



San Luis Obispo Local Agency Formation Commission Meeting Agenda June 18, 2026, 9:00 am

MEETING

JUNE 18, 2026 –
9 A.M. BOARD OF
SUPERVISORS CHAMBERS
COUNTY GOVT. CENTER
1055 MONTEREY STREET,
SAN LUIS OBISPO, CA 93408

CONTACT

ROB FITZROY
EXECUTIVE OFFICER
805-781-5795
SLO.LAFCO.CA.GOV

COMMISSIONERS

HEATHER MORENO, CHAIR, COUNTY
DAVE WATSON, VICE CHAIR, PUBLIC
DAWN ORTIZ-LEGG, COUNTY
ED WAAGE, CITY
STEVE GREGORY, CITY
ED EBY, SPECIAL DISTRICT
NAVID FARDANESH, SPECIAL DISTRICT
BRUCE GIBSON, COUNTY ALTERNATE
CARLA WIXOM, CITY ALTERNATE
JOHN JOYCE, SPECIAL DISTRICT ALTERNATE
MICHAEL DRAZE, PUBLIC ALTERNATE

MEETING PARTICIPATION

- **To submit a written comment**, mention the matter or agenda item number and send via email to mmorris@slo.lafco.ca.gov or fill out an online submission form on our website at slo.lafco.ca.gov, or U.S. mail at 1042 Pacific St, Suite A, San Luis Obispo, CA, 93401. All correspondence is distributed to each Commissioner and will become part of the official record of the Commission meeting.
- **To submit a pre-recorded verbal comment** call (805) 781-5795; state and spell your name, mention the agenda item number you are calling about, and leave your comment. Your comments will be distributed to each Commissioner and will become part of the official record of the Commission meeting.
- **To provide live comment**, attend the in-person meeting, fill out a “request to speak form” provided in the front and back of the meeting room, and hand it to the Commission Clerk prior to the beginning of that item. Each speaker will be limited to a three-minute presentation. During public hearings, applicants or their representatives will be given the opportunity to speak first after the staff report is given and questions of the Commission have been addressed.

Other Notes:

- In compliance with the Americans with Disabilities Act (ADA), if you need special assistance to participate in this meeting, please contact the Clerk at 805-781-5795. Notification provided a minimum of 48 hours prior to the meeting will enable the Clerk to make reasonable arrangements to ensure accessibility to this meeting. Pursuant to the ADA, the meeting room is accessible to the physically disabled.
- It is required by Government Code Section 84308 that a participant in a LAFCO proceeding who has a financial interest in the decision and who has made a campaign contribution of more than \$500 to any Commissioner within 12 months prior to the proceeding must disclose the contribution. If you are affected, please notify Commission Staff before the hearing.



MEETING AGENDA

Pledge of Allegiance

Call to Order/Roll Call

Approval of the Minutes: May 21, 2026 (Pages 3-8)

Non-Agenda Public Comment Period

This is the period in which persons may speak on items that are not on the regular agenda. You may provide public comment using one of the three methods mentioned above in the “Meeting Participation” section.

CALAFCO Workshop Update

Regular Matters

A-1: Municipal Service Review Program and Sphere of Influence Study Overview (Pages 9-28)

Recommendation:

Action: Receive and file an informational report on statutory requirements for Municipal Service Reviews and Sphere of Influence Studies, LAFCO’s authority, available tools to address issues, and potential policy solutions.

A-2: Budget Adjustment to Fiscal Year 2025-2026 Budget for Refund Related to Dana Reserve Specific Plan Litigation (Pages 29-33)

Recommendation:

Action: Adopt a Resolution approving a Fiscal Year 2025-26 budget adjustment.

Commissioner Comments

Legal Counsel Comments

Executive Officer Comments

Adjournment

Tentative Future Meeting Schedule, Subject to Change

- July 2026 – Ground Squirrel Hollow CSD MSR & SOI Study and Squire Canyon CSD MSR & SOI Study
- August 2026 – No Meeting
- September 2026 – FY 25-26 Year-End Budget and Work Plan Report and Linne CSD MSR & SOI Study



**SAN LUIS OBISPO
LOCAL AGENCY FORMATION COMMISSION
MAY 21, 2026, MEETING MINUTES**

Selection of Chair Pro-Tem

Mr. Fitzroy announced that the selection of a Chair Pro-Tem was required to run the meeting due to the absence of both the Chairperson and the Vice Chair.

Commissioner Gregory motioned to appoint Commissioner Waage as Chair Pro-Tem for this meeting.

Commissioner Fardanesh seconded the motion.

AYES: Commissioners Gregory, Fardanesh, Draze, Eby, and Waage

NAYS: None

ABSTAIN: None

The motion passed unanimously.

Call to Order

The San Luis Obispo Local Agency Formation Commission (LAFCO) meeting was called to order at 9:02 a.m. on Thursday, May 21, 2026, by Chair Pro-Tem Ed Waage in the Board of Supervisors Chambers at the County Government Center, 1055 Monterey Street, San Luis Obispo, CA 93408.

Pledge of Allegiance

Roll Call

Present: Commissioners Ed Eby, Navid Fardanesh, Steve Gregory, Ed Waage, and Alternate Commissioner Michael Draze

Absent: Commissioner Dawn Ortiz-Legg, Vice Chair Dave Watson, Chairperson Heather Moreno, and Alternate Commissioners Bruce Gibson and Carla Wixom

Staff: Rob Fitzroy, LAFCO Executive Officer
Imelda Marquez-Vawter, LAFCO Senior Analyst
Morgan Bing, LAFCO Analyst
Melissa Morris, LAFCO Commission Clerk

Holly Whatley, LAFCO Legal Counsel

Approval of the Minutes: April 16, 2026

Chair Pro-Tem Waage announced the consideration of approval of the April 16, 2026, Regular Meeting Minutes.

Chair Pro-Tem Waage asked for Commissioner comments, announcing that it was closed shortly after hearing none.

Chair Pro-Tem Waage opened the item for public comment, announcing that it was closed shortly after hearing none.

Chair Pro-Tem Waage asked for a motion to approve the minutes.

Commissioner Gregory motioned to approve the minutes.

Commissioner Eby seconded the motion.

AYES: Commissioners Gregory, Eby, Draze, Fardanesh, and Chair Pro-Tem Waage

NAYS: None

ABSTAIN: None

The motion passed unanimously.

Non-Agenda Public Comment Period

Chair Pro-Tem Waage opened public comment, announcing it was closed shortly after hearing none.

Regular Matters

A-1: LAFCO File No. 8-S-25: Municipal Service Review and Sphere of Influence Study for the Port San Luis Harbor District

Mr. Fitzroy invited **Ms. Bing** to present the item.

Chair Pro-Tem Waage opened the item for Commissioner questions and comments.

Commissioner Eby inquired about unitary taxes.

Mr. Fitzroy invited **Will Friedman**, Harbor Director of the Port San Luis Harbor District (PSLHD), to respond.

Mr. Friedman responded to questions and provided comment.

Ms. Morris confirmed that, according to news station KSBY, Senate Bill 931 was passed on Wednesday, May 20, 2026.

Commissioner Draze provided comment regarding the District's finances.

Chair Pro-Tem Waage opened the item for public comment.

Betty Winholtz of Morro Bay provided comment in support of staff's recommendations.

Chair Pro-Tem Waage closed public comment and opened the item for Commissioner questions and comments.

Commissioner Draze provided comment regarding PSLHD's Sphere of Influence.

Commissioner Eby made a motion in support of the staff recommendation for Item A-1, Action 1: Find, by motion, the Municipal Service Review and Sphere of Influence Study prepared for the Port San Luis Harbor District (LAFCO File No. 8-S-25) to be exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Categorical Exemption Section 15306 and CEQA General Rule Exemption 15061(b)(3).

Commissioner Gregory seconded the motion.

AYES: Commissioners Eby, Gregory, Draze, Fardanesh, and Chair Pro-Tem Waage

NAYS: None

ABSTAIN: None

The motion passed unanimously.

Commissioner Fardanesh made a motion in support of the staff recommendation for Item A-1, Action 2: Approve, by resolution, the Port San Luis Harbor District Municipal Service Review and Sphere of Influence Study (LAFCO File No. 8-S-25) as contained in Attachments A and B, and reaffirm the District's Sphere of Influence as depicted in Attachment A, Exhibit C.

Commissioner Gregory seconded the motion.

AYES: Commissioners Fardanesh, Gregory, Draze, Eby, and Chair Pro-Tem Waage

NAYS: None

ABSTAIN: None

The motion passed unanimously.

A-2: LAFCO File No. 4-S-24: Municipal Service Review and Sphere of Influence Study for the Garden Farms Community Water District

Mr. Fitzroy invited **Ms. Bing** to present the item.

Chair Pro-Tem Waage opened the item for Commissioner questions and comments.

Commissioner Fardanesh inquired about water quality.

Ms. Bing responded to questions and provided comment.

Chair Pro-Tem Waage opened the item for public comment, announcing it was closed shortly after hearing none.

Chair Pro-Tem Waage opened the item for Commissioner questions.

Commissioner Gregory made a motion in support of the staff recommendation for Item A-2, Action 1: Find, by motion, the Municipal Service Review and Sphere of Influence Study prepared for the Garden Farms Community Water District (LAFCO File No. 4-S-24) to be exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Categorical Exemption Section 15306 and CEQA General Rule Exemption 15061(b)(3).

Commissioner Draze seconded the motion.

AYES: Commissioners Gregory, Draze, Eby, Fardanesh, and Chair Pro-Tem Waage

NAYS: None

ABSTAIN: None

The motion passed unanimously.

Commissioner Fardanesh made a motion in support of the staff recommendation for Item A-2, Action 2: Approve, by resolution, the Garden Farms Community Water District Municipal Service Review and Sphere of Influence Study (LAFCO File No. 4-S-24) as contained in Attachments A and B, and update the District's Sphere of Influence as depicted in Attachment A, Exhibit C.

Commissioner Gregory seconded the motion.

AYES: Commissioners Fardanesh, Gregory, Draze, Eby, and Chair Pro-Tem Waage

NAYS: None

ABSTAIN: None

The motion passed unanimously.

A-3: Consideration of the Final Fiscal Year 2026-2027 Budget and Work Plan

Mr. Fitzroy presented the item.

Chair Pro-Tem Waage opened the item for Commissioner questions and comments.

Commissioner Fardanesh inquired about reserve funds.

Mr. Fitzroy responded to questions and provided comment.

Chair Pro-Tem Waage opened the item for public comment, announcing it was closed shortly after hearing none.

Chair Pro-Tem Waage opened the item for Commissioner questions and provided comment regarding agency workload.

Commissioner Draze provided comment regarding the agency's balanced budget.

Commissioner Draze made a motion in support of the staff recommendation for Item A-3: Adopt a Resolution approving the Final Fiscal Year 2026-2027 Budget and Work Plan (Attachment A), direct the Executive Officer to distribute the Final Budget and Work Plan to contributing agencies per the government code, and direct the Executive Officer to execute the agreement with the County Auditor for financial services (Attachment B).

Commissioner Eby seconded the motion.

AYES: Commissioners Draze, Eby, Fardanesh, Gregory, and Chair Pro-Tem Waage

NAYS: None

ABSTAIN: None

The motion passed unanimously.

Commissioner Comments: **Chair Pro-Tem Waage** provided comments on his upcoming meeting availability and the CALAFCO Staff Workshop that was held in Pismo Beach.

Legal Counsel Comments: **Ms. Whatley** thanked the Commissioners for their

attendance.

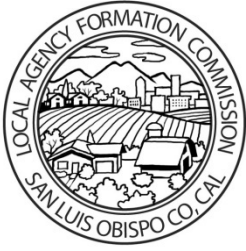
Executive Officer Comments: Mr. Fitzroy provided updates on the CALAFCO Staff Workshop and upcoming meetings.

Adjournment: With no further business before the Commission, the meeting adjourned at 9:41 AM until the next meeting of the Commission in the Board of Supervisors Chambers at the County Government Center in San Luis Obispo.

THESE MINUTES ARE NOT OFFICIAL NOR ARE THEY A PERMANENT PART OF THE RECORD UNTIL THEY ARE APPROVED BY LAFCO COMMISSIONERS AT THE NEXT REGULAR MEETING.

Respectfully submitted,
Melissa Morris, LAFCO Commission Clerk

DRAFT



San Luis Obispo Local Agency Formation Commission

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HEATHER MORENO
County Member

Vice-Chair
DAVID WATSON
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DAWN ORTIZ-LEGG
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City Member

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STAFF

ROB FITZROY
Executive Officer

IMELDA MARQUEZ-VAWTER
Senior Analyst

MORGAN BING
Analyst

MELISSA MORRIS
Commission Clerk

HOLLY WHATLEY
Legal Counsel

TO: MEMBERS OF THE COMMISSION

FROM: ROB FITZROY, EXECUTIVE OFFICER

DATE: JUNE 18, 2026

SUBJECT: MUNICIPAL SERVICE REVIEW PROGRAM AND SPHERE OF INFLUENCE STUDY OVERVIEW

RECOMMENDATION

Receive and file an informational report on statutory requirements for Municipal Service Reviews and Sphere of Influence Studies, LAFCO's authority, available tools to address issues, and potential policy solutions.

BACKGROUND

An increasing number of special districts in the county have faced significant challenges related to service delivery, financial constraints, transparency, legal compliance, internal management, and elections. Aging infrastructure has increased operating and maintenance costs, placing additional strain on these districts. Many of these small, resource-limited districts also struggle to secure voter approval for rate increases or special taxes needed to cover rising costs.

Under state law, LAFCOs are required to prepare Municipal Service Reviews (MSR), which provide the analytical basis for Sphere of Influence (SOI) decisions and help evaluate the adequacy, efficiency, and long-term sustainability of municipal services to facilitate orderly growth and development. LAFCO documents agency issues through its MSRs, but its authority to address them is limited and specific. Although LAFCO can often identify potential solutions, implementation typically depends on cooperation from the affected agency and the community it serves. In more serious cases, LAFCO may exercise powers authorized by state law, including dissolution, consolidation, and other changes of organization; but those options should be used only when necessary and when feasible alternative service providers are available.

This report examines LAFCO's authority as it relates to MSRs and SOI studies, identifies the tools available to address issues, and considers existing policies or whether new policies could improve the MSR and SOI study process. The

Commission is invited to ask questions, consider policy options, and provide direction to staff.

Legislative Intent. The State Government Code designates LAFCOs to coordinate local government boundaries, service delivery, and changes in governmental organization. The Legislature established LAFCOs to discourage urban sprawl, preserve open space and agricultural land, promote efficient service delivery, and support orderly local government structure. Unlike most local agencies, LAFCO's authority comes directly from state law and focuses on addressing the needs of the State's population with an emphasis on promoting governmental efficiencies. In practice, LAFCO serves as both a planning agency and a governmental reorganization agency. Preparing MSRs is one of every LAFCO's core responsibilities. MSRs provide the analytical basis for SOI decisions and help evaluate the adequacy, efficiency, and long-term sustainability of municipal services. Although LAFCO has significant authority over governmental organization and boundary changes, it is not an enforcement agency and generally cannot manage, govern, or compel operational decisions by counties, cities, or special districts. Instead, its primary tools are planning, oversight, recommendations, boundary changes, consolidations, dissolutions, and reorganizations.

When service or governance deficiencies arise, LAFCO's role is to document the issues, evaluate alternatives, facilitate solutions, and, when appropriate, exercise its statutory authority to reorganize local governmental structures.

MSR and SOI REQUIREMENTS

An MSR provides an overview of services within a defined area and creates an analytical basis for future SOI and LAFCO decisions. Depending on the circumstances, the Commission may prepare MSRs on a countywide, regional, subregional, service-specific, or agency-specific basis. MSRs are not merely a compliance requirement; they are intended to help LAFCO evaluate service performance, identify governance challenges, assess long-term sustainability, examine service delivery alternatives, and inform future reorganization decisions to facilitate orderly growth and development. MSRs are not intended to be exhaustive, rather they focus on key health indicators and overall service delivery.

The most effective use of an MSR is often preventative rather than reactive. The Legislature envisioned MSRs as a mechanism to support informed planning and encourage agencies to address challenges before formal reorganization becomes necessary. An MSR allows LAFCO to identify the following before they become crises.

- Emerging financial issues;
- Infrastructure deficiencies;
- Governance concerns;
- Service overlaps; and
- Long-term sustainability risks

Government Code Section 56430 requires written determinations addressing seven factors within an MSR:

1. *Growth and Population projections for the affected area.*
2. *Location and characteristics of any disadvantaged unincorporated communities.*
3. *Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.*
4. *Financial ability of agencies to provide services.*
5. *Status of, and opportunity for, shared facilities.*
6. *Accountability for community service needs, including governmental structure and operational efficiencies.*
7. *Any other matter related to effective or efficient service delivery, as required by commission policy.*

The Commission is required to consider the following five criteria per Government Code 56425 and make appropriate determinations with respect to the SOI:

1. *The present and planned land uses in the area, including agricultural and open-space.*
2. *The present and probable need for public facilities and services in the area.*
3. *The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.*
4. *The existence of any social or economic communities of interest in the area if the Commission determines that they are relevant to the agency.*
5. *For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection. . . the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.*

WHAT IS LAFCO'S AUTHORITY?

LAFCO has many legislative responsibilities, which include but are not limited to the following:

- A. Conduct MSRs and make formal findings for the record.** LAFCO may investigate and evaluate the following, which become part of the public record and may form the basis for future actions and decisions related to the respective agency.
- Service adequacy;
 - Infrastructure deficiencies;
 - Financial conditions;
 - Governance issues;
 - Overlapping services;
 - Boundary inefficiencies; and
 - Opportunities for improved service delivery.

B. Establish and Update Spheres of Influence. One of LAFCO's primary responsibilities is establishing and updating SOIs. An SOI serves as the Commission's long-term planning boundary and represents the probable future service area and jurisdictional boundary of an agency.

SOI decisions can:

- Encourage logical service expansion;
- Discourage premature growth;
- Direct future annexations; and
- Promote efficient service delivery.

C. Approve or Deny Boundary Changes. LAFCO may approve, conditionally approve, amend, or deny proposals involving:

- Annexations;
- Detachments;
- Outside Agency Agreements;
- District formations;
- Reorganizations;
- Consolidations;
- Mergers; and
- Dissolutions.

D. Initiate Governmental Reorganization Proceedings. Government Code Section 56375 grants LAFCO authority to initiate certain governmental reorganizations when supported by an MSR, SOI study, or special study. This authority provides one of LAFCO's most significant tools for addressing persistent service delivery or governance problems. These include:

- District consolidations;
- District dissolutions;
- Mergers;
- Formation of new districts;
- Establishment of subsidiary districts;
- Reorganizations; and
- Dissolution of inactive districts.

E. Encourage Shared Services. LAFCO may identify opportunities for the following. Although LAFCO generally cannot compel agencies to enter such arrangements, it can promote and facilitate them through its MSRs.

- Joint powers agreements;
- Contract service arrangements;
- Shared facilities;
- Regional service delivery; and
- Administrative consolidations.

F. Initiate Studies and Investigations. The Commission may undertake studies, including but not limited to some of the following topics, in accordance with Government Code Section 56378. Such studies frequently serve as the basis for future policy discussions and organizational changes.

- Service delivery;
- Governance alternatives;
- Organizational efficiencies;
- Boundary issues; and
- Fiscal sustainability.

WHAT LAFCO CANNOT DO

Understanding the limits of LAFCO authority is equally important. Generally, LAFCO cannot:

- Direct daily operations;
- Dictate management decisions;
- Impose fines;
- Set rates or fees;
- Mandate management changes;
- Remove elected officials;
- Audit agencies; or
- Enforce service standards.

ADDRESSING PROBLEMATIC AGENCIES

A recurring question is what LAFCO should do when an agency is performing poorly or experiencing service delivery challenges. The answer depends on the nature and severity of the problem, community support for change, and which agencies can step in to aid. It is best to consider actions on a level scale from 1 – 5, wherein 1 is for minor issues and 5 is for major issues.

Level 1: Monitoring and Documentation

Transparency alone often encourages corrective action. For minor concerns, LAFCO may do the following.

- Document deficiencies in an MSR;
- Identify concerns in SOI studies;
- Request corrective information;
- Track trends over time; and
- Highlight issues in public hearings.

Level 2: Recommendations and Facilitation

Many service issues can be addressed through collaboration without changing the governmental structure. Where issues are more significant, LAFCO may recommend the following.

- Shared services;
- Contract services;
- Joint powers agreements;
- Governance reforms;
- Strategic planning efforts;
- Redirecting service responsibilities to more capable providers through recommendation of activation or divestiture of powers; and

- Regional coordination.

Level 3: SOI and Boundary Actions

Where deficiencies persist, LAFCO may consider:

- SOI modifications;
- Limiting future expansion opportunities; or
- Conditioning organizational changes.

Level 4: Governmental Reorganization

For severe or chronic deficiencies, LAFCO may evaluate structural solutions.

Potential actions include:

- **Consolidation** - Combining multiple districts into a single agency.
- **Merger** - Transferring responsibilities to another agency while eliminating duplicative governance.
- **Subsidiary District Formation** - Placing district governance under a city council.

Level 5: Dissolution

Dissolution terminates a district and ends all of its powers. When an agency is no longer viable or necessary, dissolution may allow its responsibilities to be transferred to another public agency. A dissolution may be initiated by the affected agency or by LAFCO.

Government Code Section 56375 authorizes LAFCO to initiate a dissolution when supported by appropriate findings and studies. Although dissolution can address serious problems, it is often the most difficult option, especially when services must continue. For example, LAFCO cannot simply dissolve a water district that serves an existing community without first identifying a feasible governance structure to provide continued service. That also requires a willing successor agency. In many cases, the county may assume those responsibilities, but county resources are limited, and it may not always be able to serve as the successor agency in the long term.

CONCLUSION

Although LAFCO does not function as a regulatory oversight agency and generally cannot direct the operations of cities and special districts, it possesses substantial authority to influence governmental organization and service delivery. Through MSRs, SOI studies, and the powers granted under Government Code Section 56375, LAFCO can identify service deficiencies, encourage corrective actions, and, when necessary, initiate reorganizations, consolidations, mergers, or dissolutions designed to improve public services and governmental efficiency in the context of future growth.

Ultimately, LAFCO's role is not to manage local agencies, but to ensure that local governmental structures remain capable of providing efficient, accountable, and sustainable services to the communities they serve and ensure that growth within the region is logical, efficient, orderly, and discourages sprawl.

NEXT STEPS

Based on the discussion above, the Commission may wish to consider whether existing policies are sufficient to guide future MSRs and SOI studies, or whether additional policy direction would improve consistency, transparency, and decision-making.

With respect to existing policies, LAFCO has a number of general policies that relate to the preparation of MSRs and SOI studies. Those policies provide useful direction for document preparation and overall process, but they do not comprehensively address how the Commission intends to respond when MSRs identify significant governance, financial, or service delivery concerns. Relevant existing policies are included as Attachment A.

With respect to potential new policies, the Commission has recently used remediation periods on an ad hoc basis to give agencies time to address identified deficiencies. A more comprehensive policy framework for MSRs and SOI studies could establish clearer expectations, promote consistency from one review to the next, and provide staff and the Commission with a more predictable approach for evaluating and responding to agency issues.

The Commission could direct staff to return with draft policies or guidelines addressing topics such as the following:

- Criteria for establishing remediation periods, including when they are appropriate, the expected duration, required progress reporting, and the consequences if deficiencies are not corrected within the established timeframe.
- A standardized issue-severity framework for MSRs that assigns concerns to defined levels and identifies the types of staff responses, Commission discussions, and potential follow-up actions associated with each level.
- Procedures for bringing more complex Level 3 or Level 4 matters to the Commission through a study session or other preliminary review before formal action is considered.
- Guidance on when LAFCO should consider initiating a change of organization, reorganization, dissolution, consolidation, merger, or other structural action authorized by law.
- Clearer definitions of available SOI actions, including refinement of the Commission's existing zero-sphere policy and the circumstances under which sphere limitations, reductions, or other planning actions should be considered.
- Expectations for agencies with delinquent, incomplete, or deficient financial audits, including documentation standards, timelines for correction, and how such deficiencies should be reflected in MSR findings and recommendations.
- Standards for follow-up monitoring after an MSR identifies significant concerns, including when staff should return to the Commission with status updates or supplemental analysis.
- Guidance for evaluating governance and administrative issues, such as board vacancies, election problems, Brown Act or Public Records Act compliance concerns, and recurring management instability, to the extent those matters affect service delivery and long-term agency sustainability.

- Criteria for when staff should explore shared services, contract service arrangements, activation or divestiture of powers, or other operational alternatives before recommending more substantial structural changes.
- A framework for documenting and communicating significant MSR findings to affected agencies, partner agencies, and the public in a manner that promotes transparency and encourages timely corrective action.
- A requirement that affected agencies review the MSR at their respective Board meetings prior to LAFCO action.

ATTACHMENTS

Attachment A: Existing Municipal Service Review and Sphere of Influence Policies

Attachment A

Existing Municipal Service Review and Sphere of Influence Policies

The Complete Policies, Procedures and Bylaws Document can be found here: [Policies, Procedures & By-Laws 2023.pdf](#)

2.6 Sphere of Influence Policies

The CKH Act provides the legislative authority and intent for establishing a Sphere of Influence and is included by reference in these policies. A Sphere of Influence is the probable 20-year growth boundary for a jurisdiction's physical development. These policies are intended to be consistent with the CKH Act and take into consideration local conditions and circumstances. All procedures and definitions in the CKH Act are incorporated into these policies by reference.

2.6.1. LAFCO intends that its Sphere of Influence determination will serve as a master plan for the future organization of local government within the County. The spheres shall be used to discourage urban sprawl and the proliferation of local governmental agencies and to encourage efficiency, economy, and orderly changes in local government.

2.6.2. The Sphere of Influence lines shall be a declaration of policy which shall be a primary guide to LAFCO in the decision on any proposal under its jurisdiction. Every determination made by the Commission shall be consistent with the spheres of influence of the agencies affected by those determinations.

2.6.3. No proposal which is inconsistent with an agency's adopted Sphere of Influence shall be approved until the Commission, at a noticed public hearing, has considered an amendment or revision to that agency's Sphere of Influence.

2.6.4. The adopted Sphere of Influence shall reflect city and county general plans, growth management policies, annexation policies, resource management policies, and any other policies related to ultimate boundary area of an affected agency unless those plan or policies conflict with the legislative intent of the CKH Act (Government Code Section 56000 et seq.).

Where inconsistencies between plans exist, LAFCO shall rely upon that plan which most closely follows the legislature's directive to discourage urban sprawl, direct development away from prime agricultural land and open space lands, and encourage the orderly formation and development of local governmental agencies based upon local conditions and circumstances.

In accordance with the CKH Act a municipal service review shall be conducted prior to the update of a jurisdiction's Sphere of Influence. The service review is intended to be a basis for updating a jurisdiction's Sphere of Influence.

2.6.5. LAFCO will designate a Sphere of Influence line for each local agency that represents the agency's probable physical boundary and includes territory eligible for annexation and the extension of that agency's services within a zero to twenty-year period.

2.6.6. LAFCO shall consider the following factors in determining an agency's Sphere of Influence:

- a. Present and future need for agency services and the service levels specified for the subject area in applicable general plans, growth management plans, annexation policies, resource management plans, and any other plans or policies related to an agency's ultimate boundary and service area (CKH 56425 (e)(1)).
- b. Capability of the local agency to provide needed services, taking into account evidence of resource capacity sufficient to provide for internal needs and urban expansion (CKH 56425 (e)(2)).
- c. The existence of agricultural preserves, agricultural land and open space lands in the area and the effect that inclusion within a Sphere of Influence shall have on the physical and economic integrity of maintaining the land in non-urban use (CKH 56426.5 (a)).

- d. Present and future cost and adequacy of services anticipated to be extended within the Sphere of Influence.
- e. Present and projected population growth, population densities, land uses, and area, ownership patterns, assessed valuations, and proximity to other populated areas.
- f. The agency's capital improvement or other plans that delineate planned facility expansion and the timing of that expansion.
- g. Social or economic communities of interest in the area (CKH 56425 (e)(4)).
- h. For an update of a Sphere of Influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, a written determination regarding the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing Sphere of Influence shall be prepared.

2.6.7. LAFCO may adopt a zero Sphere of Influence encompassing no territory for an agency. This occurs if LAFCO determines that the public service functions of the agency are either nonexistent, no longer needed, or should be reallocated to some other agency of government. The local agency which has been assigned a zero Sphere of Influence should ultimately be dissolved.

2.6.8. Territory not in need of urban services, including open space, agriculture, recreational, rural lands, or residential rural areas shall not be assigned to an agency's Sphere of Influence unless the area's exclusion would impede the planned, orderly and efficient development of the area.

2.6.9. LAFCO may adopt a Sphere of Influence that excludes territory currently within that agency's boundaries. This occurs where LAFCO determines that the territory consists of agricultural lands, open space lands, or agricultural preserves whose preservation would be jeopardized by inclusion within an agency's Sphere of Influence. Exclusion of

these areas from an agency's Sphere of Influence indicates that detachment is appropriate.

2.6.10. Where an area could be assigned to the Sphere of Influence of more than one agency providing needed service, the following hierarchy shall apply dependent upon ability to serve:

- a. Inclusion within a municipality Sphere of Influence.
- b. Inclusion within a multipurpose district Sphere of Influence.
- c. Inclusion within a single-purpose district Sphere of Influence.

In deciding which of two or more equally capable agencies shall include an area within its Sphere of Influence, LAFCO shall consider the agencies' service and financial capabilities, social and economic interdependencies, topographic factors, and the effect that eventual service extension will have on adjacent agencies.

2.6.11. Sphere of Influence boundaries shall not create islands or corridors unless it can be demonstrated that the irregular boundaries represent the most logical and orderly service area of an agency.

2.6.12. Nonadjacent publicly owned properties and facilities used for urban purposes may be included within that public agency's Sphere of Influence if eventual annexation would provide an overall benefit to agency residents.

2.6.13. At the time of adoption of a city Sphere of Influence LAFCO may develop and adopt in cooperation with the municipality, an urban area boundary pursuant to policies adopted by the Commission in accordance with Government Code Section 56080. LAFCO shall not consider any area for inclusion within an urban service area boundary that is not addressed in the general plan of the affected municipality or is not

proposed to be served by urban facilities, utilities, and services within the first five years of the affected city's capital improvement program.

2.6.14. LAFCO shall review Sphere of Influence determinations every five years or when deemed necessary by the Commission consistent with an adopted work plan. If a local agency or the County desires amendment or revision of an adopted Sphere of Influence, the local agency, by resolution, may file such a request with the LAFCO Executive Officer. Any local agency or county making such a request shall reimburse the Commission for the actual and direct costs incurred by the Commission. The Commission may waive such reimbursement if it finds that the request may be considered as part of its periodic review of spheres of influence.

2.6.15. LAFCO shall adopt, amend, or revise Sphere of Influence determinations following the procedural steps set forth in CKH Act 56000 et seq.

The Complete Policies, Procedures and Bylaws Document can be found here: [Policies, Procedures & By-Laws 2023.pdf](#)

2.7 Municipal Service Review Policies

The following policies are meant to guide San Luis Obispo LAFCO in the preparation of the municipal service review for jurisdictions:

- 2.7.1. The Commission shall use the Municipal Service Review Guidelines found in Chapter 3 as a framework for preparing a municipal service review for a jurisdiction.

- 2.7.2. In order to prepare an update of spheres of influence in accordance with Section 56425, the Commission shall conduct a municipal service review of the municipal services provided by the local agency or service jurisdiction.

- 2.7.3. LAFCO shall complete a municipal service reviews consistent with the provisions contained in the CKH Act including identification of disadvantaged unincorporated communities located contiguous to the Sphere of Influence of a jurisdiction.

The Complete Policies, Procedures and Bylaws Document can be found here: [Policies, Procedures & By-Laws 2023.pdf](#)

3.5 Municipal Service Review Guidelines

The following questions are designated to help agencies and LAFCO compile information needed to complete municipal service reviews. Questions and Information sources will vary depending upon jurisdictions. Answers to these questions will be used by LAFCO to prepare service reviews and will be used to update jurisdictions' spheres of influence.

3.5.1 Growth and Population projections for the affected area.

- a. How does the projected growth of the proposed sphere of influence areas compare with present County land use designations?
- b. How have surrounding County land use patterns evolved and what impacts have they caused on infrastructure, e.g., roads, water, sewer, fire, police?
- c. Will changes as proposed in the sphere of influence increase pressure to develop surrounding County lands causing an increase in growth potential?
- d. Information Sources: City and County general plans, EIRS, US Census website, State Department of Finance, planning departments, Council of Governments, and economic reports.

3.5.2 For an update of an SOI of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

Disadvantaged unincorporated communities, or "DUCs," are inhabited territories (containing 12 or more registered voters) where the annual median household income is less than 80 percent of the statewide annual median household income.

- a. Does the subject agency provide public services related to sewers, municipal and industrial water, or structural fire protection?
- b. Are there any “inhabited unincorporated communities” within or adjacent to the subject agency’s sphere of influence that are considered “disadvantaged” (80% or less of the statewide median household income)?
- c. Information Sources: City and County general plans, US Census, California Rural Legal Assistance, and Council of Governments reports.

3.5.3 Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.

- a. Are the jurisdiction’s water resources and facilities adequate to serve the area in the existing boundaries? What about future growth or expansions?
- b. What is the jurisdiction’s current status with regard to wastewater collection, treatment, and disposal? What are the plans for the future?
- c. What is the present condition of the streets, roads, and circulation? Where are the problem areas and what are the future needs and plans?
- d. Does the jurisdiction have adequate police and fire resources to meet the existing needs of the community? What about future needs?
- e. Information Sources: Water master plans, urban water management plans, Department of Water Resources annual reports, wastewater master plans, general plans, EIRs, circulation elements, regional transportation plans and EIRs, capital improvement plans, Insurance Service Office (ISO) ratings, police and fire department websites, questionnaires, and interviews.

3.5.4 Financial ability of agencies to provide services.

- a. What is the current fiscal status of the jurisdiction? What are the indicators?
- b. Will the fiscal impacts of the proposed changes to the sphere of influence be greater or lesser than the fiscal benefits?

- c. Does the jurisdiction have financial reserves? If so, what percentage of the general fund do their reserves represent?
- d. How will the jurisdiction fund needed capital improvement projects, i.e., bonds, loans, other?
- e. How does the jurisdiction analyze and establish rates and fees?
- f. How will the sphere of influence action impact the rates and fees within the jurisdiction?
- g. How will the sphere of influence territories pay their share of the jurisdictions' costs for services?
- h. Information Sources: Budgets for the last three years, city managers, state and city annual reports, Department of Finance, retail sales and transient occupancy tax (TOT), city fiscal policies, development impact fee information, debt information, joint-financing efforts, and UCSB Economic Report, Budget processes, special purchasing contracts, bidding policies, service studies, and interviews rates and fees studies, EIRs, cost-of-service studies, and rates and fees policies.

3.5.5 Status of, and opportunity for, shared facilities.

- a. Does the jurisdiction share facilities with other agencies?
- b. Has either the jurisdiction or County suggested sharing facilities in the SOI/Annexation areas?
- c. Are there presently any shared relationships for services between agencies in the sphere of influence areas? Are there opportunities for sharing in the future?
- d. Is there any or will there be any duplication of facilities in the sphere of influence area?
- e. Information Sources: Capital improvement plans, shared road construction plans, open space preservation plans, City and County recreational facilities, and shared water storage and distribution facilities.

- 3.5.6 Accountability for community service needs including governmental structure and operational efficiencies.
- a. Does the jurisdiction strive to involve the public in decision-making?
 - b. Does the jurisdiction facilitate local media coverage and public information programs?
 - c. Are elected and appointed representatives accessible and attentive to their constituents?
 - d. Are annual budget and audit reports available to the public?
 - e. Does the jurisdiction have the administrative capacity to assume expanded responsibilities over the SOI areas without decreasing existing services?
 - f. Does the jurisdiction have a customer-oriented service philosophy, including written goals and mission statements, master services plans, customer outreach programs, and an active quality control program?
 - g. Does the jurisdiction maintain capital improvement programs and enterprise fund management plans?
 - h. Does the jurisdiction maintain sound accounting principles and best practice fiscal management programs?
 - i. Does the Jurisdiction have a reasonably good record of safety, environmental and permit compliance?
 - j. How will services to the sphere of influence areas be enhanced by the jurisdiction?
 - k. Will services to the sphere of influence areas proposed for exclusion be enhanced, decreased, or remain the same?
 - l. Will opportunities for public participation in the development review process be enhanced in the jurisdiction or the County for the SOI areas?
 - m. Information Sources: Interviews, websites, public involvement policies, public information programs, customer complaint processes, customer surveys, budgets for the last three years, city managers, state and city annual reports, fiscal management policies, and indicator reports.

3.5.7 Any other matter related to effective or efficient service delivery, as required by commission policy.



San Luis Obispo Local Agency Formation Commission

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MORGAN BING
Analyst

MELISSA MORRIS
Commission Clerk

HOLLY WHATLEY
Legal Counsel

TO: MEMBERS OF THE COMMISSION

FROM: ROB FITZROY, EXECUTIVE OFFICER

DATE: JUNE 18, 2026

SUBJECT: BUDGET ADJUSTMENT TO FISCAL YEAR 2025-2026 BUDGET FOR REFUND RELATED TO DANA RESERVE SPECIFIC PLAN LITIGATION

RECOMMENDATION

Action: Adopt a Resolution approving a Fiscal Year 2025-26 budget adjustment.

SUMMARY

On November 14, 2024, the Commission approved the Dana Reserve Specific Plan annexation into the Nipomo Community Services District. Within the 30-day statute of limitations, a lawsuit was filed against LAFCO challenging the Environmental Impact Report. A settlement agreement was subsequently reached, and the litigation against LAFCO was stayed. In November 2025, the County Board of Supervisors approved a series of project modifications consistent with the terms of the settlement agreement. Following the expiration of applicable statutes of limitation, the lawsuit against LAFCO was dismissed.

Pursuant to the Conditions of Approval for the annexation, the applicant was required to indemnify LAFCO against legal challenges and submit a deposit to cover legal costs. Because LAFCO did not expend all of the deposited funds, the applicant is due a refund of the remaining balance in accordance with LAFCO policies.

Due to the County Auditor's accounting procedures, the unused portion of the deposit was transferred to LAFCO's reserve account. To process a refund that draws from LAFCO reserves, Commission approval is required through a budget adjustment.

The recommended action adjusts the budget to authorize staff to issue a refund to the applicant in the amount of \$7,801.29 from reserves. This adjustment will increase authorized and budgeted expenditures from \$877,831.00 to \$885,632.00 for Fiscal Year 2025-26.

ATTACHMENTS

Attachment A: Draft LAFCO Resolution No. 2026-XX Approving Fiscal Year 2025-26 Budget Adjustment

Attachment A

Draft LAFCO Resolution No. 2026-XX
Approving Fiscal Year 2025-26 Budget
Adjustment

IN THE LOCAL AGENCY FORMATION COMMISSION
COUNTY OF SAN LUIS OBISPO, STATE OF CALIFORNIA

Thursday, June 18, 2026

RESOLUTION NO. 2026-XX

RESOLUTION APPROVING A FISCAL YEAR 25-26 BUDGET ADJUSTMENT

The following resolution is now offered:

RECITALS

WHEREAS, this matter was set for a public meeting at 9:00 a.m. on June 18, 2026, and the staff report was prepared and made available, and the meeting was conducted as required by law; and

WHEREAS, at said meeting, this Commission heard and received any written protests, objections, and evidence which were made, presented, or filed, and all persons present were given the opportunity to hear and be heard in respect to any matter relating to the budget and work plan; and

WHEREAS, a lawsuit was filed against LAFCO challenging the Environmental Impact Report associated with the annexation of the Dana Reserve Specific Plan into the Nipomo Community Services District; and

WHEREAS, the applicant of the proposed annexation was required to indemnify LAFCO and provide a deposit to cover legal expenses; and,

WHEREAS, not all of the submitted deposit was expended, and pursuant to LAFCO policies, a refund of the unspent balance is due to the applicant; and,

WHEREAS, pursuant to County Auditor procedures, the Commission must approve issuance of a refund from the available fund balance reserve and an accompanying budget adjustment.

NOW, THEREFORE, BE IT RESOLVED AND ORDERED by the Local Agency Formation Commission of the County of San Luis Obispo, State of California, as follows:

1. That the Recitals set forth hereinabove are true, correct, and valid and are hereby incorporated by this reference.
2. That a refund of \$7,801.29 will be issued to the applicant associated with the Dana Reserve Specific Plan annexation into Nipomo Community Services District.
3. That a budget augmentation expenditure increase shall be made to the FY 25-26 budget from \$877,831.00 to \$885,632.29.

Upon a motion of Commissioner _____, seconded by Commissioner _____, and on the following roll call vote:

AYES:

NAYS:

ABSENT:

ABSTAIN:

Heather Moreno, Chairperson Date
Local Agency Formation Commission

ATTEST:

Rob Fitzroy Date
LAFCO Executive Officer

APPROVED AS TO FORM AND LEGAL EFFECT:

Holly Whately Date
LAFCO Legal Counsel