December 12, 2012

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

RE: 2011-2012 Santa Clara County Civil Grand Jury Report Entitled “The Santa Clara Valley Memorial Special District Continues to Fall Short of Good Governance”

Dear Judge Loftus and Members of the Civil Grand Jury:

The Local Agency Formation Commission of Santa Clara County (LAFCO) reviewed the 2011-2012 Santa Clara County Civil Grand Jury Report entitled “The Santa Clara Valley Memorial Special District Continues to Fall Short of Good Governance” at its meeting on December 12, 2012 and approved this letter in response to the Report’s finding and recommendation specifically directed at LAFCO.

FINDING 3
The District has no oversight that would ensure they are fulfilling their special district obligations.

Response:

The respondent partially agrees with the finding. LAFCO, through its service reviews and boundary change process provides a layer of oversight for special districts, but LAFCO does not have the legal authority to ensure that the South Santa Clara Valley Memorial District (SSCVMD) or any other special district is fulfilling their special district obligations. LAFCO, through its service review process, strives to increase the public’s awareness of special districts and to encourage special districts to fulfill their obligations.

Additionally, the County and the State of California can provide a layer of oversight as it relates to the District’s finances, budget, governance and operations (e.g. collection of financial statements and annual budgets, and the ability to investigate alleged violations of the Brown Act or other laws). However, neither the County nor the State...
has the legal authority to ensure that SSCVMD is fulfilling their special district obligations.

Ultimately only the voters in a special district’s boundary have the power, through communications to the district board, election of district board members, initiatives and referenda to ensure that a district is meeting its obligations.

RECOMMENDATION 3

LAFCO should include this district in its next service area review and should expand the review to a performance management review, examining the District’s ability to deliver appropriate services and determine whether the District has the operations knowledge to perform their duties.

Response:

The recommendation is being implemented to the extent feasible. LAFCO is currently conducting a service review of the South Santa Clara Valley Memorial District (SSCVMD) as part of LAFCO’s current Special Districts Service Review. In addition to including the required analysis and written statement of service review determinations, the Service Review will address the following four key areas for each of the affected special districts, as appropriate:

- Purpose of the district at the time of creation, services currently provided by the district, and any changes in the mission of the district or in the needs of the community since the creation of the district
- Opportunities for consolidation of services or changes in governance to reduce costs and/or increase service levels
- Opportunities for increased transparency in operations, management and administration and for increased public accountability of the district
- Benchmarks and standards for measuring the efficiency and effectiveness of the district and opportunities for increasing the district’s efficiency and effectiveness.

Furthermore, LAFCO is aware of the issues and concerns that the Civil Grand Jury has raised regarding the SSCVMD. LAFCO’s Service Review for the District will address these concerns to the extent feasible. It is anticipated that LAFCO’s review of SSCVMD will be completed by May 2013. Such reviews include agency specific recommendations and LAFCO establishes a time-frame for each agency to implement the necessary reforms and to report back to LAFCO on their progress.

We appreciate the Civil Grand Jury’s interest in the South Santa Clara Valley Memorial District and LAFCO of Santa Clara County. Thank you for the opportunity to respond to the finding/recommendation presented in the Report.
Sincerely,

[Signature]

Pete Constant, Chairperson
LAFCO of Santa Clara County

ATTACHMENTS

Attachment A: September 2012 LAFCO Newsletter Entitled “LAFCO Takes a Fresh Look at Special Districts in Santa Clara County”

Attachment B: December 12, 2012 LAFCO Staff Report Re: Approval of Response to 2011-2012 Civil Grand Jury Report Entitled, “The South Santa Clara Valley Memorial Special District Continues to Fall Short of Good Governance”
The Special Districts Service Review will be conducted by LAFCO in two phases and will involve a comprehensive review of all special districts in Santa Clara County (excluding water, fire, and health care districts which were reviewed in recently completed service reviews). Please see insets for information on which agencies will be studied in each phase. The Service Review Report will provide an overview of these agencies, evaluate the provision of services, and recommend actions to promote efficient service delivery. The Report will include sphere of influence recommendations for each of the fifteen districts. In addition to including the required analysis and written statement of service review determinations, the Report will address the following four key areas:

- Purpose of the district at the time of creation, services currently provided by the district, and any change in the mission of the district or in the needs of the community since the creation of the district
- Opportunities for consolidation of services or change in governance to reduce costs and/or increase service levels
- Opportunities for increased transparency in operations, management and administration and for increased public accountability of the district
- Benchmarks and standards for measuring the efficiency and effectiveness of the district and opportunities for increasing the district’s efficiency and effectiveness

Service Review Process

As a first step, LAFCO has established a technical advisory committee (TAC) to serve as a liaison with affected agencies, to help select a consultant for the project and to provide technical expertise/advice throughout the process.

<table>
<thead>
<tr>
<th>TAC Members</th>
<th>Appointed by</th>
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<tr>
<td>Margaret Abe-Koga</td>
<td>LAFCO of Santa Clara County</td>
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<td>LAFCO Commissioner</td>
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<td>Patrick Kwok, Board Member</td>
<td>Santa Clara County</td>
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<tr>
<td>Santa Clara Valley Water District</td>
<td>Special Districts Association</td>
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Matrix Consulting Group, selected through a RFP process, has been retained by LAFCO to conduct the service review. They will be contacting the special districts within the next few days to begin data collection.

**FIRST PHASE**

**Agencies**
- Rancho Rinconada Recreation and Park District
- Santa Clara County Vector Control District
- Santa Clara Valley Transportation Authority
- Saratoga Cemetery District
- South Santa Clara Valley Memorial District
- Santa Clara County Lighting Services Area
- Santa Clara County Library Service Area

**Timeline**

<table>
<thead>
<tr>
<th>Month</th>
<th>Event</th>
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<tr>
<td>Aug 2012</td>
<td>Start project, establish TAC, select consultant</td>
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<tr>
<td>Sept/Oct</td>
<td>Data collection and verification of data by agencies</td>
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<tr>
<td>Nov/Dec</td>
<td>Data analysis, preliminary findings, and preparation of Draft Service Review</td>
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<tr>
<td>Jan</td>
<td>Release Draft Report for public review and comment</td>
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<tr>
<td>Feb</td>
<td>LAFCO public hearing on Draft Report (date TBD)</td>
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<tr>
<td>March</td>
<td>Release Revised Draft Report for public review and comment</td>
</tr>
<tr>
<td>April 2013</td>
<td>LAFCO public hearing on Revised Draft Report (date TBD)</td>
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LAFCO Service Review Responsibilities

State law mandates that each LAFCO conduct service reviews prior to or in conjunction with the sphere of influence updates for districts and cities which must be conducted once every 5 years. The Service Review must include an analysis and written statement of determination regarding each of the following seven categories:

- Growth and population projections for the affected area
- Location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence
- Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including infrastructure 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
- Financial ability of agencies to provide services
- Status of, and opportunities for, shared facilities
- Accountability for community service needs, including governmental structure and operational efficiencies
- Any other matter related to effective or efficient service delivery, as required by commission policy

LAFCO completed a Countywide Fire Service Review in 2010, a Countywide Water Service Review in 2011, and an Audit and Service Review of the El Camino Hospital District in August 2012. Following the completion of the Special Districts Service Review, LAFCO will conduct a service review of cities.

Intended Use of the Service Review Report

The Service Review Report will serve as an information resource on special districts in Santa Clara County for LAFCO, local agencies and the public. Service providers may use the Report to pursue service delivery changes or to further assess the options identified in the Report for providing more efficient services. LAFCO may use the information in the Report when reviewing future proposals for jurisdictional boundary changes. LAFCO, local agencies or the public may use the Report together with additional analysis where necessary, to pursue changes in governance, changes in jurisdictional boundaries or spheres of influence.

Opportunities for Input

In addition to direct communication with special districts, the service review process will include periodic updates to the Santa Clara County Special Districts Association, other stakeholder groups and to LAFCO. Members of the public, interested groups or affected agencies are encouraged to contact LAFCO staff to provide input, to discuss / request that a specific issue be addressed in the report or to obtain more information on the project. Further information on service reviews and on LAFCO is available on the LAFCO website at: www.santaclaralafco.ca.gov.
ATTACHMENT B

LAFCO MEETING: December 12, 2012
TO: LAFCO
FROM: Neelima Palacherla, Executive Officer
      Dunia Noel, Analyst

SUBJECT: Approval of Response to the 2011-2012 Civil Grand Jury Report
Entitled, "The South Santa Clara Valley Memorial Special District
Continues to Fall Short of Good Governance"

RECOMMENDATION

1. Consider and approve, with revisions as necessary, the attached draft response
   (Attachment A) to the 2011-2012 Santa Clara County Civil Grand Jury Report of June
   20, 2012 entitled "The South Santa Clara Valley Memorial Special District Continues
   to Fall Short of Good Governance."

2. Direct staff to forward the response to the Presiding Judge of the Santa Clara County
   Superior Court and the Foreperson of the Civil Grand Jury.

BACKGROUND

On June 20, 2012, the Santa Clara County Civil Grand Jury released a report entitled
"The South Santa Clara Valley Memorial Special District Continues to Fall Short of
Good Governance" (Attachment B). The Grand Jury’s Report contains one finding and
one recommendation directed to LAFCO of Santa Clara County. Specifically:

Finding 3

The District has no oversight that would ensure they are fulfilling their special
district obligations.

Recommendation 3

LAFCO should include this district in its next service area review and should
expand the review to a performance management review, examining the
District’s ability to deliver appropriate services and determine whether the
District has the operations knowledge to perform their duties.

On November 4, 2012, a representative of the Civil Grand Jury (CGJ) contacted LAFCO
staff concerning LAFCO’s failure to respond to the CGJ’s June 20th Report or its October
16th letter (Attachment C). LAFCO staff then informed the CGJ’s representative that the
LAFCO Office had not received their requests and that staff was unaware of these
requests. Upon further research, it was determined that the CGJ had mistakenly sent the
Report and associated letters to the LAFCO Chairperson, without providing a copy to
the LAFCO Office for circulation to the entire Commission. Staff then informed the CGJ’s representative that the Report and LAFCO’s draft response would be placed on the next LAFCO meeting agenda for the Commission’s consideration. Staff also informed the CGJ’s representative that items requiring the Commission’s response should be directed to the LAFCO Office.

Per the CGJ’s June 20, 2012 letter, LAFCO’s response must state whether the Commission agrees with the CGJ’s recommendation or if the Commission disagrees, and explain any disputed portions of the recommendation. In addition, the response must include a report on whether the recommendation has or will be implemented including a time-frame. An explanation should also be provided if any portion of the recommendation will not be implemented.

NEXT STEPS

Upon approval by the Commission, the response (Attachment A) will be forwarded to the Honorable Richard J. Loftus, Jr., who is the Presiding Judge for the Santa Clara County Superior Court, and to the Foreperson of the Civil Grand Jury. A copy will be kept on file with the LAFCO Clerk.

ATTACHMENTS

Attachment A:  Draft Response from LAFCO to the Santa Clara County Civil Grand Jury regarding June 20, 2012 Civil Grand Jury Report

Attachment B:  June 20, 2012 Santa Clara County Civil Grand Jury Report Entitled “The South Santa Clara Valley Memorial District Continues to Fall Short of Good Governance.”

Attachment C:  October 16, 2012 Letter from the Civil Grand Jury.
THE SOUTH SANTA CLARA VALLEY MEMORIAL SPECIAL
DISTRICT CONTINUES TO FALL SHORT OF GOOD
GOVERNANCE

Issue Statement

The Grand Jury received a complaint claiming that the South Santa Clara Valley
Memorial District (District) Board of Directors (Board) was not conducting its business
properly. The District is an independent special district serving veterans in southern
Santa Clara County (County). The Grand Jury undertook an investigation of the
complaint.

Background

A special district is a separate local government that delivers public services to
residents in a geographically defined area. The District was formed in 1946 under the
California Military and Veterans Code.\(^1\) State law defines a special district as "any
agency of the state for the local performance of governmental or proprietary functions
within limited boundaries, and shall not include a school district or community college
district."\(^2\) As an independent special district, it has a governing board of five directors
elected for fixed terms. The board members are not compensated for their services.
The District, like other special districts, receives a portion of the County's 1% property
tax with which to operate. See Appendix A for more on special districts.

Memorial districts were intended to serve returning World War II and other veterans by
offering a social gathering place. The District operates a meeting hall primarily for
veterans' groups. Within that hall is a tenant-operated bar whose patrons must be
members of either the American Legion (AL) or the Veterans of Foreign Wars (VFW).
The hall is occasionally rented to non-veteran users.

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\(^1\) California Military and Veterans Code Sections 1170-1259.
\(^2\) California Government Code Section 53508.9(b)(2).
Methodology

The Grand Jury conducted interviews with three board members and a staff member. The Grand Jury also reviewed available operating and regulatory required documents, past Grand Jury reports, the 2000 "Little Hoover Commission" Report, board meeting minutes and agendas, board members’ training records, required certificates, and operating documents. The Grand Jury also attended two board meetings. A list of documents reviewed is included in Appendix B.

Discussion

The citizen’s complaint alleged the Board had attempted to remove a voter-elected board member, which the Board is not authorized to do. In the course of investigating this allegation, the Grand Jury found additional concerns.

Attempted Removal of a Board Member

On October 19, 2011, four board members held a meeting they called a "closed session" meeting and discussed removing the fifth board member, who was not invited to attend. Three of the four board members voted to remove the absent fifth board member. Both the meeting and the attempt to remove a board member were improper.

As to the meeting, the Ralph M. Brown Act (Government Code §§ 54950-54962) governs meeting access for local public bodies, including the District. District meetings must be "open and public." The District is permitted to hold closed-session meetings, but they are the exception and permitted only for certain matters specified by statute. Special public notice and agenda requirements apply for closed-session meetings. (§§ 54954, 54954.2, 54954.5, 54957.7). The October 19 meeting did not meet the criteria for a proper closed-session meeting. While the Brown Act allows for closed-session meetings when certain personnel matters are being discussed, elected officials are specifically excluded from this exception. Thus, the meeting topic was improper, since a closed session meeting is not permitted to discuss the performance of an elected official. Further, even if they had a permissible subject to discuss, that would require that they meet notice and agenda requirements. They did not.

As to the attempted removal, the Board has no authority to remove a duly elected board member. There are certain mechanisms to remove an elected official. For example, as an elected body, the District board serves at the will of the residents of the District. If voters within a district’s boundaries disapprove of an elected official’s activities, the voters can pursue a recall. A recall allows voters to remove elected board members before their term of office is complete. An elected official can also be removed from

\[3\] California Government Code Section 54957(b)(4).
office upon the filing of an accusation by the Grand Jury and a finding by a jury that the elected official engaged in willful or corrupt misconduct in office. Additionally, an elected official can be removed pursuant to a quo warranto proceeding typically filed by the Attorney General.

The attempted removal of the board member was brought to the attention of Santa Clara County Supervisor Mike Wasserman. He referred the matter to County Counsel. On November 2, 2011, County Counsel provided Supervisor Wasserman with a non-confidential opinion letter stating that the District Board had no lawful authority to remove the absent board member, and that the attempted removal was thus, improper and ineffective.

Supervisor Wasserman mailed County Counsel’s letter to the District the same day he received it. County Counsel is not the legal advisor to the District and Supervisor Wasserman has no authority over the District. The non-confidential letter was apparently sought and provided to the District in an effort to inform the board members about the problems with their removal efforts.

Members of the Grand Jury attended the January 18, 2012 District meeting. During this meeting, and despite the information provided in the County Counsel letter that the removal of a board member was ineffective, a board member directed the District’s recording secretary to not record the voted-out member’s vote. Given that it is the District Board members’ responsibility to vote on the affairs of the District, the board member’s instruction to the secretary to ignore another board member’s vote was tantamount to removal. Further, in spite of being on notice that the Board had no authority to remove a board member, Board members continued to discuss their desire to remove the board member.

The Board failed to seek advice on how to properly perform the desired act of removing a board member. Even though the District was informed by a County Counsel letter that their effort to remove a board member was unlawful and ineffective, certain board members continued to focus their efforts on this result. Following the Grand Jury’s attendance at a Board meeting, the matter was dropped and the member was “reinstated.” This matter reached an unusually high level of public visibility before board members finally dropped their unlawful efforts.

**Business Operations**

The Military and Veteran’s Code lays out the parameters for doing business, including adopting from time to time regulations for the reasonable use of the hall by veterans or organizations of veterans, and to use the hall for lawful purposes that meet the objectives of this code section. The Grand Jury requested the Board to produce documents that summarize their business operation to evaluate whether the District is adhering to the code. Balance sheets were provided, but they did not contain enough information to allow the Grand Jury or members of the public to evaluate whether the District’s actions are in compliance with the code.
The Military and Veterans Code Sections 1221 – 1224 specify the legal requirements for construction and alteration of the hall. The Grand Jury was informed that the Board president hired an architect to draw up plans for a kitchen remodel at a cost of $8,000. This was done without the benefit of competitive estimates and the expenditure was authorized without Board approval. These actions do not meet the code requirements.

**Required Training and Good Governance Documents**

Independent special districts are state entities, but are elected by and answerable only to the voters in the District. The District and its board members have a responsibility to follow the Military and Veterans Code and other legal requirements governing its conduct. Every two years, Board members are required to participate in training that covers general ethics principles and a brief summary of specific laws concerning conflicts of interest, prerequisites of office and government transparency. The District is subject to the Brown Act and the Public Records Act. The Board members must comply with the Political Reform Act, which requires, among other responsibilities, that public officials file Form 700, the Statement of Economic Interest, every year. Form 700s, which are disclosures of personal economic interest, help to ensure financial conflicts of interest are avoided. The above tasks must be completed by all board members.

The Grand Jury’s investigation revealed that the District had no written bylaws, mission statement, or other written operating guidance documents. Further investigation revealed that only two board members had received Brown Act training and certification, but their certification was out of date. None of the board members had submitted the required Conflict of Interest Form 700 Statements, nor had they completed required biennial ethics training.

**SSCVMD Purpose**

The District is governed by the California Military and Veteran’s Code Sections 1170-1259, which provides for veterans’ memorial districts.

Since the District’s purpose is to serve all military veterans within its boundaries, the Grand Jury investigated the District’s outreach and promotion efforts to veterans. The Grand Jury found there to be none. The District, unlike many other memorial districts in the state, does not have a website to communicate its purpose or to promote its services and rates. It is the only independent special district in the county without an e-mail contact address. The Board president’s home address and telephone number are the only contact information available, and this information is only available at the LAFCO website under the topic of special districts.
Oversight or Accountability

The District, along with 27 other special districts in the county, fall under the purview of Local Agency Formation Commission (LAFCO) for Santa Clara County (see Appendix C for more about LAFCO). For this District, LAFCO is primarily responsible for conducting a performance management review every five years. Other than LAFCO, independent special districts are accountable only to the constituents within their district boundaries.

The special district is ultimately accountable to the voters; however, the voters may not be aware that the memorial is a special district funded by their tax dollars or that the voters are ultimately responsible for district oversight.

Conclusions

The Grand Jury found that the District and/or Board members have failed to follow the law in the following respects:

- Attempting to illegally remove one board member
- Conducting an unlawful closed-session meeting on October 16, 2011
- Violating requirements for approving contracts
- Failing to complete required biennial ethics training for all board members
- Failing to complete the Form 700 Statement of Economic Interest Form 700.

Little outreach is performed to inform veterans in south county of the District’s services. Board members told the Grand Jury that they do not fully understand their ethical responsibilities or grasp the legal requirements applicable to the District. The Grand Jury determined that the District is significantly lacking in good governance and good business practices.

While the volunteer District board members give freely of their time and effort, they do so without benefit of meaningful guidance, training, accountability or written procedures. Training, including that required by state law, as well as basic business training, will help in overcoming the issues found.
Findings and Recommendations

Finding 1
The Board is conducting meetings and taking unlawful actions without regard to the legal parameters that govern their conduct.

Recommendation 1
The Board should obtain the required training focused on their ethical, legal, and fiscal responsibilities for being a board member and, in particular, for running a veterans memorial district.

Finding 2
The District does not have a written mission statement or bylaws to guide it in defining and fulfilling the District's purpose, and communicating its function to veterans in the community or the District residents in general.

Recommendation 2
The District should adopt a written mission statement and set of bylaws. This activity could be coordinated with the local chapter of the California Association of Special Districts and modeled after other veterans memorial districts.

Finding 3
The District has no oversight that would ensure they are fulfilling their special district obligations.

Recommendation 3
LAFCO should include this district in its next service area review and should expand the review to a performance management review, examining the District's ability to deliver appropriate services and determine whether the District has the operations knowledge to perform their duties.

Finding 4
The District demonstrates no effort to communicate its mission and operations to all District veterans.

Recommendation 4
The District should communicate its mission and advertise their programs to all veterans in the District. For instance, it could establish a website to promote and welcome all military veterans.
Appendix A: What is a Special District?\textsuperscript{4}

A special district is a separate local government that delivers a single or, in some cases, a number of public services to a geographically limited area. Typically, they are created by the voters within a geographic area defined as the district, to fill a need they want and are willing to tax themselves to have the service delivered.

Special districts have four distinguishing characteristics:

- They are a form of government created by local voters
- They have governing boards
- They provide a focused service and/or the facilities to do so
- They have defined boundaries.

They have the same basic powers as cities and counties.

Special district have both corporate power and tax powers. Their corporate power is the ability to “do something”; their tax power is the authority to raise money to pay for what they do. They operate either under a principal act or a special act. Currently, there are about 50 principal statutes, which local voters can use to create and govern a local special district.

Special districts in can be broken down further into the following categories:

- Independent vs. Dependent
- Enterprise vs. Non-enterprise
- Single Function vs. Multiple Function

An independent special district has a governing board; members are usually elected by the voters within the district and serve fixed terms.

One quarter of California’s special districts are enterprise districts, meaning that they operate like business enterprises charging fees for their services.

Appendix B: List of Documents Reviewed

California Special District Association, *Guide to Special District Laws and Related Codes*, 2007


Marquez, Miguel, Santa Clara County, County Counsel, RE: South Santa Clara Valley Memorial District, Letter to Supervisor Mike Wasserman, County Supervisor, District 1, November 2, 2011

Santa Clara County LAFCO, LAFCO Cost Apportionment: County, Cities, Special Districts – Estimated Costs to Agencies Based on the 2012 LAFCO Budget, PDF Document


Santa Cruz County 2008-2009 Civil Grand Jury, *Who is Watching Our Special Districts?*, Final Report

South Santa Clara Valley Memorial District, *Minutes of December 21, 2011 Board of Directors Meeting*

South Santa Clara Valley Memorial District, *Minutes of January 18, 2012 Board of Directors Meeting*
Appendix C: Local Agency Formation Commission

The Local Agency Formation Commission (LAFCO) is a state-mandated county agency responsible, in part, for establishing new districts and defining physical boundaries for both new and existing cities and special districts. Additionally, LAFCO has regulatory and planning responsibility for the 28 special districts in Santa Clara County. Santa Clara County's LAFCO is governed by five commissioners: two county supervisors, one city council member from San Jose, one city council member from another city in the county (selected by the cities), and one public citizen selected by the other four members. LAFCO is required to conduct service area reviews of the special districts under its purview every five years.
This report was PASSED and ADOPTED with a concurrence of at least 12 grand jurors on this 31st day of May, 2012.

Kathryn G. Janoff  
Foreperson

______________________________  
Alfred P. Bicho  
Foreperson pro tem

______________________________  
James T. Messano  
Secretary