

OCT 17 2011

DAVID H. YAMASAKI
Chief Executive Officer/Clerk
Superior Court of CA County of Santa Clara
BY D. ALDYCKI

October 5, 2011

Honorable Richard J. Loftus, Jr.
Judge of the Superior Court
Hall of Justice
191 North First Street
San Jose, CA 95113

**RE: Response to 2010-2011 Santa Clara County Civil Grand Jury Report Entitled
"LAFCO's Responsibility for Special Districts: Overseen or Overlooked?"**

Dear Judge Loftus and Members of the 2010-2011 Civil Grand Jury:

The Local Agency Formation Commission of Santa Clara County (LAFCO) reviewed the 2010-2011 Santa Clara County Civil Grand Jury Report and at its meeting on October 5, 2011, approved this letter in response to the report and the findings and recommendations contained within it.

GENERAL COMMENTS

The state's mandate to LAFCOs to encourage orderly growth and development and logical boundaries, to prevent sprawl, to protect open space and agricultural lands and to promote efficient delivery of services along with the long standing urban development policies in Santa Clara County dictate and set the context for Santa Clara LAFCO's work. A substantial portion of LAFCO's work load involves processing applications for jurisdictional boundary changes and service extensions. Until recently, there was much interest from cities in Santa Clara County for expanding outwards. In the last ten years, LAFCO has processed a wide array of applications - including complex applications such as the San Martin incorporation proposal and has proactively provided comments on several large-scale and potentially precedent setting development proposals such as San Jose's Coyote Valley Specific Plan, Gilroy's 660 acre General Plan Amendment and four other major urban service area amendment proposals and Morgan Hill's South East Quadrant urban service area amendment proposal, among others. LAFCO also adopted critical policies such as the agricultural mitigation policies to provide guidance to applicants and to enable consistency in LAFCO's evaluation of proposals.

Apart from processing applications and performing other application related activities, during this time period, LAFCO started and successfully completed its first round of service reviews and sphere of influence updates for cities and special districts.

Additionally, LAFCO also adopted its island annexation policies and started its island annexation program - a model for LAFCOs statewide.

LAFCO has been able to complete all of this with a very modest level of staffing and limited budget by balancing its resources and by taking advantage of certain unique opportunities. Santa Clara LAFCO has had to be strategic in terms of the issues that it decides to work on. Santa Clara LAFCO has received awards from CALAFCO for its work, including the "2007 Most Effective Commission," "2009 Outstanding CALAFCO Member (Commissioner Susan Vicklund-Wilson)," and "2009 Outstanding LAFCO Clerk."

With the original passage and subsequent extension of the law streamlining the island annexation process, LAFCO made a conscious decision to work with interested cities and the County in order to facilitate the annexation of urban unincorporated islands. For decades these islands have created inefficiencies for both the city that substantially surrounds them and the County. LAFCO's efforts have led to the annexation of over 80 unincorporated islands across the County and the dissolution of the Sunol Sanitary District, a district that served several small urban unincorporated islands in San Jose. LAFCO staff worked very closely with the Sunol Sanitary District's staff in order to help the District initiate the dissolution process and to facilitate a smooth transition between the District and the City of San Jose. Annexation of the islands provides opportunities for the dissolution of special districts and without LAFCO's focus on this issue, these islands and the inefficiencies they bring (including the need for special districts) would have continued for another 50 years or longer.

Due to the current economic downturn, the level of interest for major city expansions has diminished somewhat and has allowed LAFCO to begin to turn its attention more fully to its next round of service reviews, including considering the various potential issues that were identified at a cursory level in the initial service reviews. Issues, such as those pertaining to El Camino Hospital District, have also emerged and must be addressed. Also, LAFCO has completed its Countywide Fire Service Review and is now conducting further research and analysis on potential changes in the governance structure of two fire districts that could achieve greater efficiencies in fire service. LAFCO is completing a Countywide Water Service Review which will address many subjects including transparency, effective service delivery, and the need to maintain any given district. LAFCO, through CALAFCO, worked successfully to support the passage of AB 912 (Gordon) which significantly streamlines the dissolution process for special districts. AB 912, much like the streamlined island annexation law, provides a unique opportunity for LAFCO to strategically focus, where appropriate, on analyzing and initiating changes in governance of special districts to achieve greater efficiencies.

Whether it is working with cities on facilitating island annexations or working with special districts on changes in governance, each issue requires special planning, preparation, coordination and interaction with affected parties. With modest resources LAFCO of Santa Clara County will continue to fulfill its statutory responsibilities while being strategic about the issues it chooses to focus on at any particular time.

COMMENTS REGARDING THE FINDINGS AND RECOMMENDATIONS

FINDING 1

The recommendations SCC LAFCO makes through its mandatory service review reports are intended to improve agency performance and may recommend special district dissolution when the services those districts were intended to provide are no longer provided or needed; however, SCC LAFCO stops short of enforcing the implementation of its recommendations either because they do not think this is within their purview or because they are afraid of potential litigation.

Response:

The respondent disagrees partially with the finding. Please see below and the response to Recommendation 1A for the explanation.

The reason for LAFCO not enforcing service review recommendations to dissolve special districts is not because LAFCO thinks that it is not within LAFCO's purview or because LAFCO is afraid of potential litigation.

LAFCO of Santa Clara County clearly understands that it has the authority to initiate the dissolution of a special district (please see Attachment A: page 11 of the LAFCO Staff Report dated December 15, 2010 which identifies that LAFCO may initiate the dissolution of a special district). While potential litigation is a serious concern for LAFCO, as it is for any public agency, and while LAFCO may evaluate and consider the various risks from potential litigation, LAFCO of Santa Clara County has not made a decision on whether or not to initiate the dissolution of a special district solely based on this issue.

Because the dissolution of a special district is a significant non-reversible action, LAFCO will begin dissolution proceedings only after careful consideration and a deliberate process which will evaluate whether dissolution of an agency is the answer to the issues identified and whether it is achievable. This process takes time, effort, strategy and involves collaboration and consultation with affected parties.

Service Reviews provide LAFCO with information and preliminary analysis on potential options for government structure changes that could result in increased service efficiencies. The dissolution of a special district may be identified in the service reviews as one such potential government structure option. State law allows LAFCOs to initiate the dissolution of a special district provided LAFCO is able to make certain findings (i.e. LAFCO must establish that the dissolution will lead to similar or lower public service costs and must establish that there will be no reduction of public access or accountability for the service and financial resources). LAFCO's service reviews are not designed to be dissolution studies and may not contain this level of analysis. Therefore, LAFCO (using consultants) must prepare additional, more detailed analysis to support the necessary findings prior to taking any action to dissolve a special district. Take for example, the recently completed Countywide Fire Service Review adopted by LAFCO in December 2010. Following the adoption of the Fire Service Review, staff prepared a report on implementation of the government structure options identified in the Fire Service Review Report (please see Attachment A). LAFCO directed staff to

pursue further research and report back to the Commission on the options including the dissolution of Saratoga Fire Protection District and Los Altos Hills County Fire District. Staff is in the process of preparing the additional information and consulting with the affected parties.

Special district dissolutions are complex lengthy processes that could potentially be controversial and expensive. Besides the completion of specific studies and analysis required in order to initiate the dissolution of a special district, a strategic and favorable alignment of outside factors such as the local political climate, community interest/involvement, economic conditions, legislative changes (e.g. the recent passage of AB 912) and so on, may be necessary for LAFCO to pursue such changes in a successful manner.

RECOMMENDATION 1A

SCC LAFCO should develop and adopt policy directives that ensure, through its service reviews, that SCC LAFCO proactively examines, oversees, and makes recommendations regarding whether special districts should continue to exist.

Response:

The recommendation has not yet been implemented, but will be implemented by LAFCO in the next 6 months. While LAFCO does not have a specific policy concerning this, our practice has been to consider these issues through service reviews and in follow-up research and analysis (for example, the 2010 Countywide Fire Service Review). But in the interest of transparency, we would like to implement this recommendation and adopt specific written policies.

RECOMMENDATION 1B

SCC LAFCO should adopt policies that direct LAFCO staff to exercise its enforcement authority where appropriate.

Response:

The recommendation will not be implemented because it is not reasonable. LAFCO staff has no standalone enforcement authority. LAFCO staff brings issues /violations to the Commission's attention and provides recommendations concerning potential options for addressing these issues or violations. However, LAFCO must direct staff regarding any enforcement action.

RECOMMENDATION 1C

SCC LAFCO Commission should consider adopting a policy strongly encouraging Commissioners and staff who are active in CALAFCO's legislative committee to lobby the California legislature to strengthen protections against litigation based on LAFCO actions.

Response:

This recommendation will not be implemented because it is not warranted and is not reasonable. CALAFCO is well aware of this issue, and has testified on the subject of

special district consolidations before a joint hearing held by the Assembly Local Government Committee and the Assembly Accountability and Administrative Review Committee in March 2011. CALAFCO identified five opportunities for solutions that may help encourage more consolidation efforts of local agencies including protection against the threat of litigation. The Committee as well as several legislators have expressed interest in CALAFCO's recommendations and may consider potential legislation in the future. Furthermore, CALAFCO has an adopted set of legislative policies for seeking legislative changes that affect LAFCOs across the state. The LAFCO Executive Officer and a LAFCO Commissioner are both active members of CALAFCO's Legislative Committee and will continue to work on these issues within CALAFCO's established framework and policies. CALAFCO's current work on Assembly Bill 912 (Gordon), which was recently signed by the Governor, is an excellent example of CALAFCO's legislative advocacy process and LAFCO's involvement.

RECOMMENDATION 1D

SCC LAFCO staff should actively oversee that agencies address and implement recommendations made in LAFCO service review reports.

Response:

The recommendation has been implemented. Where appropriate and at the direction of LAFCO, LAFCO staff is doing this. See Attachment A for proposed steps for implementation of recommendations / options identified in the Countywide Fire Service Review Report. However, LAFCO may not have oversight over certain service review recommendations. For example, the recent Countywide Fire Protection Service Review Report identified several opportunities for fire service providers to achieve greater efficiencies and economies of scale, such as consolidating emergency communications systems, consolidating stations and apparatus, and sharing fire specialized staff. LAFCO has no authority over implementing these recommendations. But LAFCO staff tracks those recommendations and provides updates to LAFCO accordingly. An excellent example of this is LAFCO staff's June 1, 2011 update to LAFCO concerning recent efforts in the northern portion of the county with regard to regionalization of fire protection services.

FINDING 2

Previous SCC LAFCO service reviews fall short of addressing subjects of transparency, the examination of effective service delivery by special districts, or addressing the continuing need to maintain any given district, which, together with the topics the reports do cover, would constitute a performance audit.

Response:

The respondent disagrees partially with the finding.

Prior to LAFCO's first round of service reviews, there was little information available concerning special districts, especially the smaller, lesser known districts. At that time neither LAFCO nor most special districts had current maps of special district boundaries. LAFCO's first round of service reviews focused more heavily on data

collection and developing an accurate map of a district's boundaries and less on conducting a detailed analysis. As a result, the degree to which detailed analysis regarding transparency, effective service delivery, and the need to maintain any given district, were included in LAFCO's first round of service reviews varies. In hindsight, LAFCO's 2007 review of the El Camino Hospital District is an example of where more analysis regarding these issues should have been included.

However, since then, we have become more familiar with these issues and are using the second round of service reviews to conduct a more in-depth examination of these issues. LAFCO recently completed its second round Countywide Fire Protection Service Review and is conducting further research and analysis on these issues in relation to potential changes in the governance structure of two fire districts. LAFCO is also currently conducting a Countywide Water Service Review which will also address these issues in relation to water districts and resource conservation districts and the remaining service reviews will also address these issues in much greater detail than the previous service reviews, starting with a separate focused service review for the El Camino Hospital District (please see Attachment B).

RECOMMENDATION 2A

SCC LAFCO should continue with the proposed plan to perform a service review of special districts (other than fire and water) separate from municipalities.

Response:

The recommendation has been implemented for the El Camino Hospital District (ECHD). LAFCO has directed staff to prioritize LAFCO's review of ECHD and LAFCO staff is recommending that LAFCO conduct a separate focused service review for El Camino Hospital District including a forensic accounting of the District's revenues (please see Attachment B). Regarding the remaining special districts and cities, the recommendation requires further analysis. Within the next 6 months, LAFCO staff will develop a work plan for completing the remaining service reviews taking into consideration changes and events that have and are occurring at the state and local level.

RECOMMENDATION 2B

SCC LAFCO should handle the next service review for special districts as a performance audit, to include an examination of effective service delivery and an assessment of the continued need for the district, if any.

Response:

The recommendation has been implemented or will be implemented in the future. As noted in our response to Finding 2, the subjects of transparency, effective service delivery, and the need to maintain any given district, will be addressed in LAFCO's upcoming El Camino Hospital District service review which will begin by January 2012. Furthermore, LAFCO's 2010 Countywide Fire Protection Service Review addressed these issues and LAFCO's remaining service reviews will address these issues in detail.

RECOMMENDATION 2C

Particularly as there appears to be no urgency to its decision with respect to El Camino Hospital District (see minutes of the April 2011 meeting), SCC LAFCO should complete a thorough El Camino Hospital District service review prior to any further Commission action on the topic.

Response:

The recommendation has been implemented. LAFCO, at its June 1, 2011 meeting, directed staff to take a closer look at El Camino Hospital District as part of the upcoming service review and to include a forensic accounting of the financing of the purchase of Los Gatos Hospital and to report back to the Commission on this issue after the service review is completed. Furthermore, LAFCO, at its August 3, 2011 meeting approved a work plan (please see Attachment B) that also includes an examination of any financing of other facilities that are outside of the District (e.g. dialysis centers), examination of effective service delivery, and an assessment of the continued need for the district.

FINDING 3

SCC LAFCO has failed to initiate action to dissolve special districts that it has already determined are obsolete, such as the Saratoga Cemetery District.

Response:

The respondent disagrees wholly with the finding.

No such determination has been made by LAFCO or in LAFCO's service reviews regarding the Saratoga Cemetery District.

RECOMMENDATION 3

Facilitated by its service review recommendations, SCC LAFCO should proceed with action to dissolve those special districts that have outlived their usefulness or that can continue to provide the same level of service without property tax revenues.

Response:

The recommendation has not yet been implemented, but will be implemented by LAFCO where appropriate. LAFCO must conduct additional analysis before it can decide whether it is appropriate to dissolve a special district and before it can make the statutorily required findings to initiate the dissolution of a special district. LAFCO's Countywide Fire Service Review indentified potential changes in governance structure that could achieve greater efficiencies in fire service. LAFCO has directed staff to take a closer look at two fire districts (i.e. Saratoga Fire Protection District and Los Altos Hills County Fire District) that contract with another fire district for fire service, in order to see if there is an opportunity. LAFCO staff is currently working on this.

FINDING 4

SCC LAFCO Commissioners receive limited training about LAFCO and are not fully educated as to their broad responsibilities to oversee LAFCO or LAFCO's responsibilities regarding special districts.

Response:

The respondent disagrees wholly with the finding.

All LAFCO commissioners receive comprehensive orientation training on LAFCO upon receiving their appointment to LAFCO. Commissioners also have opportunities to attend CALAFCO Conferences that include sessions on various aspects of LAFCO, including special districts. Many commissioners will be attending CALAFCO's upcoming Conference. Also, some commissioners have attended CALAFCO University's daylong classes on specific LAFCO issues, such as fire district consolidations and agricultural mitigation.

Additionally, LAFCO does receive training on a "just in time" basis. An excellent example of this is the December 15, 2010 LAFCO staff report (please see Attachment A) and presentation to LAFCO regarding the Countywide Fire Protection Service Review and the specific options identified in the service review report for achieving fire service efficiencies.

As another example – prior to processing the San Martin Incorporation Proposal, LAFCO hired a consultant who was familiar with the incorporation process to provide two special training sessions or workshops, for LAFCO, affected agencies and for the community of San Martin on the incorporation process and issues.

Lastly, several Bay Area LAFCO Executive Officers, including Santa Clara LAFCO, are trying to organize a CALAFCO University class regarding Hospital/Healthcare Districts that commissioners would be encouraged to attend in order to gain greater knowledge. The materials from that class could also be provided to commissioners at a LAFCO meeting.

RECOMMENDATION 4A

SCC LAFCO Commissioners should initiate means to more completely understand the full range of their authority, through independent learning and more thorough staff briefings.

Response:

The recommendation has been implemented. Please see LAFCO's response to Finding 4 for further explanation.

RECOMMENDATION 4B

SCC LAFCO staff should use Commission information packets to provide “just in time” training. Examples: present a full range of options when presenting recommendations for Commission decisions, weigh the alternative options, include information on the full range of LAFCO authority, and include broader contextual information surrounding an issue on the agenda.

Response:

The recommendation has been implemented. Please see LAFCO’s response to Finding 4 for further explanation.

We appreciate the Grand Jury’s interest in LAFCO of Santa Clara County. Thank you for the opportunity to respond to the findings/recommendations presented in the report.

Sincerely,

A handwritten signature in black ink, appearing to read "Liz Kniss", with a long horizontal flourish extending to the right.

Liz Kniss, Chairperson
LAFCO of Santa Clara County

ATTACHMENTS

1. December 15, 2010 LAFCO Staff Report: 2010 Countywide Fire Service Review Final Report and Sphere of Influence Updates for Fire Districts
2. August 3, 2011 LAFCO Staff Report: Proposed Work Plan for El Camino Hospital District Service Review



LAFCO Meeting: December 15, 2010

TO: LAFCO

FROM: Neelima Palacherla, Executive Officer
Dunia Noel, Analyst

**SUBJECT: 2010 COUNTYWIDE FIRE SERVICE REVIEW FINAL REPORT
AND SPHERE OF INFLUENCE UPDATES FOR FIRE DISTRICTS**
Agenda Item #5

STAFF RECOMMENDATIONS

SERVICE REVIEW REPORT AND SPHERE OF INFLUENCE UPDATES

1. Accept comments and consider any further revisions to the Revised Draft 2010 Countywide Fire Service Review Report.
2. Adopt the 2010 Countywide Fire Service Review Report (Service Review Report) with revisions as necessary.
3. Adopt service review determinations for each of the fire agencies as included in the Service Review Report.
4. Adopt sphere of influence (SOI) updates along with sphere of influence determinations for the four fire districts as included in the Service Review Report:
 - a. Retract the SOI for Santa Clara County Central Fire Protection District (CCFD) as recommended and depicted in the Service Review Report
 - b. Reaffirm the existing SOI for South Santa Clara County Fire Protection District (SCFD)
 - c. Establish a zero SOI for Saratoga Fire Protection District (SFD)
 - d. Retract the SOI for Los Altos Hills County Fire District (LAHFD) as recommended and depicted in the Service Review Report.
5. Direct staff to prepare the Final Report for the 2010 Countywide Fire Service Review and to distribute the Final Report to all the affected agencies.
6. Direct staff as necessary, to pursue further research / analysis of specific options identified in the Service Review Report and report back to the commission.

CEQA ACTION

1. Determine that the 2010 Countywide Fire Service Review Report and the updates to the sphere of influence of the four special districts are categorically exempt from CEQA under §15306 Class 6 and §15061(b)(3) General Rule of the CEQA Guidelines.

BACKGROUND

SERVICE REVIEW AND SPHERE OF INFLUENCE REQUIREMENTS

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (California Government Code §56000 et seq.) requires that each LAFCO conduct service reviews prior to or in conjunction with the 5-year mandated sphere of influence (SOI) updates. A service review is a comprehensive review of municipal services in a designated geographic area in order to obtain information about services, evaluate provision of services, and recommend actions when necessary, to promote the efficient provision of those services. In Santa Clara County, service reviews are intended to serve as a tool to help LAFCO, the public and other agencies better understand the public service structure and to develop information to update the spheres of influence of the 29 special districts and 15 cities in the county.

As part of the service review, LAFCO must prepare an analysis and written statement of determinations regarding each of the following six categories:

- Growth and population projections for the affected area
- Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies
- Financial ability of agencies to provide services
- Status of, and opportunities for, shared facilities
- Accountability for community service needs, including governmental structure and operation efficiencies
- Any other matter related to effective or efficient service delivery, as required by commission policy.

As part of the sphere of influence update, LAFCO must prepare an analysis and written statement of determinations for each agency regarding each of the following categories:

- The present and planned land uses in the area, including agricultural and open-space lands
- The present and probable need for public facilities and services in the area
- The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide
- The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency
- The nature, location, and extent of any functions or classes of services provided by existing district (applies to special districts only).

The 2010 Countywide Fire Service Review is a review of countywide fire services in Santa Clara County and includes service review determinations for each of the fire service provider agencies in the County as well as sphere of influence recommendations and determinations for the four fire districts.

SERVICE REVIEW PROCESS

In December 2009, a Technical Advisory Committee (TAC) was established to select the consultant, serve as a liaison between LAFCO and the various affected agencies, and to provide technical expertise and guidance throughout the service review process. In addition to LAFCO Commissioner Pete Constant, the members of the TAC for the 2010 Countywide Fire Protection Service Review include:

Representing the Santa Clara County/Cities Managers' Association:

- Thomas Haglund, City Administrator, City of Gilroy

Representing the Santa Clara County Fire Chiefs' Association:

- Dale Foster, Fire Chief, City of Gilroy
- Ken Waldvogel, Fire Chief, Santa Clara County Central Fire Protection District
- Steven Woodill, Fire Chief, South Santa Clara County Fire Protection District

In February 2010, LAFCO retained Management Partners Inc. to conduct the 2010 Countywide Fire Protection Service Review. Arne Croce of Management Partners is the Project Manager for this service review.

As a first step, information regarding various aspects of fire service was gathered from each of the fire service agencies/providers in the County. The consultant made available a web site for agencies to upload the requested information. This information was then tabulated and sent to the fire agencies for verification. Follow-up information and further clarification was obtained through interviews with each service provider. In order to better reflect the current financial situation of various service providers, updated budget information for the current fiscal year was obtained. Criteria that would be used in making the required service review determinations was developed and reviewed with the TAC. Information gathered was analyzed and preliminary findings/analyses were discussed with the TAC through a series of meetings. Throughout the process, the Fire Chiefs' Association, the City Managers' Association and LAFCO were provided updates on the issues and progress of the service review.

A Draft Fire Service Review Report was then prepared containing a comprehensive review of fire protection and emergency medical response services in Santa Clara County along with service review determinations for all the agencies, sphere of influence recommendations for the four fire districts and an analysis of specific fire service issues identified in the Scope of Services.

On September 7, 2010, LAFCO sent a Notice of Availability/Public Hearing Notice to all affected agencies, LAFCO Commissioners, and other interested parties announcing the release of the Draft Service Review Report for public review and comment.

LAFCO received comments from several agencies on the Draft Report. LAFCO held a public hearing on October 20, 2010, to accept and consider public comment.

The Draft Report was then revised to address the comments received and a Revised Draft Report was released on the LAFCO website on November 3, 2010. A Notice of Availability for the Revised Draft Report was provided to all affected agencies and interested parties. See Attachment A for the Notice of Availability.

LAFCO received comments on the November 3, 2010 Revised Draft Report from the following agencies and interested parties as of December 9, 2010:

- Santa Clara County Central Fire Protection District
- City of Morgan Hill
- Sunnyvale Department of Public Safety
- San Jose IAFF Local 2030
- Santa Clara County Communications

Attachment B includes the comment letters received. Attachment C includes tables listing the above comments (and those submitted previously by the Palo Alto Fire Department and the Saratoga Fire Protection District) along with a response to how these comments have been addressed in the Revised Draft Report dated December 8, 2010. A redline and clean version of the December 8, 2010 Revised Draft Report is available on the LAFCO website.

ENVIRONMENTAL ANALYSIS

The 2010 Countywide Fire Service Review Report is intended to serve as an information gathering tool to help LAFCO, the public and other agencies better understand the fire protection service structure in Santa Clara County and to develop information to update the spheres of influence of fire districts and cities in the county. The Service Review Report consists of the following items:

- Overview of fire and emergency medical services system in Santa Clara County
- Profiles of all agencies providing fire protection services in Santa Clara County
- Issues related to current fire protection services and identification of alternatives for addressing those issues including service efficiency opportunities
- Service review determinations for all fire service agencies
- Sphere of influence recommendations and determinations for the four fire districts

LAFCO is not required to initiate boundary changes based on this service review. LAFCO, local agencies or the public may subsequently use the service review together with additional research and analysis where necessary, to pursue changes in jurisdictional boundaries. Any future changes in jurisdictional boundaries will be subject to CEQA.

The Service Review Report recommends the retraction of the SOI for LAHFD and for CCFD. These recommended changes do not affect service provision as these changes

are either in response to prior annexations by cities which actions determined service provision or as a result of inability of the district to provide services to the area.

Therefore, the Service Review Report is categorically exempt from CEQA under §15306 Class 6 and §15061(b)(3) General Rule of the CEQA Guidelines, as described below:

Class 6 consists of basic data collection, research, experimental management, and resource evaluation activities that do not result in serious or major disturbance to an environmental resource. According to the CEQA Guidelines, these may be strictly for information gathering purposes, or as part of a study leading to an action that a public agency has not yet approved, adopted, or funded.

Section 15061(b)(3) states that the activity is covered by the general rule that CEQA applies only to projects, which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.

SPHERE OF INFLUENCE RECOMMENDATIONS

In 2006, the City of Los Altos annexed two unincorporated islands (i.e. Woodland Acres and Blue Oak Lane) to the City. As part of the annexations, the City also detached Woodland Acres from CCFD and detached Blue Oak Lane from LAHFD as the City took over responsibility for fire protection services in these two areas. However, these two islands remained within the SOI of each respective fire district. Given that the two islands are within the City of Los Altos and that fire protection service is now the responsibility of the City of Los Altos, it is appropriate to retract the SOI of the CCFD and LAHFD to remove the area from the districts' SOI.

Additionally, LAFCO in September 2010, completed an annexation of approximately 22,000 acres of land in the Santa Cruz Mountains to the CCFD. The vast majority of these lands were located in the District's SOI. However, lands located in the southeastern end of the District's SOI were not included in the annexation due to lack of convenient access for the District to serve those lands. The Service Review Report recommends the retraction of CCFD's SOI to exclude these lands as the District has never served these remote lands and is unable to serve these remote lands.

The Service Review Report also recommends the establishment of a zero SOI for SFD as the district is completely surrounded by CCFD and contracts with CCFD for all services. Lastly, the Service Review Report recommends that LAFCO reaffirm the current SOI for the SFD.

IMPLEMENTATION STEPS FOR EXPLORING SERVICE EFFICIENCY OPPORTUNITIES INCLUDING CHANGES IN GOVERNANCE STRUCTURE IDENTIFIED IN THE SERVICE REVIEW REPORT

In addition to the service determinations and sphere of influence recommendations for the fire agencies, the Service Review Report also discusses four key fire service issues including:

1. Options for funding and providing service to underserved areas in the County and the status of and best practices for roles and oversight of volunteer fire companies to provide services in these areas
2. Regional fire and emergency medical service delivery for the South County Region
3. Analysis of issues and efficiencies of fire districts contracting for service with another fire district
4. Assessment of other opportunities to improve service effectiveness or efficiency for fire service providers in the County

Options and potential opportunities for addressing each of these issues are also briefly discussed in the Report. The Commission at the October 20, 2010 public hearing, directed staff to prepare information on implementation of the options identified in the Service Review Report.

ISSUE #1: SERVICE TO UNDERSERVED AREAS AND ROLE OF VOLUNTEER FIRE COMPANIES

Currently a portion of lands in the Santa Cruz Mountains and the majority of the Mount Diablo Range in Santa Clara County are located outside of the boundary of a formal fire protection service provider. For the most part, these areas are dependent on responses from SCFD, CCFD, the cities of San Jose and Milpitas, CAL FIRE and some volunteer fire companies that provide limited services to very small portions of the underserved areas. Given the travel distance from adjacent public fire departments, response times to these areas are generally very long (i.e. in excess of 20 or 30 minutes for fire \ emergency medical response). The response to calls by public fire departments to these areas has two negative impacts on these agencies. First, with extended call response times, apparatus that is relied upon for service delivery within the jurisdiction's boundaries is unavailable for deployment. Second, these agencies receive no compensation for the cost of response.

The Service Review Report identifies three options for addressing this issue: (1) create a new fire district and/or expand an existing fire district; (2) create a joint powers authority; and (3) create a county service area.

Table 1 summarizes the options and identifies the key steps or analysis necessary to implement the options and indicates whether LAFCO action is required to implement the option.

TABLE 1: SERVICE TO UNDERSERVED AREAS AND ROLE OF VOLUNTEER FIRE COMPANIES					
Option	What are key steps / analysis required prior to initiating action?	Agencies involved in implementing key steps /analysis		Does the action require a LAFCO application and approval?	Who may initiate a LAFCO application?
		Key agency	Other agencies		
Create a new fire district or expand existing fire district	<ul style="list-style-type: none"> • Develop a work plan • Determine boundaries for new district • Establish type/ level of service required • Determine funds required for service level • Identify potential source of funds • Identify service provider and governing body • Identify and establish best practices and policies for volunteer firefighter operations 	County	CCFD SCFD Cal FIRE San Jose Milpitas	yes	County CCFD SCFD Petition of property owners or registered voters within the proposed boundary of the fire district
Create a Joint Powers Authority	<ul style="list-style-type: none"> • Develop a work plan • Determine boundaries for new district • Establish type/ level of service required • Determine funds required for service level • Identify potential source of funds • Identify service provider and governing body • Identify and establish best practices and policies for volunteer firefighter operations 	County	CCFD SCFD CalFIRE San Jose Milpitas	no	NA
Create a County Service Area (CSA)	<ul style="list-style-type: none"> • Develop a work plan • Determine boundaries for new district • Establish type/ level of service required • Determine funds required for service level • Identify potential source of funds • Identify service provider and governing body • Identify and establish best practices and policies for volunteer firefighter operations 	County	CCFD SCFD CalFIRE San Jose Milpitas	yes	County Petition of property owners or registered voters within the proposed boundary of the fire district

There are many issues that must be considered and resolved before a preferred option can be identified. The following provides a brief overview of some of the many questions and issues that must be considered fully before moving forward.

1. Develop a Work Plan

- a. What is the scope and timeline for the study? Who would lead / manage the study?
- b. Should an advisory committee be formed to provide direction? What should be the composition of the committee? Should it be composed of staff from various departments and agencies or of members of governing bodies?

2. Determine Types and Levels of Service

- a. How should a needs assessment for fire service within the underserved areas be prepared? What type and level of services are required in the different parts of the underserved areas?
- b. Should a full array of fire protection services (structural & wild-land) and emergency medical response be provided to the entire underserved area or some variation in type of services for specific areas served, given some of the lands are designated state responsibility areas?
- c. What level of service and response times are feasible / acceptable and to what parts of the underserved area?

3. Determine Boundaries

- a. Should the underserved area be included in one district or in two /more districts given the geography of the area (i.e. underserved area includes lands in the Santa Cruz Mountains and lands in the Mount Diablo Range), and given the amount and type of existing development in the area, the potential for additional development to occur in the area, and the area's adjacency to different existing service providers?

4. Determine Funds Required for the Identified Level of Service

- a. How much will it cost to provide the preferred level of service to the underserved area and what is the costs breakdown by service type and service area?

5. Determine Potential Funding Sources

- a. What is the likelihood of agencies diverting existing funds to provide fire protection and emergency medical services to the underserved area? How much existing funds could be diverted?
- b. Can a sufficient amount of revenues (in the form of taxes or fees or assessments) be generated from the area to cover the cost of providing the preferred level of service to the area, given the number of properties involved, amount and type of development that currently exists in the area and given the potential for development that is likely to occur in the area based on the countywide growth management policies?

- c. What is the likelihood of voters approving a special tax, assessment, or supporting the establishment of fees to pay for some or all of the new services?
- d. What portion of property tax revenues would be transferred to fire agencies upon annexation of underserved areas?

6. Determine Service Provider(s) and Governing Body

- a. What agency or agencies are the logical service provider(s) given the current array of service providers and their adjacency to the underserved area?
- b. What kind of a governance structure should be established?
- c. What type of process is required to establish the governance structure?

7. Establish Policies and Best Practices for Volunteer Fire Company Operations

- a. What is the role of volunteer firefighter companies in the underserved area?
- b. Are more volunteer firefighter companies needed and if so in what area(s)?
- c. Who would provide training, equipment and workers compensation coverage for the volunteer fire companies and how would they be funded? Would there be a liability to the agencies for the actions of the volunteer fire companies?
- d. Who would provide any oversight for the volunteer fire companies?

This issue has now been a subject of two service review reports and repeatedly comes up as a major concern for fire service providers in this County. Pursuit of solutions to this long standing issue will require support and direction from the County of Santa Clara as it is the key agency with jurisdiction over these underserved lands. As the very first step, it is therefore necessary to seek the County's position on this issue.

ISSUE #2: REGIONAL FIRE AND EMERGENCY MEDICAL SERVICE DELIVERY OPTIONS FOR THE SOUTH COUNTY REGION

The cities of Morgan Hill and Gilroy and adjacent unincorporated areas constitute the "South County." Three fire/emergency services departments currently serve different parts of this area:

- Santa Clara County Central Fire Protection District serves the City of Morgan Hill by contract.
- The Gilroy Fire Department serves the City of Gilroy.
- South Santa Clara County Fire Protection District, through a contract with CAL FIRE, serves some unincorporated areas in South County.

The service agencies have different staff practices, response standards and apparatus deployment policies. There is a high degree of interdependence between the agencies due to the large geographic area and range of suburban and rural deployment. This interdependence is evident in the high degree of mutual/automatic aid that occurs between the agencies. These agencies have established a multi-agency group and have been working together since May 2009 to explore the potential benefits of regionalization to achieve an improved system with lower costs. Over the past year, the

group has developed a general consensus on the current state of fire protection services in the South County region and a forecast for the region.

On November 10, 2010 the multi-agency group discussed a range of options to achieve regionalization of fire/EMS: from opportunities for interagency collaboration within the existing framework to options for consolidating fire and EMS services in South County. The group also prepared a report that includes a preliminary analysis of the options by addressing the issues of governance, management, and financing.

The multi-agency group agreed that the individual governing bodies should independently discuss the conditions in which each agency is interested in pursuing regionalization. The goal is for each agency to provide its conditions by early February 2011 so that the group can meet again in February or March to review the information and determine the study's next steps. LAFCO staff will continue to follow the group's efforts as they move forward and provide updates to the Commission.

ISSUE #3: ISSUES AND EFFICIENCIES OF FIRE DISTRICTS CONTRACTING FOR SERVICE WITH ANOTHER FIRE DISTRICT

The SFD is an independent special district governed by a three-member elected board. The District covers a portion of the City of Saratoga and the adjacent unincorporated area. With CCFD's recent annexation of unincorporated lands in the area surrounding SFD, CCFD now completely surrounds the SFD. In 2008, following the success of a management agreement between CCFD and SFD, the two agencies entered into a full-service contract, whereby SFD employees were transferred to CCFD. Although almost all of SFD's budget is for the service contract with CCFD, the District remains an independent district with its board. Both the 2004 Countywide Fire Service Review and the current Service Review Report have indicated that other governance options may be more efficient given the status of the SFD.

The LAHFD was created as a dependent district of Santa Clara County and the County Board of Supervisors appointed a seven-member commission that is responsible for the oversight of fire protection activities within the District. Up until 1996, the LAHFD contracted with the City of Los Altos for fire services. At which time, the LAHFD and the City of Los Altos each separately began to contract with CCFD for fire and emergency services. LAHFD provides services outside of the CCFD contract including brush clearance and hydrant maintenance and contracts for a fire consultant and for clerical support. Both the 2004 Countywide Fire Service Review and the current Service Review Report have indicated that other governance options may be more efficient for the LAHFD.

TABLE 2: GOVERNANCE OPTIONS FOR FIRE DISTRICTS CONTRACTING FOR SERVICE

Options	What are key steps / analysis required prior to initiating action?	Agencies involved in implementing key steps /analysis		Does the action require a LAFCO application and approval?	Who may initiate a LAFCO application?
		Key agency	Other agencies		
Dissolve SFD and annex lands to CCFD	<ul style="list-style-type: none"> • Determine the appropriate LAFCO process/processes for such proceedings • Conduct more detailed analysis to determine cost savings and any potential fiscal impacts • Determine any potential impacts to current service levels in the community 	LAFCO	SFD CCFD	yes	LAFCO SFD Petition of property owners or registered voters within the area
Dissolve LAHFD and annex lands to CCFD	<ul style="list-style-type: none"> • Determine the appropriate LAFCO process/processes for such proceedings • Conduct more detailed analysis to determine cost savings and any potential fiscal impacts • Determine any potential impacts to current service levels in the community 	LAFCO	LAHFD CCFD	yes	LAFCO LAHPD Petition of property owners or registered voters within the area

The following provides an overview of the type of issues that must be considered prior to initiating action for the above listed options:

1. Determine Appropriate LAFCO Process

- a. What is the appropriate LAFCO process for achieving the change in governance – is it simply a dissolution of the fire district with CCFD as successor agency, or does the area have to be annexed into CCFD following the dissolution?
- b. What is the process or method for transfer of property tax following a change in organization?

2. Determine Cost Savings and any Fiscal Impacts

- a. How much savings can be achieved through a change in governance?
- b. Would change in governance impact the total amount of revenues available for fire protection in the community?
- c. What are the fiscal impacts to the CCFD as a result of the governance change?
- d. How would the vast amount of reserves held by LAHFD be addressed?

3. Determine any Impacts to Current Service Levels

- a. In the case of SFD, how would the Early Warning Alert System (EWAS) be implemented and funded?
- b. Would the special services such as hydrant maintenance and brush clearance currently provided by LAHFD be maintained / continued?
- c. How would a change in governance impact the local community with regard to participation and accountability?

Staff recommends that the Commission direct staff to work with the involved agencies in order to answer these questions and report back to the Commission.

ISSUE #4: ASSESSMENT OF OTHER OPPORTUNITIES TO IMPROVE SERVICE EFFECTIVENESS OR EFFICIENCY FOR FIRE SERVICE PROVIDERS IN THE COUNTY

The Service Review Report discusses additional potential opportunities for economies and efficiencies in the fire and emergency service delivery system including in the areas of:

- Consolidation of Communications
- Consolidation of Stations and Apparatus
- Competitive Service Contracting
- Strategic Paramedic Placement
- Training for Fire Personnel
- Fire Prevention Services
- Apparatus Maintenance
- Apparatus Purchasing
- Other Service Delivery Changes

Further evaluation of these areas and specific options is required to assess service and financial impacts. For the most part, these opportunities involve changes to the operations or administration of the fire service delivery system and do not require changes in jurisdictional boundaries or governance and therefore will not require a LAFCO application / action. Any of the involved agencies may initiate discussion and further pursue these options.

NEXT STEPS

Upon adoption of the Final Service Review Report by the Commission, staff will make any necessary or directed changes to the Report. The Final Service Review Report will be distributed to all the affected agencies and posted on the LAFCO website. If directed, staff will pursue research / further analysis of the identified issues and report back to the commission.

ATTACHMENTS

- Attachment A: Notice of Availability for the Revised Draft Report dated November 3, 2010 and public hearing notice of the December 15, 2010 LAFCO Public Hearing
- Attachment B: Comment letters received prior to December 8, 2010 on the Revised Draft Service Review dated November 3, 2010. Note:
- Attachment C: Tables listing each of the comments received prior to December 8, 2010 and proposed responses to the comments. The tables also include comments from SFD and the City of Palo Alto since they were not addressed prior to the October LAFCO hearing.

Note: The redlined and clean version of the Revised Draft Countywide Fire Service Review Report dated December 8, 2010 is available on the LAFCO website. www.santaclara.lafco.ca.gov

LAFCO Meeting: August 3, 2011
TO: LAFCO
FROM: Neelima Palacherla, Executive Officer
Dunia Noel, Analyst
SUBJECT: WORK PLAN FOR THE EL CAMINO HOSPITAL DISTRICT SERVICE REVIEW

RECOMMENDATIONS

1. Approve the proposed work plan for conducting a separate focused service review for the El Camino Hospital District.
2. Authorize staff to prepare a Draft Request for Proposals (RFP) for professional firms to conduct a service review including a forensic auditing of specific financial issues for the El Camino Hospital District and authorize staff to provide the Draft RFP to affected agencies and interested parties for their review and comment.
3. Direct staff to provide the Revised Draft RFP to LAFCO for consideration at the October 5, 2011 LAFCO meeting.
4. Appoint two LAFCO Commissioners to serve on the El Camino Hospital District Service Review Ad-Hoc Committee and Consultant Selection Committee.

BACKGROUND

Over the last few months, LAFCO staff has been researching several issues concerning the El Camino Hospital District (ECHD) and specifically trying to resolve the issue of whether the ECHD is providing services beyond its boundaries by funding the purchase of a hospital in Los Gatos. During the course of this research, other issues relating to the lack of transparency in the financial and operational relationship between the ECHD and the El Camino Hospital (Corporation) a 501(c)(3) corporation and questions regarding the purpose / functions of the ECHD and its use of property tax revenues also came to light.

In regard to the issue of services beyond its boundaries, LAFCO staff at the June 1st LAFCO Meeting, informed the Commission that they had reviewed various materials provided by ECHD and concluded, based on that information, that the District is not providing services outside of its boundaries. Additionally, staff reported that the remaining issues would be addressed as part of the next service review. LAFCO received the staff report, but rather than accepting staff's conclusion that the ECHD did not fund the purchase of the Los Gatos Hospital and was not providing services beyond its boundaries, the Commission directed staff to take a closer look at the ECHD as part

of the upcoming service review and to include a forensic accounting of the financing of the hospital purchase and to report back to the Commission on the issue after the service review is completed.

As part of a separate agenda item at the June LAFCO meeting, LAFCO staff also presented a report recommending that the remaining service reviews be conducted as a single countywide service review rather than two separate sub-regional service reviews. LAFCO approved this revision to the Service Review Work Plan, but indicated that the El Camino Hospital District Service Review should be prioritized in order to address the identified issues as soon as possible and directed staff to prepare an initial work plan (for LAFCO consideration at the August LAFCO meeting) for conducting the service review and forensic auditing.

CONDUCT A SEPARATE FOCUSED SERVICE REVIEW FOR ECHD

Given the complexity of the issues that have been identified concerning the El Camino Hospital District and the Commission's interest in addressing these issues as soon possible, LAFCO staff is recommending that the Commission authorize staff to conduct a separate focused service review for the El Camino Hospital District. Separating the ECHD service review from the planned single countywide service review is recommended because:

- The ECHD service review can be prioritized and LAFCO can build on the work that staff has completed regarding the ECHD.
- Very specific issues have been identified as needing to be addressed in the ECHD service review.
- The ECHD service review is likely to require a different expertise than other service reviews, particularly regarding forensic accounting of the use of ECHD's revenues.

WORK PLAN FOR CONDUCTING THE SERVICE REVIEW AND FORENSIC AUDIT FOR THE EL CAMINO HOSPITAL DISTRICT

Establish an Ad-Hoc Committee for the ECHD Service Review

Staff is also recommending that LAFCO establish an ad-hoc committee of two Commissioners to review and advise as needed on the project and to assist in selecting the consultant to conduct the service review and forensic audit.

Identification of Key Issues that will be Addressed in the Service Review and the Forensic Auditing

Staff has identified two key issues and a DRAFT working list of questions that must be resolved under each of the issues. As we continue working on this issue, it is expected that additional questions will be added.

Issue #1: Is the El Camino Hospital District providing services outside of the District's boundaries?

1. Did / does the ECHD fund the purchase, operation or maintenance of the Los Gatos Hospital or other facilities located outside the District's boundaries? (to be determined through a forensic audit)
2. Does ECHD contribute revenue to the El Camino Hospital Corporation which in turn purchased the hospital in Los Gatos or to other facilities located outside the District? If so, what is the purpose of the contributions and how are the funds accounted for? (to be determined through a forensic audit)
3. Does the ECHD provide any other services outside of its boundaries? What is the District's role in the various dialysis centers that it runs throughout the county?
4. Do the ECHD's current boundaries reflect the population it serves?
5. What measures should the ECHD take to establish transparency in the relationship between the ECHD and the El Camino Hospital Corporation?
6. What measures should the ECHD take to be more accountable to the public / community that it serves?

Issue #2: Should the ECHD continue to exist and/or continue to receive a share of the property tax revenue? That is, is an independent government agency necessary to perform the current functions of the ECHD or could another existing public agency such as the County or a non-profit agency provide those services more efficiently?

1. What services is the ECHD currently providing? Is El Camino Hospital District currently providing the services for which it was created? Is there a change in the ECHD's mission since its creation?
2. What are ECHD's current revenue sources and amounts including proceeds from various bonds and for what purpose are the revenues and bonds proceeds used? (to be determined through a forensic audit)
3. What is the extent of the ECHD's reserves and what is the purpose of the reserves? (to be determined through a forensic audit)
4. What is an appropriate/ adequate amount of reserves for the ECHD? Does the District have any policies on amount and use of reserves?
5. Does ECHD have a role in the governance/monitoring of hospital services provided by the El Camino Hospital Corporation?
6. What is the ECHD's role and responsibility at the end of the lease agreement between the ECHD and the El Camino Hospital Corporation and as it relates to assumption of assets and liabilities of the Corporation?

7. Would dissolution of the ECHD result in gains in service efficiencies / cost savings or losses in services or service levels?
8. What other entities in the community could become the successor agency for the ECHD in the event of its dissolution? Could / should property tax be reallocated to that successor agency?

Major Steps and Timeline for the El Camino Hospital District Service Review

The following is a general timeline for completing this service review:

1. Receive approval of work plan for the El Camino Hospital District service review and forensic audit of specific financial issues (August 3, 2011)
2. Receive authorization from LAFCO to draft a request for proposals (RFP) for consultants to prepare the service review and forensic audit of specific issues related to ECHD's use of revenues (August 3, 2011)
3. Draft RFP and provide it to affected agencies and interested parties for their review and comment, and revise as necessary (mid August 2011)
4. Provide Revised Draft RFP to LAFCO for review and comment and seek authorization to release RFP (October 5, 2011)
5. Issue RFP (mid October 2011)
6. Consultant proposals due (mid November 2011)
7. Interview and select consultant (early December 2011)
8. Firm starts review (early January 2012)
9. Complete service review (April/June 2012 LAFCO Meeting)

NEXT STEPS

If LAFCO approves the proposed work plan for completing the El Camino Hospital District Service Review, LAFCO staff will prepare a draft request for proposals (RFP), complete with a recommended budget, for a consultant to prepare a LAFCO service review for ECHD. Additionally, staff will provide the Draft RFP to affected agencies and interested parties, including ECHD for their review and comment. LAFCO staff will then revise the RFP as necessary and provide the RFP to LAFCO for their consideration and potential approval at LAFCO's October 5th Meeting. Staff will develop a more detailed work plan for conducting LAFCO's remaining service reviews after LAFCO provides direction to staff on how it would like staff to respond to issues raised by the 2010-2011 Grand Jury and taking into account any potential changes in legislation (e.g. AB 912) and LAFCO's current workload.

ATTACHMENT

Attachment A: Letter from Gregory Caligari, regarding El Camino Hospital District and Services Outside Its Boundary, June 1, 2011 LAFCO Meeting: Agenda Item No. 7 (dated June 9, 2011)



**AGENDA ITEM # 5
ATTACHMENT A**

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Gregory B. Caligari
415.262.5111
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June 9, 2011

File No. 62721

BY EMAIL (.PDF)

Santa Clara County Local Agency Formation Commission
70 West Hedding Street
11th Floor, East Wing
San Jose, CA 95110

Attention: Neelima Palacherla, Executive Officer
(Neelima.Palacherla@ceo.sccgov.org)

Re: El Camino Hospital District and Services Outside Its Boundary
June 1, 2011 LAFCO Meeting, Agenda Item No. 7

Dear Chairperson Kniss and Honorable Commissioners:

I am writing on behalf of the El Camino Hospital District (the "District") as a follow-up to the above-referenced agenda item from the June 1st LAFCO meeting.

The staff report for this agenda item concluded that, "[b]ased upon information provided by the District in its letter, it appears that District funds were not used by the Corporation for the acquisition/operation of the Los Gatos Hospital and the District did not contribute any monies directly for the purchase or operation of the Los Gatos Hospital. Therefore, staff concludes that the District is not providing services outside its boundaries." We appreciate your professional staff's efforts regarding this matter, and agree with their conclusion.

At the meeting, clarification was sought related to the relationship between the District and El Camino Hospital, a California nonprofit public benefit corporation (the "Nonprofit Corporation"). At least one Commissioner expressed a concern about LAFCO drawing conclusions based only upon information provided by the District without independent third party review of that information (in addition to the review already conducted by LAFCO staff and legal counsel).

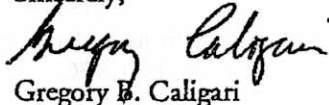
We appreciate that the relationship between the District and the Nonprofit Corporation, while entirely consistent with the Local Hospital District Law pursuant to which the District was formed (i.e., California Health and Safety Code §§32000 *et seq.*) and other applicable laws, may be somewhat unfamiliar, and we want to assure you that the District has been working with LAFCO staff in an open, collaborative and cooperative manner. District representatives have already attended several meetings with LAFCO staff regarding this matter. In addition, the District has responded to every document request received from LAFCO staff and has provided literally hundreds of pages of documents that were reviewed by staff and upon which they based their conclusion as stated above.

We would also like to point out that the financial statements for both the District and the Nonprofit Corporation undergo annual review by independent auditors. Specifically, the financial statements of both the District and the Nonprofit Corporation are audited annually by Moss-Adams, LLP, and those audited financial statements are published in the local newspapers of Los Altos, Mountain View, and Sunnyvale and are also available on the El Camino Hospital website (www.elcaminohospital.org, under the links for "About Us," then "District" and then "District Board Archive," or directly at the following internet address: http://www.elcaminohospital.org/About_El_Camino_Hospital/Board/District_Board_Archive). In addition, an audit of the use of the District's 2006 General Obligation Bonds that were issued to provide a portion of the financing for the new Mountain View hospital building and related facilities was prepared by Gallina, LLP Certified Public Accountants, and such audit was published July 11, 2007 (and was presented to District Board of Directors at their October 17, 2007 meeting).

If LAFCO decides to pursue further review of the District either as part of a county-wide service review or on stand-alone basis, we are confident that such review will confirm that your staff's conclusion as stated above is correct. To the extent LAFCO's review encompasses such matters, we are also confident that it will confirm that the District's activities and expenditure of funds are in full compliance with the Local Hospital District Law, the Bylaws of the District, the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (California Government Code §§ 56000 *et seq.*) and other applicable laws and requirements.

The District will continue to fully cooperate with LAFCO in conducting whatever further service review of the District LAFCO determines to undertake in accordance with applicable provisions of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. As noted above, the LAFCO staff has already received a substantial amount of information that is available for further review by LAFCO and its staff and consultants. We would appreciate it if you would direct any requests for additional information regarding this matter to me and to Matt Harris (the LAFCO Clerk already has Mr. Harris' contact information), and we will be sure to provide a prompt response.

Sincerely,



Gregory B. Caligari

Santa Clara County Local Agency Formation Commission

June 9, 2011

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cc: (by email)

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