statewide leaders and was appointed to the [powerful California Coastal Commission](#) by then-state Assembly Speaker Anthony Rendon. Cummings was [eventually selected as chair of the commission](#) for 2025.

However, when the four-year term that Cummings was appointed to finish was complete last year, the new Assembly speaker, Robert Rivas, went in a different direction and [chose Monterey County Supervisor Chris Lopez](#) for the seat.

“It was a great learning experience (and I) made a lot of good friendships and relationships,” said Cummings. “I think those relationships will actually also help us moving forward as we’re trying to deal with balancing coastal access with environmental protection. Being able to reach out to the Coastal Commission staff and commissioners I think is going to be a benefit for us as we’re trying to meet those needs moving forward.”

Since President Donald Trump took office for a second term in 2025, Cummings and his colleagues on the Board of Supervisors have scrambled to protect local safety net programs after steep federal cuts were approved by Congress. This has included the board setting aside money to provide supportive services to immigrant families and the LGBTQ+ community, as well as giving resources to education and food programs that have been impacted by federal actions.

Most recently the board formed a subcommittee and tasked it with evaluating how the county can take coordinated and lawful actions that safeguard the health, inclusion, access to essential services and defense of immigrant residents as federal immigration operations escalate. At the recommendation of that [subcommittee, known as SHIELD](#), Cummings and his colleagues all recently [voted to prohibit federal immigration agents](#) from using county-owned or county-controlled property as staging areas or operational bases.

The challenges will continue in the weeks and months ahead as the county gears up for a difficult budget cycle in May and June. [Budget managers have predicted a deficit as high as \\$23.2 million](#) and that assumes the county — with essential help from the state — is able to absorb widespread financial impacts from the federal spending bill.

Though the lack of opposition will make the next few months a little less stressful for Cummings, he said he still intends to run a campaign and will attend public forums, fill out informative

questionnaires and meet with voters. He said he even plans to send out a traditional candidate mailer sheet.

“There’s always going to be turnover in communities and each election cycle is an opportunity for people who are either incumbents or who are running for the first time to really get out and make sure that people know who they are and what they stand for,” said Cummings. “I plan on continuing to do that.”

The county’s 4th District seat is also due for term renewal and that race [features a more crowded field](#). Three candidates will be on the ballot in the 4th District, comprising of incumbent Felipe Hernandez, community organizer Elias Gonzales and Chair of the Pajaro Valley Health Care District Board of Directors Tony Nuñez.

For any of these candidates to declare victory in June, they must win more than 50% of votes that are cast in their race. If none are able to do so, the top two vote-getters advance to a head-to-head runoff in November. According to the county’s election website, mail ballots go out to all registered county voters May 4. Two in-person voting locations open up that day as well.

[noozhawk.com](https://www.noozhawk.com)

Goleta Takes Step Toward Expanding Sphere of Influence

Pricila Flores, Noozhawk Staff Writer

5–6 minutes



The Goleta City Council voted 4-1 to revise a potential service area map and authorized city staff to submit a sphere of influence application to the Santa Barbara County Local Agency Formation Commission. Credit: Pricila Flores / Noozhawk photo

The [City of Goleta](https://www.cityofgoleta.com) may see changes to its sphere of influence, giving the city some say in development projects in Santa Barbara County as well as possible expansion opportunities.

At last week's meeting, the [City Council](https://www.cityofgoleta.com) voted 4-1 to approve revisions to a potential service area map that removes the Ocean Meadows Golf Course and North Fairview areas while keeping the [Glen Annie Golf Club](https://www.glenanniegolfclub.com) and South Patterson areas.

Currently, Goleta's sphere of influence is the same as the city limits.

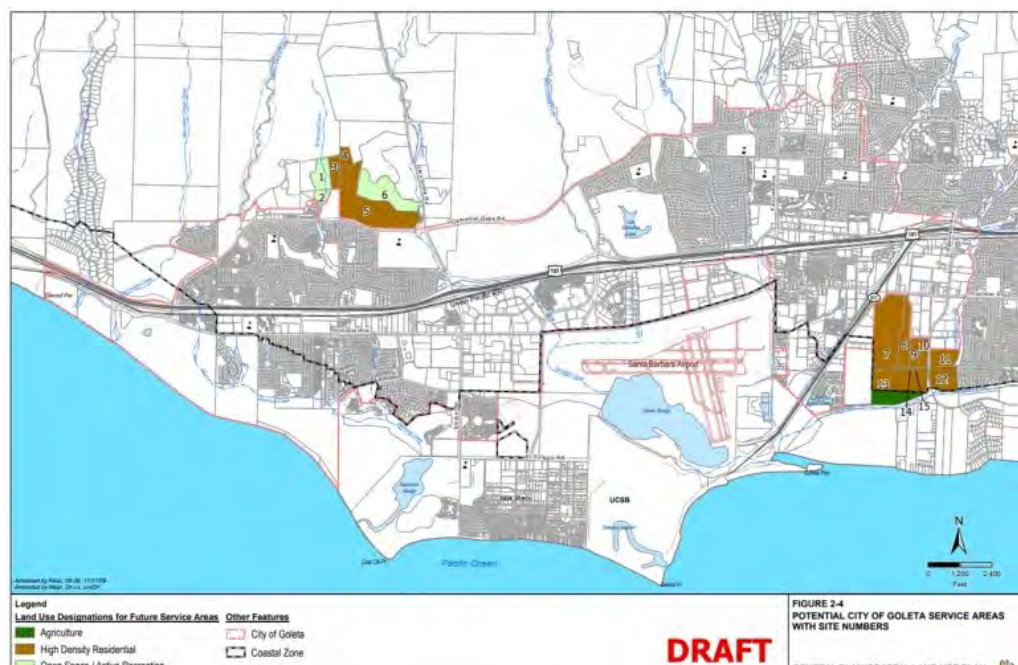
Adopting a sphere of influence through the [Santa Barbara Local Agency Formation Commission](#) sets the city up for potential annexation and could give Goleta some limited say in development projects in the county, according to Anne Wells, the city's advance planning manager.

"If you want to change, you have to start somewhere, and I think it's time for us to start down the road of positioning Goleta for the future with these areas," Councilman James Kyriaco said.

Last week's vote also authorized staff to submit a sphere of influence application using the City Council's approved revisions to LAFCO.

"I think going through this process and taking this first step in no way, at least in my mind, commits us to pursuing annexation," Councilwoman Luz Reyes-Martín said. "I see it as it sets up the potential option in the future, and there's a lot of work and effort that goes into it."

City staff recommended removing the Ocean Meadows and North Fairview areas after evaluating recent land use changes and pending development projects adjacent to city limits.



A draft map shows potential service areas for Goleta, removing the Ocean Meadow and North Fairview areas while keeping the Glen Annie Golf Course and South Patterson areas. Credit: Courtesy map

The Ocean Meadows Golf Course, east of the Goleta's Ellwood Mesa, was once the site of a proposed residential development but now belongs to [UC Regents](#) as an open space area. City staff do not see any potential development in that area.

Additionally, city staff evaluated the North Fairview area, northeast of the city, as having limited redevelopment potential as an existing developed neighborhood currently sits on the site and because of past resident opposition.

That is a change from when the City Council voted in [2024](#) to try to establish the Glen Annie Golf Club, the North Fairview/Holiday Hill, the former Ocean Meadows Golf Course and the Hollipat Agricultural Block to the city's sphere of influence.

Two areas, with some revisions, were recommended to be kept.

The Glen Annie Golf Club, north of the city, has a pending housing project application and conceptual plans to bring 800 to 1,000 new housing units to the area. City staff want to keep that area while changing the rezoning on some of the parcels in the area from agricultural to high-density residential, in accordance with recent county rezoning.

"If we believe we are going to be heavily burdened in a sense by the development, we might want to own it regardless," Councilman Sturt Kasdin said. "They have nowhere to go but through Goleta."

The South Patterson area, south of Hollister Avenue, currently has St. Athanasius Church and the Giorgi property in its potential service areas.

City staff recommended adding seven additional parcels, most of which are proposed to have high-density residential development and could have a potential of 3,100 units, according to the city staff report.

“I don’t want anyone to be under the impression that taking this step today to start us down the road of rezoning and start us down the road of applying for a sphere of influence is going to be the difference between Glen Annie getting built or not, or Giorgi getting built or not,” Kyriaco said.

County staff and members of the [Board of Supervisors](#) support the city’s change regarding Glen Annie Golf Club and the South Patterson area, according to the city staff report.

However, Tuesday night’s discussion about the sphere of influence application was requested to be deferred by [Brownstein Hyatt Farber Schreck](#), a law firm representing Goleta property owners and housing development projects.

The firm requested that the city first conduct community outreach to potential affected owners.

“Our clients just became aware of the proposed SOI adjustments this morning when they happened to review the City Council agenda materials. They have not had an opportunity to digest the staff report and understand its implications for their properties and projects,” the letter submitted to the City Council stated.

However, Kyriaco said there still will be time for people to share their input on the application.

Kasdin voted against the motion.

City staff will now submit a sphere of influence application using the revised map.