POLICY AND PROCEDURE MANUAL
FINANCIAL AND ACCOUNTING PROCEDURES

F. CONTINGENCY FUND

LAFCo may establish a Contingency Reserve Fund to cover emergencies and other unforeseen costs not budgeted but deemed necessary for the continued operation of LAFCo. Expenditure of Contingency Funds must receive prior approval of the Commission. Funds not expended at the end of the fiscal year shall be carried over to the next fiscal year.

There are four categories that Contingency Reserve Funds are budgeted within each fiscal year budget. These categories are:

1) **Litigation** – restricted funds for use in the event of significant legal costs or lawsuits involving SJLAFCo. This fund shall have a minimum balance of $150,000.00.

2) **Compensated absences liability** -- restricted funds to offset anticipated agency liabilities including employee vacation and administrative leave payouts. Minimum balance to be 75% of eligible total pay-out liability. Total eligible leave pay-out is two weeks (80 hours) per fiscal year.

3) **Pension/OPEB liabilities** -- restricted funds for the purposes of achieving and maintaining a reasonable amount of reserve funds for covering future pension/OPEB obligations. The minimum balance of pension liability shall be determined by the retirement system that the Commission participates in, currently the San Joaquin County Employee Retirement Agency (SJCERA). The Commission may make contributions above current minimums with the intention of paying down OPEB liabilities.

4) **Working Capital** – unrestricted funds the purpose and objective of which shall be to meet needs associated with planned and unplanned non-recurring expenses such as those that may be necessary to assist with operational fluctuations in revenues; expenses that may occur on a year-to-year basis; one-time investments in either programs and/or grant expenses; and reimbursement of expenses incurred by other reserve categories to ensure minimum balances are maintained.

The Executive Officer to report on the status of each category of Contingency Reserve Funds as part of mid-year and annual budget preparation and review processes.

FINANCIAL AND ACCOUNTING PROCEDURES

H. ANNUAL AUDIT

A. Role of the Independent Auditor

It is the policy of SJLAFCO to arrange for an annual audit of its financial statements to be conducted by an independent accounting firm. The independent accounting firm selected by SJLAFCO will be required to communicate directly with the Commission upon the completion of their audit. In addition, members of the Commission may initiate communication directly with the independent accounting firm.

Audited financial statements, including the auditor's opinion thereon, will be submitted to the Commission by the independent accounting firm and the financial statements will be presented for consideration by the Commission at a regular meeting.

B. How Often to Review the Selection of the Auditor

In accordance with agency policy and state law, SJLAFCO shall review the selection of its independent auditor in the following circumstances:

1. Anytime there is dissatisfaction with the service of the current firm.

2. When a fresh perspective and new ideas are desired.

3. A change in Auditor every six years should be considered to ensure competitive pricing and a high quality of service.

4. SJLAFCO is restricted from employing a public accounting firm to provide audit services if the lead partner or coordinating audit partner having primary responsibility for the audit, has performed audit services for SJLAFCO for five consecutive fiscal years.

C. Selecting an Auditor

1. The following factors shall be considered by SJLAFCO in selecting an accounting firm:

- The firm's reputation in the government community.
- The depth of the firm's understanding of and experience with governmental agencies.
- The demonstrated ability to provide the services requested in a timely manner.
- The ability of firm personnel to communicate with Organization personnel in a professional and congenial manner.

- Expected delivery of reports
- Cost estimate including estimated number of hours per staff member
- Rate per hour for each auditor
- Other information as appropriate

D. Preparation for the Annual Audit

SJLAFCO shall be actively involved in planning for and assisting with the independent accounting firm in order to ensure a smooth and timely audit of its financial statements. In that regard, the accounting department shall provide assistance to the independent auditors in the following areas:

1. **Planning** – The Executive Officer is responsible for delegating the assignments and responsibilities to accounting staff in preparation for the audit. Assignments shall be based on the list of requested schedules and information provided by the independent accounting firm.

2. **Commission Involvement** – Organization staff will do as much work as possible in order to assist the auditors and, therefore, reduce the cost of the audit. The Commission's Budget Committee may assist SJLAFCO in fulfilling its audit oversight responsibilities with regard to:

(a) the integrity of SJLAFCO's financial statements,

(b) SJLAFCO's compliance with legal and regulatory requirements, and

(c) the independent auditor's qualifications and independence.

In providing this assistance to the full Commission, the Budget Committee may assume audit responsibilities as provided herein and recommend action on all audit matters to the full Commission.

Audit responsibilities of the Budget Committee may include, but is not limited to, the following:

- Review of the auditor's proposed audit scope and approach.
- Review of annual financial audit reports, schedules, and management letter.
- Any serious difficulties or disputes with management encountered during the audit.
- Matters required to be discussed by Statements on Auditing Standards issued by the Auditing Standards Board of the American Institute of Certified Public Accountants or other state of federal agencies.

If SJLAFCO decides to prepare and issue a written Request for Proposal (RFP) to be sent to prospective audit firms, the following information shall be included:

- Period of services required
- Type of contract to be awarded (fixed fee, cost basis, etc.)
- Complete description of the services requested (audit, management letter, etc.)
- Identification of meetings requiring their attendance, such as staff or Commission meetings
- Organization chart of SJLAFCO
- Chart of account information
- Financial information about the organization
- Copy of prior year reports (financial statements, management letters, etc.)
- Other information considered appropriate
- Description of proposal and format requirements
- Due date of proposals
- Overview of selection process (i.e., whether finalists will be interviewed, when a decision shall be made, etc.)
- Identification of criteria for selection

2. Minimum Proposal Requirements form prospective CPA firms shall be:

- Firm background
- Biographical information (resumes) of key firm member who will serve SJLAFCO
- Client references
- Information about the firm's capabilities
- Firm's approach to performing an audit
- Copy of the firm's most recent quality/peer review report, including any accompanying letter of findings
- Other resources available with the firm
- Expected timing and completion of the audit

FINANCIAL AND ACCOUNTING PROCEDURES

Section I – Mid-Year Budget and Budget Committee

1. **Mid-Year Report and Presentation:** The Executive Officer shall make a mid-year budget report and presentation to the Commission at the regularly scheduled February Commission Hearing, or the next hearing date thereafter. The mid-year budget report shall include information and progress made regarding the work schedule adopted for that year's adopted budget. The mid-year budget review shall also include information regarding the Commission's fund balance and status of each Contingency Reserve Fund categories.

2. **Budget Committee:** Following the Executive Officer's mid-year budget report and presentation, the Commission shall elect two (2) Commissioners to the Budget Committee. The Budget Committee is an ad-hoc committee that work along with the Executive Officer to review preliminary expenses, shape the annual workplan and proposed operating budget during the upcoming fiscal year prior to submitting those documents to the Commission. The Commission will then hold a public hearing to adopt the final adoption.

3. **Timing:** Convening typically in March, the Budget Committee evaluates preliminary fiscal numbers. The Budget Committee findings and recommendations regarding the upcoming fiscal year operating budget to the full LAFCo board ahead of statutory deadlines (such as passing a proposed budget by May 1 and final adoption by June 15).

Policy and procedure manual — Financial and accounting procedures

J. Fee Reduction/Waiver Policy

1. The Commission may reduce or waive a fee, service charge, or deposit(hereafter, "fee" or "fees"). Any fee reduction or waiver request must be submitted in writing, providing the reason(s) why the payment of fees would be detrimental to the public interest, and any other basis for the request consistent with this policy.

2. The requestor must make all statements in support of the application under penalty of perjury. The Executive Officer may develop standardized fee waiver request forms for this purpose.

3. Consistent with the provisions of Section 56383(d) of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, and in order to grant a fee waiver or fee reduction, the Commission must make a finding that the payment would be detrimental to the public interest. Upon receipt of a written request, the Commission may also consider:

   a. Whether payment would cause a substantial economic hardship upon the applicant;
   b. If the application is consistent with recommendations in a Municipal Service Review ("MSR") adopted by LAFCO, as applicable;
   c. Whether the application advances the principles of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 relative to logical boundaries; and
   d. Any additional information presented by the requestor in support of granting a reduction or waiver.

4. A party interested in securing a waiver or fee reduction shall submit a letter to the Executive Officer requesting the waiver. The letter shall indicate how payment of the fee would be detrimental to the public interest, and may also identify any of the above-referenced factors.

5. For any proposed fee waiver or reduction request, staff will agendize the request for the next available regular or special meeting of the Commission, subject to any applicable scheduling requirements for Commission meetings. The Executive Officer will notify all requestors in writing of the decision regarding fee reduction or waiver request.

POLICIES AND PROCEDURES FOR MUNICIPAL SERVICE REVIEWS

Municipal Service Reviews (MSR)

1. **Goal:** The goal of the SJLAFCo MSR program is to provide cities and special districts with an assessment on their provision of services, make recommendations regarding areas of improvement, and determine whether an agency is equipped to effectively provide services within its existing or expanded SOI.

2. **Overview:** Pursuant to GC sec. 56430, in order to prepare and to update spheres of influence (SOI) in accordance with GC sec. 56425, the Commission shall conduct a review of the municipal services provided by a local agency. A municipal service review (MSR) is a comprehensive study prepared by SJLAFCo to inform local agencies, the public, and SJLAFCo about municipal services provided by local agencies within a designated geographic area.

3. **Evaluation:** SJLAFCo evaluates the municipal services provided by one or more local agencies, makes determinations based upon this information and may recommend actions to promote the efficient provision of those services. An MSR need not be prepared if no action to prepare or update a SOI is proposed, though SJLAFCo may choose to prepare a MSR at its sole discretion.

4. **Determinations:** Pursuant to GC sec. 56430, SJLAFCo must make the following written determinations regarding the following areas:

    A. Growth and population projections for the affected area.
    B. The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.
    C. Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.
    D. Financial ability of agencies to provide services.
    E. Status of, and opportunities for, shared facilities. Accountability for community service needs, including governmental structure and operation efficiencies.

10. **Municipal Services:** The term "municipal services" relates to services provided by cities and many special districts to relatively dense populations at comparatively high levels of service, including:
    A. Public safety (police, fire, building inspection, etc.);
    B. Public utilities including solid waste collection and disposal, wastewater collection and treatment, domestic water production, treatment and distribution, and electricity;
    C. Land use authority including planning, code enforcement, and building code enforcement;
    D. Parks and recreation;
    E. Public facilities;
    F. Airports;
    G. Public transit;
    H. Improvement, maintenance, repair, and operation of streets and highways;
    I. Flood control;
    J. Water supply, drainage, storage, and conservation.
    K. "Municipal service" also encompasses a service or function provided to one local agency by a contract with another local agency, as permitted by GC sec. 54981.

11. **Other Services:** Other types of services provided by local agencies that may not be considered "municipal," and do not in themselves facilitate or induce growth. Nonetheless, SJLAFCo deems it appropriate to include the local agencies that provide these services in the MSR program as their services were deemed necessary when the local agency was formed and are provided within a specified geographic area under the authority of the applicable California Code. Further, performance of a MSR for a non-municipal service provider permits the full expression of SJLAFCo goals for and by all local agencies under its jurisdiction.

12. **Environmental Determination:** Local agencies that request a SOI amendment that is consistent with the agency's general or master plans are expected to be the lead agency as defined by the California Environmental Quality Act (CEQA, PRC sec. 21067). The lead agency has the principal responsibility for carrying out or approving a project which may have a significant affect upon the environment. The lead agency will conduct all necessary environmental determinations as appropriate under CEQA (i.e., notice of exemption, negative declaration, environmental impact report). Under this circumstance, LAFCo will be a responsible agency as defined by CEQA (PRC sec. 21069). This relationship should be clearly

demonstrates a transparent decision-making process, the following actions will take place:

A. The draft MSR shall be posted on the Commission's website for a 21-day public review period;
B. Notice of the public review period will be posted at the offices of SJLAFCo and the Clerk of the Board of Supervisors and on the Commission's website; and
C. Notice will be mailed or e-mailed to the subject local agency to be posted in its jurisdiction.

18. **Other Factors:** These policies are based on circumstances unique to SJLAFCo and as such will ensure that municipal services are evaluated in an orderly, logically, and efficient manner.
    A. The SOI should reflect three (3) planning horizons – short range five (5) to ten (10) year; medium range ten (10) to twenty (20) years and, long range twenty (20) to thirty (30) years – for the phasing of reorganizations and annexations. Said planning horizons may include additional areas that may relate to the agency's planning.
    B. The SOI boundary as well as the Planning Horizon boundaries shall be reviewed and either affirmed or updated on an average of every five (5) years, as necessary, thereafter.
    C. The Commission will evaluate proposed SOI amendments in light of many of the local agency's own adopted plans and policies including, but not limited to, its general or master plan and related CEQA documents, service plans, annual budgets, annual comprehensive fiscal reports, audits, fee structure, and capital improvement plans.
    D. MSRs may be updated independently from an SOI modification, either to facilitate review of an agency's service deficiencies or in response to other LAFCo actions.
    E. The Commission will annually review the status of all districts regarding their status of MSR and SOI Plan to forecast the need for and facilitate the preparation of future MSRs.
    F. MSR's should be conducted for all agencies every five years unless explicitly determined not to be required or required at a different interval
    G. The Commission reserves the right to have an MSR prepared by a consultant under contract with the Commission and associated expenses may be borne by the requesting local agency.

for the preparation of a service review pursuant to the requirements of State Government Code Section 56430.

2 The City must provide documentation or otherwise demonstrate that a good faith effort to implement and otherwise comply with all recommendations contained in the most recent Service Review.

3. Territory is uninhabited pursuant to Government Code Section 56079.5 and otherwise meets all requirements stated in State Government Code Section 56662.

4. Territory must be within the existing 5 – 10 year planning horizon of the city's Sphere of Influence.

5. Territory must be contiguous to and adjacent to existing jurisdictional boundaries on at least two sides by the requesting city.

6. The area of the territory is of such boundary modification is of a location and size that approval of the modification will have a de minimis impact on the evaluation of the city's ability to provide efficient services within it's adopted of the sphere of influence. In making a determination of if a boundary modification will have a de minimis impact on the MSR underway the following factors shall be considered:

7. The proposed use of the property will facilitate the orderly growth and development through consistency with all adopted regional goals for factors listed in State Government Code Section 56668.

8. The size and area of the boundary modification makes the foreseeable development of the site consistent with the Vehicle Miles Travelled (VMT) goal of the adopted Regional Transportation Plan; or, otherwise exempt from SB 743 VMT evaluation. The exemption may be pursuant to the State Department of Land use and Climate Innovation technical advisory on evaluating transportation impacts in CEQA; the city's adopted implementation guidelines, or has executed a mitigation agreement with the applicant to ensure that VMT impacts will be less than significant. (GC Section 56668(g).

9. As a CEQA responsible agency, the Commission is required to find that either any significant environmental impacts associated with the boundary modification identified in the appropriate environmental level of analysis documents that said impacts have been:

   I. Mitigated or avoided;

   II. Measures necessary for mitigation are within the responsibility and jurisdiction of another public agency and have been, or could and should be, adopted by that other agency; or

Attachment C

CONFLICT OF INTEREST

I. TERMS

The Political Reform Act, Government Code Section 81000, et seq., requires state and local government agencies to adopt and promulgate Conflict of Interest Codes. Title 2, California Code of Regulations, Section 18730, adopted by the Fair Political Practices Commission (FPPC), contains the provisions required to be included in a Conflict of Interest Code and can be incorporated by reference. Section 18730 may be amended from time to time to conform to amendments in the Political Reform Act after public notice and hearings conducted by the FPPC. Therefore, the terms of Title 2, California Code of Regulations, Section 18730, and any amendments to it duly adopted by the Fair Political Practices Commission are hereby incorporated by reference and, along with the following list of designated persons and disclosure requirements, constitute the Conflict of Interest Code of the San Joaquin Local Agency Formation Commission.

II. DESIGNATED PERSONS

The following persons are subject to the provisions of this Code:

A. All members and alternate members of the Commission

B. The Executive Officer

C. Legal Counsel to the Commission

D. Clerk / Analyst

E. Assistant Clerk

F. Independent contractors and consultants who, as determined by the Executive Officer and/or the Commission, perform duties or provide services of a substantial and continuing nature such that they serve in a staff capacity to the Commission and participate in making governmental decisions as defined in FPPC Regulation 18702.2 , as amended, or perform the same or substantially all the same duties for the Commission that would otherwise be performed by an individual holding a designated officer position specified in this Code.

III. FULL DISCLOSURE REQUIRED

Designated persons must disclose all investments, sources of income or interests in real property within the jurisdiction of

San Joaquin County, and business positions in which the designated person is a director, officer, partner, trustee, employee or holds any position of management, if that business does any contracting with the Commission or is located within its jurisdiction.

CODE OF ETHICS

The legislative intent for LAFCo is contained in Government Code Section 56300, as amended:

It is the intent of the Legislature that each commission establish policies and exercise its powers pursuant to this part in a manner that encourages and provides planned, well-ordered efficient urban development patterns with appropriate consideration of preserving open-space lands within those patterns.

LAFCo is an independent commission and is not a part of or subordinate to the County, any city or any special district.

Each Commissioner is independent in weighing and reviewing information and making determinations based upon the particular matter under review and in consideration of LAFCo's underlying purposes, as provided by the law:

56325.1., as amended, while serving on the commission, all commission members shall exercise their independent judgment on behalf of the interests of residents, property owners, and the public as a whole in furthering the purposes of this division. Any member appointed on behalf of local governments shall represent the interests of the public as a whole and not solely the interests of the appointing authority. This section does not require the abstention of any member on any matter, nor does it create a right of action in any person.

LAFCo's composition is a membership consisting of City, County and Public members. The mixed membership ensures that various backgrounds and perspectives are reflected on the Commission. As they carry out their LAFCo responsibilities, Commission members rely on the expertise and experience they have gained while serving on their appointing agencies. However, members will base their decisions on the policies and requirements of LAFCo law and the best interests of all the citizens.

The members of the Commission include both regular and alternate members. All members, both regular and alternate, should attend all meetings if at all possible, and all members, both regular and alternate, are responsible for participating in discussions of issues and in facilitating the work of the commission.

Participants in LAFCo proceedings are encouraged to be courteous and respectful. LAFCo expects to hear differing opinions and points of view during the course of its deliberations Interruptions and discourteous comments will not be tolerated by the Commission.

Additionally, Commissioners agree to actively listen to each other, to voice their opinions, and to be respectful of staff, the public, and fellow commission members. Commissioners further agree to focus discussion on issues (as opposed to personalities), and to conclude issues in a timely manner. Each member accepts responsibility to stay focused on issues germane to the topic.

CHAPTER IV

Duties of the Executive Officer

Section 15. The Executive Officer appointed by the Commission shall attend each meeting of the Commission and maintain a record of all proceedings. The Commission shall set forth the duties of the Executive Officer in job specifications or other such documents.

Section 16. The Executive Officer shall prepare an agenda for each meeting. The agenda shall comply with the Cortese-Knox-Hertzberg Government Reorganization Act of 2000 and the Ralph M. Brown Act.

Section 17. The Executive Officer essential knowledge, skills and abilities include the principles and practices of public administration including the organizational structure and service delivery systems of local government agencies such as counties, cities and special districts.

Section 18. In executing the authority and power of the office, the Executive Officer represents the purpose and mission of the San Joaquin Local Agency Formation Commission, including operating procedures and rules and regulations as determined by statutes. In doing so the Executive Officer implements pertinent local, State and Federal rules, regulations and laws. In discretionary actions the Executive Officer demonstrates best feasible principles and practices of policy development, budgeting and professional code of conduct, including, but not limited to, applicable provisions of the American Institute of Certified Planners Code of Ethics and Professional Conduct.

Section 19. The Executive Officer Organizes and directs administrative and analytical support activities for the Commission using the principles and practices of organizational analysis, management leadership, motivation, team building, empowerment and conflict resolution.

Section 20. The Executive Officer investigates and implements modern office procedures, methods and technology to ensure the Commission's operational efficiency.

Section 21. On a continuous basis, the Executive Officer analyzes budget and technical reports; interprets, evaluates and writes staff reports; apply knowledge skills and abilities to laws, regulations and codes; observe performance and evaluate staff; problem solve LAFCO related issues; remember various rules; and explain and interpret policy.

Section 22. The Executive Officer works both autonomously and as a member of a project delivery team and/or committee in the analysis of challenges, identification of alternative solutions, project consequences of proposed actions and implement recommendations in support of goals. In doing so, gain cooperation through discussion and persuasion.