

SAN MATEO



LOCAL AGENCY FORMATION COMMISSION

455 COUNTY CENTER, 2ND FLOOR • REDWOOD CITY, CA 94063-1663 • PHONE (650) 363-4224 • FAX (650) 363-4849

January 14, 2026

To: LAFCo Commissioners
From: Rob Bartoli, Executive Officer
 Sarah Flamm, Management Analyst

Subject: Consideration of Final Municipal Service Reviews for the Town of Woodside and the Town of Portola Valley

Summary & Background

In 1985, San Mateo LAFCo first prepared comprehensive Sphere of Influence (SOI) studies and adopted SOIs for the County's cities and special districts. Subsequently, LAFCo reviewed and updated spheres on a three-year cycle. SOI updates focus on changes in service demand within the boundaries of cities and special districts. In 2003, in order to comply with the newly enacted CKH Act, LAFCo began the process of preparing SOI updates in conjunction with or following a Municipal Service Review (MSR).

This report reviews the following agencies in San Mateo County:

Town of Woodside: The Town of Woodside was incorporated on November 16, 1956 as a general law municipality. As of January 2025, the estimated population is 5,206. The Town covers approximately 12 square miles of rural and suburban San Mateo County. As of November 2025, the Town employs 24.75 Full Time Equivalent staff. The FY2025-26 adopted General Fund budget is \$12,662,540.

Town of Portola Valley: The Town of Portola Valley was incorporated in 1964 as a general law municipality. As of January 2025, the estimated population is 4,286. The Town covers approximately 9 square miles of rural and suburban San Mateo County. As of November 2025, the Town budget includes 15.5 Full Time Equivalent staff. The FY2025-26 adopted General Fund budget is \$8,167,859.

Updates to the Circulation Draft Municipal Service Reviews

San Mateo LAFCo received comments on the Town of Woodside MSR from the San Mateo County Department of Public Works. LAFCo received comments on the Town of Portola Valley MSR from Rebecca Flynn (Town of Portola Valley Council Member), Betsy Morgenthaler (Portola Valley

COMMISSIONERS: VIRGINIA CHANG KIRALY, CHAIR, SPECIAL DISTRICT ▪ ANN DRAPER, VICE CHAIR, PUBLIC ▪ KATI MARTIN, SPECIAL DISTRICT
 ▪ DAVID J CANEPA, COUNTY ▪ DEBBIE RUDDOCK, CITY ▪ STEPHEN RAINALDI, CITY ▪ JACKIE SPEIER, COUNTY ▪

ALTERNATES: NOELIA CORZO, COUNTY ▪ KATHRYN SLATER-CARTER, SPECIAL DISTRICT ▪ GREG WRIGHT, CITY ▪ COLLEEN YOU, PUBLIC

STAFF: ROB BARTOLI, EXECUTIVE OFFICER ▪ SARAH FLAMM, MANAGEMENT ANALYST ▪ TIM FOX, LEGAL COUNSEL ▪
 DIANE ESTIPONA, CLERK

resident and Chair of the Open Space Committee), and Emily Rubin (Intern to Vice Mayor Hufty). Responses to these comments are provided in Attachment C.

The final MSR for the Town of Woodside includes edits to and additional detail regarding the Fair Oaks Sewer Maintenance District and sewer service within the Town of Woodside.

The final MSR for the Town of Portola Valley includes revised data related to the number of parcels served by the West Bay Sanitary District, additional maps showing sewer service areas, and details regarding the allocation of the 1% property tax for parcels within the Town. Also, further detail was added to the discussion regarding the annexation options of the whole Ladera community or portions of Ladera, highlighting areas that the Town should evaluate before undertaking any annexation.

Current Key Issues

The Town of Woodside is a Tax Equity Allocation City, meaning the amount of property tax the Town receives is lower than its neighbors. Property tax is the Town's main source of revenue (51% of proposed revenue in FY2025-26). The adopted FY2025-26 general fund budget is \$12,662,540. In FY2025-26, the Town will pay \$3,120,703 to the County Sheriff for its policing contract. Based on Town projections, costs for the Sheriff contract will continue to grow faster than overall Town revenue. By the end of the current contract term in FY2030-31, the Town estimates that there will be a \$1M gap between the contract cost and general fund revenue. This gap would need to be resolved through use of reserves/fund balance, enhanced Town revenue, or the reduction of service levels provided in the contract.

The Town's 2023-2031 Housing Element addresses how the Town plans to meet its state-mandated Regional Housing Needs Allocation allotment of 323 units by year 2031, including rezoning certain housing sites and allowing a variety of housing types. Currently, the majority of the Town is served by on-site septic systems, however, there are some portions of the Town that receive sewer services from either the Town or from another sewer agency. As development occurs, the Town will need to consider whether expanding public sewer services will be required to support the Housing Element projects.

LAFCo last conducted an MSR and SOI update for the Town of Woodside in 2007. As part of the 2025 MSR, three parcels adjacent to the Town's boundaries in unincorporated County have been identified to be included in the Town's SOI. Each of these three parcels is currently developed with single-family homes utilizing onsite septic systems: 425 West Maple Way (APN 068-100-240), 445 West Maple Way (APN 068-100-260), and 465 West Maple Way (APN 068-100-250). In the future, if the property owners wanted to annex to a city for municipal services, the only city that they are adjacent to and hence would be eligible to annex to would be the Town of Woodside.

The Town of Portola Valley is a Tax Equity Allocation City, meaning the amount of property tax the Town receives is lower than its neighbors. Property tax is the Town's main source of revenue (53% of proposed revenue in FY2025-26). The Town has had a structural deficit for its General Fund since FY2021-22 necessitating the use of reserve funds to balance the budget. One of the largest drivers of rising costs has been the contract with the San Mateo County Sheriff's Office. From FY2018-23, the annual contract amount for Sheriff services was \$1.49M. Under the FY2023-25 two-year contract, the annual cost increased by 59% to \$2.38M. It is anticipated that the cost

of the contract with the Sheriff's Office will continue to outpace Town revenue. The Town Managers of Portola Valley and Woodside are conducting preliminary discussions regarding sharing a contract with the Sheriff's Office.

In order to balance the budget and not impact the Town's general fund reserve, the Town will need an additional \$1M in expenditure cuts in FY2026-27 through FY2029-30. The Town's reserve fund is on pace for a deficit by FY2029-30 without a new revenue source. The Town is currently exploring potential revenue measures to address this structural deficit.

The Town is behind on its financial audits, having only in September 2025 completed the FY2021-22 Annual Comprehensive Financial Report (ACFR). The Town has adopted a work program to catch up on outstanding audits, however, the lack of audited budget numbers has hindered fiscal forecasting.

Currently, due to budget constraints, the Town has adopted a one-year Capital Improvement Program (CIP) for FY2025-26 related to roads, storm drains, trails and IT enhancements. This CIP only identifies projects that will have expenditures in the upcoming fiscal year. According to Town staff, an expanded and compressive five-year CIP is currently being drafted and will be adopted as part of the budget cycle for FY2026-27.

The Town has a compliant 2023-31 Housing Element, but there were challenges in having the plan approved by the State. The Town is required to plan for 253 units, which is four times the amount required in the previous Housing Element. The formation and approval of the Housing Element plan required over \$1M for staff, consultants, and legal services. The Town has budgeted additional funds for the current fiscal year to implement the programs and policies associated with the newly adopted Housing Element.

MSR Determinations and Recommendations for the Town of Woodside

I. Growth and Population Determination: Over the next five years, the population of the Town of Woodside (5,206) is projected to grow between 2-4%. The Town's 2023-2031 Housing Element addresses how the Town plans to meet its state-mandated Regional Housing Needs Allocation allotment of 323 units by year 2031, including rezoning certain housing sites and allowing a variety of housing types. Ultimately, the Town will need to consider whether expanding public sewer services is required for the planned housing sites.

Recommendation:

1. The Town should continue to evaluate potential options for providing sewer services within the Town, particularly if these services are required to support the development of properties identified in the Town's adopted Housing Element.

II. Disadvantaged Unincorporated Communities Determination: The Town's sphere of influence and corporate boundaries do not include disadvantaged unincorporated communities.

Recommendation: None

III. Capacity and Adequacy of Public Facilities and Services Determination: Based on Town projections, costs for the Sheriff contract will continue to grow faster than overall Town revenue. By the end of the current contract term in FY2030-31, the Town estimates that there will be a \$1M gap between the contract cost and Town General Fund revenue. This gap would

need to be resolved through use of reserves/fund balance, enhanced Town revenue, or the reduction of service levels provided in the contract.

The Town is currently exploring options for increased access to sewer services. In general, existing sewer services within the Town are in the areas around Cañada Rd. and Woodside Rd., meaning that most areas in the Town are not in the vicinity of sewer services. With no sewer treatment facility within Town boundaries, sewer service is reliant on treatment allocation from the City of Redwood and the Fair Oaks Sewer Maintenance District (FOSMD), and physical transport capacity from FOSMD and further downstream from the City of Redwood City, which have their own development pressures to address.

Recommendations:

2. The Town should have regular meetings with the FOSMD/County to align policies and processes on sewer allocations to parcels within the Town, especially in the Redwood Creek Sewer Assessment (RCS) area.
3. The Town and FOSMD/County should evaluate ways of streamlining the process for executing of a Town-FOSMD transport supplement agreement for when parcels are annexed to FOSMD that are outside of RCS. The boundaries and service area of FOSMD should be reviewed so that the current and future geographical boundaries of the District are clearly delineated for all parties involved (i.e. the Town, FOSMD, LAFCo, and residents). The agencies should seek alignment on the topic of what happens to district boundaries when reallocating unused RCS sewer connections to parcels outside of RCS and outside of FOSMD. Area plans depicting the probable extent of sewer service boundaries should be developed.
4. An audit of parcels in the Redwood Creek Sewer Assessment area should be conducted to identify which parcels have been connected to the FOSMD system, determine which connections are still outstanding, and to confirm which parcels have paid assessment fees. The audit should also review information about the sewer system flow and treatment capacity for FOSMD and the Town including verification that sufficient sewer assessments remain available for parcels within the original service area after any are granted to parcels outside of RCS.
5. In addition to the ongoing “Sanitary Sewer Master Plan” study by Freyer and Laureta, Inc., the Town should conduct a sewer feasibility study for areas in the Town that are outside, and contiguous to, existing sewer service boundaries. In areas where topography or parcel size could limit septic system replacement, a sewer system would be required for new development or to replace a failed septic system. The study should evaluate sewer service priority areas in Town that are outside of the current assessment districts and determine, how services could be provided, and how these services would be financed. This study would also provide neighboring and/or partner agencies visibility into Town priorities and objectives related to sewer services, and help evaluate potential impacts to their infrastructure.

IV. Financial Ability Determination: LAFCo staff has not identified any issues with the Town’s budgeting practices. The Town’s adopted general fund operating budget for FY2025-26 totals \$12,662,540. The estimated operating reserve amount is \$3,666,254. The Town of Woodside has a five-year Capital Improvement Program for which funding has been identified for approximately 93% of anticipated costs. The Town of Woodside is classified as Tax Equity

Allocation jurisdiction, which limits the amount of property tax that the Town receives. The Town general fund primary revenue source is property tax (51% of proposed revenue in FY2025-26). The Town staff and Council has expressed concerned about the continued increase in the cost of the Sheriff's Office contract and will continue to monitor the impact of the contract on the Town's general fund.

Recommendation: None

- V. Shared Service and Facilities Determination:** The Town has agreements and partnerships with various organizations. Contracting for services has the benefit of enabling the Town to adjust service levels depending on budget and needs.

Recommendation:

6. The Town should continue discussions with the Town of Portola Valley regarding the possibility of a joint contract with the Sheriff's Office for police services, as well as explore other opportunities for shared services or contracts.

- VI. Accountability, Structure, and Efficiencies Determination:** The Town of Woodside is general law city and utilizes a Council-Manager form of government. The five city council members are elected by District. Town Council meetings are held in-person at 7pm at Independence Hall, 2955 Woodside Road on the 2nd and 4th Tuesday of every month. The public may attend meetings in-person or online via Zoom. Public comment is accepted via Zoom as well as in-person. LAFCo has no current concerns regarding the governance accountability, structure or efficiencies of the Town.

Recommendation: None

- VII. Other Issues Determination:** The Town participates in the Local Hazard Mitigation Plan. It has an Emergency and Preparedness Committee. The Town works with the Woodside Fire Protection District for hazard mitigation efforts, including a matching fund program for homeowner's to enhance their defensible space and home hardening.

Recommendation:

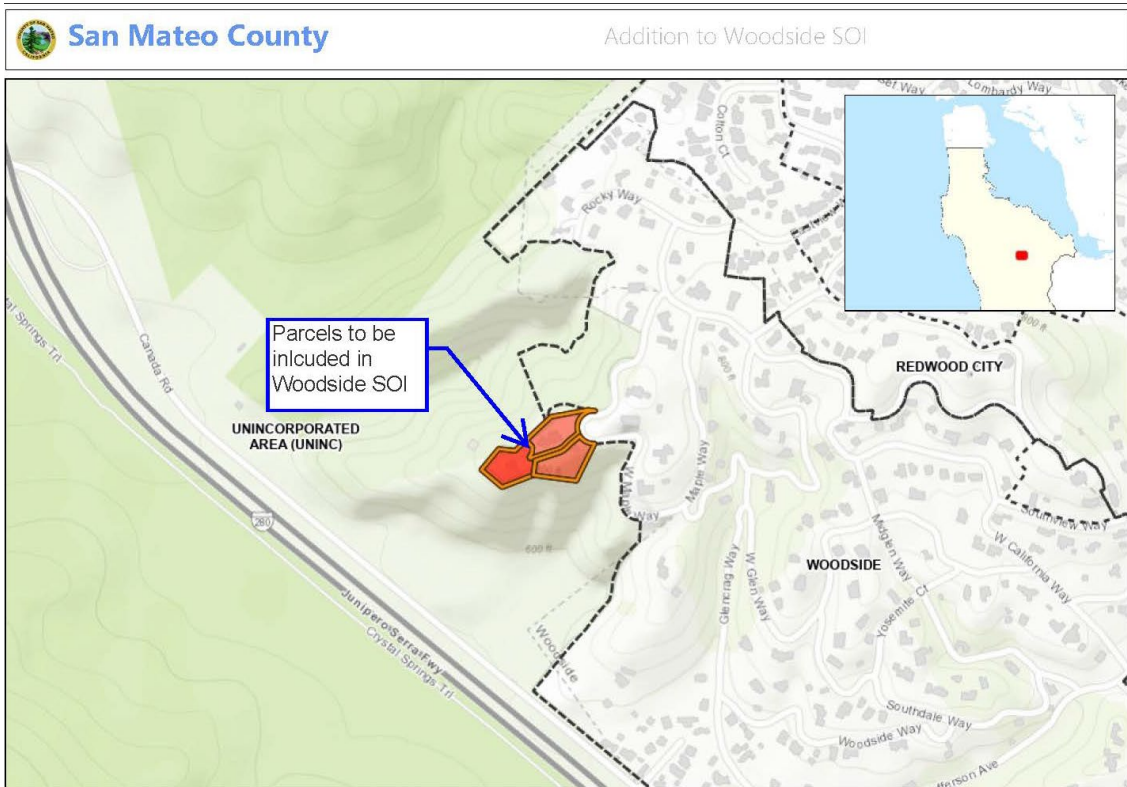
7. LAFCo encourages the Town of Woodside to continue its work in the areas of natural hazard mitigation and wildfire preparedness and to continue to coordinate with partner agencies.

Sphere of Influence Determinations for the Town of Woodside

- I. The present and planned land uses in the area, including agricultural and open space lands:** Land use designations within the Town of Woodside are Residential, Open Space, and some limited Community Commercial. Agricultural uses are permitted for those parcels designated as Open Space. The Town's General Plan emphasizes the preservation and protection of open space and environmentally sensitive areas.
- II. The present and probable need for public facilities and services in the area:** The Town of Woodside meets the municipal service needs of its residents and businesses. The Town anticipates that it will be able to provide adequate facilities and services for the anticipated growth within its service area. The current SOI for the Town includes the unincorporated communities of Guernsey Field, Jasper Ridge, and western hills along Skyline Blvd./Highway

35. In reviewing the Town’s SOI and surrounding parcels, three parcels along West Maple Way near the northern boundary of the Town have been identified to be included in the Town’s SOI. These three parcels, 425 West Maple Way (APN 068-100-240), 445 West Maple Way (APN 068-100-260), and 465 West Maple Way (APN 068-100-250) are located in unincorporated County but are adjacent to the Town’s boundaries; the roadway of West Maple Way is already in Town boundaries as are the houses across the street.

Figure 1. Proposed Additions to the Town of Woodside SOI



Each of the three parcels is currently developed with single-family homes utilizing onsite septic systems. The three parcels are bordered by SFPUC Watershed lands to the north, south, and west. To the east is the Town of Woodside. The three parcels to be included in the Town’s SOI share similar characteristics of parcels within the Town. In the future, if the property owners wanted to annex to a city for municipal services, the only city that they are adjacent to and hence would be eligible to annex to would be the Town of Woodside. For these reasons, LAFCo is recommending that these parcel be included in the Town’s SOI.

III. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide: The Town of Woodside currently provides adequate public services to its residents, including police protection (via contract), sanitary sewer, and storm water services. In addition, the Town routinely adopts a Capital Improvement Program to fund critical repairs, replacements and improvements to the Town’s infrastructure and facilities.

IV. The existence of any social or economic communities of interest in the area if the Commission determines that they are relevant to the agency: There are no disadvantaged unincorporated communities within the SOI of the Town of Woodside.

- V. 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, that occurs pursuant to Section 56425(g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence:** There are no disadvantaged unincorporated communities within the Town's boundaries, or in the Town's Sphere of Influence.

MSR Determinations and Recommendations for the Town of Portola Valley

As required by State law, there are seven areas of MSR determination, including local policies as set forth in Section 56430. LAFCo has the following determinations and recommendations:

- I. Growth and Population Determination:** Over the next five years, the population of the Town of Portola Valley (4,286) is projected to grow between 2-4%. The Town's 2023-2031 Housing Element addresses how the Town plans to meet its state-mandated Regional Housing Needs Allocation allotment of 253 units by year 2031. The Town hired a consultant to support the work associated with implementing the Town's Housing Element plans and programs.

Recommendation: None.

- II. Disadvantaged Unincorporated Communities Determination:** The Town's sphere of influence and corporate boundaries do not include disadvantaged unincorporated communities nor does the Town provide sewer, municipal and industrial water, or structural fire protection services.

Recommendation: None

- III. Capacity and Adequacy of Public Facilities and Services Determination:** The Town meets the service needs of existing development within its sphere of influence and corporate boundaries. However, the cost of the present policing contract with the County Sheriff's office is anticipated to continue outpacing Town revenue, leading to a structural deficit and negatively impacting the finances of the Town.

Currently, due to budget constraints, the Town has adopted a one-year Capital Improvement Program (\$1.36M for FY2025-26). An expanded and compressive five-year CIP is anticipated to be created and adopted as part of the budget cycle for FY2026-27.

The Town does not provide sewer services, however the independent special district West Bay Sanitary District does. Developers and homeowners in Town may choose to switch from onsite septic systems to sewer services by first annexing their property into WBSD. Homeowners are responsible for applying for annexation and for paying the cost of extended sewer infrastructure.

Recommendations:

1. LAFCo encourages the Town to develop a comprehensive Capital Improvement Program and to review this plan against proposed housing development projects.
2. LAFCo encourages the Town to continue to coordinate with the West Bay Sanitary District and LAFCo in regards to future annexations of parcels to the Sanitary District for new sewer service

IV. Financial Ability Determination: The Town of Portola Valley is classified as Tax Equity Allocation (TEA) city. The primary source of general fund revenue is property tax and the accompanying TEA (53% of proposed revenue in FY2025-26). Town staff project that without additional revenue, expenses will exceed revenue by FY2027-28. In order to balance the budget and not impact the Town's general fund reserve, the Town will need an additional \$1M in expenditure cuts in FY2026-27 through FY2029-30. The Town's reserve fund would be in deficit by FY2029-30 without a new revenue source. The Town is aware of these issues and has presented reports and fiscal forecasts to the Town Council and the public. Currently, the Town is exploring potential revenue measures to address this structural deficit.

The Town is behind on its financial audits, having only recently completed the FY2021-22 Annual Comprehensive Financial Report (ACFR). The Town has adopted a work program to catch up on outstanding audits, however, the lack of audited budget numbers has hindered fiscal forecasting. The Town Council and management can benefit by making current financial data available as early as possible in the budgeting and planning process. According to a 2023 Krisch & Company report, there were several deficiencies related to internal controllers, accounting, and workflow in the Town's Finance Department. The Town has been working to implement these recommendations.

Recommendations:

3. LAFCo supports the Town's efforts to evaluate new potential revenue sources and encourages the Town to continue to explore revenue and expenditure options related to the Town's General Fund in order to adopt a balance annual budget.
4. LAFCo encourages the Town to adopt a long-term, comprehensive Capital Improvement Program for Town infrastructure projects.
5. LAFCo recommends that the signed resolutions for the adoption of the annual budgets and appropriation limits be uploaded to the Town's budget webpages.
6. The Town should continue to provide updates to the Town Council and the public regarding the finances of the Town and explore additional opportunities to enhance transparency related to finance documents and reports. This could include the creation of a webpage that provides a summary of the current and recent past financial information related to the Town's General Fund, reserve funds, and audits all in one location.
7. Budget documents and staff financial reports should explicitly show the amount of funds allocated to the Town's fund balance.

V. Shared Service and Facilities Determination: The Town of Portola Valley partners with several agencies to share resources and reduce costs. The Towns of Portola Valley and Woodside are currently reviewing police service options for future fiscal years.

Recommendations:

8. The Town should continue discussions with the Town of Woodside regarding the possibility of a joint contract with the Sheriff's Office for police services, as well as explore other opportunities for shared services or contracts.

9. LAFCo encourages the Town and the Los Trancos County Maintenance District to work together on stormwater management plans for areas that may be impacted by stormwater originating from the unincorporated area of Los Trancos Woods.

VI. Accountability, Structure, and Efficiencies Determination: There are no recommended actions to change the Town's governance structure in the MSR, however several options have been discussed by the Town Council and Town committees in the context of addressing the Town's budget and structural deficit. In recognition of these discussions, this report outlines several types of governance changes but makes no proposal to implement any option. There do not appear to be any issues with public meetings being accessible and well publicized. As highlighted in Section 4, the Town is behind on conducting audited financial statements, with the most recent audit completed for FY2021-22 in September 2025. The Town has a workplan to catch up on financial audits and is currently implementing the plan. The Town has experienced high levels of staff turnover in the past 3 years and is in the process of recruitment and evaluation of opportunities to hire staff on contract for certain positions. The Town has a culture of volunteerism, and there are approximately 125 volunteer members currently serving on Town standing committees and commissions.

Recommendation:

10. LAFCo recommends that the Town continue the process of implementing the audit workplan for past audits, and that a work program or policy be adopted to ensure that future audits are conducted in a timely manner.

VII. Other Issues Determination: The Town participates in the Local Hazard Mitigation Plan. It has several committees that work in cooperation with Town staff to address emergency preparedness.

Recommendation:

11. LAFCo encourages the Town of Portola Valley to continue its work in the areas of natural hazard mitigation and wildfire preparedness and to continue to coordinate with partner agencies.

Proposed Sphere of Influence Determinations for the Town of Portola Valley

As required by State law, LAFCo is required to make five written determinations when establishing, amending, or updating an SOI for any local agency as set forth in Government Code Section 56425(e) that addresses the following:

- I. **The present and planned land uses in the area, including agricultural and open-space lands:** The Town of Portola Valley is comprised primarily of residential land use, with some commercial/office, open space, and institutional land use. The District boundaries contain land that is under the jurisdiction of the County of San Mateo, the Mid-Peninsula Open Space District, as well as other agencies that have land use review authority.
- II. **The present and probable need for public facilities and services in the area:** The Town meets the needs of its residents and businesses for municipal services, and the Town anticipates that it will be able to provide adequate facilities and services for the anticipated growth within its service area.

- III. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide:** The Town currently provides adequate public services to its residents, including public works, planning, recreation, police protection (via contract) and storm water services. In addition, the Town routinely adopts a Capital Improvement Program to fund critical repairs, replacements and improvements to the Town's infrastructure and facilities.
- IV. The existence of any social or economic communities of interest in the area if the Commission determines that they are relevant to the agency:** There are no disadvantaged unincorporated communities within the SOI of the Town of Portola Valley.
- V. For an update of a SOI of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, that occurs pursuant to Section 56425(g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence:** No change to the SOI for the Town of Portola Valley is proposed at this time.

Public/Agency Involvement: The primary source of information used in this report was collected from publicly available agency-adopted plans, budgets, reports, and policies. Information received by San Mateo LAFCo in response to requests for data from the Town of Portola Valley, the Town of Woodside, and West Bay Sanitary District has been incorporated into this report.

LAFCo staff presented the draft report to the Town of Woodside Town Council December 9, 2025. LAFCo staff also held a virtual community workshop for the Draft Portola Valley MSR on January 8, 2026 at 6:30pm to allow the public to ask questions and provide additional comments on the report. Seven members of the public attended the workshop.

Environmental Review/CEQA: The MSR is categorically exempt from the environmental review requirements of the California Environmental Quality Act (CEQA) under Section 15303, Class 6, which allows for the basic data collection, research, experimental management, and resource evaluation activities that do not result in a serious or major disturbance to an environmental resource. The MSR collects data for the purpose of evaluating municipal services provided by an agency. There are no land use changes or environmental impacts created by this study.

The MSR is also exempt from CEQA under section 15061(b)(3), the commonsense provision, which states that CEQA applies only to projects which have the potential to cause a significant effect on the environment and where it is certain that the activity will have no possible significant effect on the environment, the activity is exempt from CEQA.

The MSR and SOI update will not have a significant effect on the environment as there are no land use changes associated with the documents.

Staff Recommendations to Commission:

1. Open the public hearing and accept public comment.
2. Accept the Final Municipal Service Reviews and Sphere of Influence Updates for the Town of Woodside and Town of Portola Valley
3. Adopt the Determinations and Recommendations contained in this report.

Attachments

- A. Final Municipal Service Review for the Town of Woodside
- B. Final Municipal Service Review for the Town of Portola Valley
- C. Response to public comments received (To be provided under separate cover)
- D. Resolution 1346
- E. Resolution 1347



LOCAL AGENCY FORMATION COMMISSION

**Municipal Service Review and Sphere of Influence
Review for the Town of Portola Valley**

Final

Released January 14, 2026

Municipal Service Review and Sphere of Influence Review for the Town of Portola Valley

SUBJECT AGENCY:

Town of Portola Valley

765 Portola Rd.

Portola Valley, California 94028

Contact: Darcy Smith, Town Manager, (650) 851-1700

CONDUCTED BY:

San Mateo Local Agency Formation Commission

455 County Center, 2nd Floor

Redwood City, CA 94063

(650) 363-4224

Commissioners:

Ray Mueller, Chair, County Member

Virginia Chang Kiraly, Vice Chair, Special District Member

Jackie Speier, County Member

Ann Draper, Public Member

Kati Martin, Chair, Special District Member

Debbie Ruddock, City Member

Stephen Rainaldi, City Member

Commission Alternates:

Noelia Corzo, County Member

Colleen You, Public Member

Katheryn Slater-Carter, Special District Member

Greg Wright, City Member

Staff:

Rob Bartoli, Executive Officer

Sarah Flamm, Management Analyst

Diane Estipona, Commission Clerk

Tim Fox, Legal Counsel

Table of Contents

Section I. Executive Summary	2
Section II. Summary of Key Issues	4
Section III: Affected Agencies.....	5
Section IV: Municipal Service Review for the Town of Portola Valley.....	5
Town of Portola Valley MSR Determination Summary	6
1) Growth and Population.....	7
2) Disadvantaged Unincorporated Communities	9
4) Financial Ability	16
5) Shared Service and Facilities.....	24
6) Accountability, Structure, and Efficiencies	26
7) Other Issues	31
Section 6. Town of Portola Valley Sphere of Influence Determinations.....	32
Appendix A. Town of Portola Valley Fact Sheet.....	34

Section I. Executive Summary

Purpose of Report

This report includes a Municipal Service Review (MSR) and Sphere of Influence (SOI) study for the Town of Portola Valley. California Government Code Section 56430 requires that Local Agency Formation Commissions (LAFCo's) complete MSR and SOI reviews on all cities and special districts. These state-mandated reports are studies of an agency's service provision and logical boundaries. The review process is intended to identify municipal service delivery challenges and opportunities, provide the public and affected agencies with a platform to comment on an agency's services and finances, and review opportunities to share governmental resources. Once the MSR determinations are adopted, the SOI—the plan for the boundaries of a city or special district— is reviewed, pursuant to Section 56425.

San Mateo Local Agency Formation Commission

San Mateo LAFCo is a State-mandated, independent entity with county-wide jurisdiction over the boundaries and organization of cities and special districts. LAFCo reviews annexations, detachments, incorporations, formations, and dissolutions. LAFCo also has authority over extensions of service outside city or district boundaries, and activation or divestiture of special district powers. The purpose of LAFCo includes discouraging urban sprawl, preserving open space and prime agricultural lands, planning for the efficient provision of government services, and encouraging the orderly formation and development of local agencies based upon local conditions and circumstances.

LAFCo operates pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act) contained in California Government Code Sections 56000 and 57000. The Commission includes two members of the County Board of Supervisors, two city councilmembers from two of the County's 20 cities, two special district board members from two of the 21 independent special districts, one member of the public, and four alternate members (county, city, special district, and public).

In 1985, San Mateo LAFCo first prepared comprehensive SOI studies and adopted SOI's for the County's cities and special districts. Subsequently, LAFCo reviewed and updated SOI's on a three-year cycle. SOI updates focus on changes in service demand within the boundaries of cities and special districts. In 2003, in order to comply with the newly enacted CKH Act, LAFCo began the process of preparing SOI updates/reviews in conjunction with or following a Municipal Service Review.

Local Government in San Mateo County

Municipal service providers in San Mateo County include the County of San Mateo, 20 cities, 21 independent special districts, six subsidiary districts governed by city councils, and 33 County-governed special districts. Independent special districts provide a limited set of services based on their enabling legislation (i.e., fire, water, sanitation, etc.), while cities generally provide a wider array of basic services including police, recreation programs, planning, street repair, and building inspection. The County, as a subdivision of the State, provides a vast array of services for all residents across its cities, special districts and subsidiary districts, including social services, public

health protection, housing programs, property tax assessments, tax collection, elections, and public safety. The County also provides basic municipal services for residents who live in unincorporated areas who are not part of any city or special district. According to Census 2020 data, 63,205 of the County's total 765,417 residents live in unincorporated areas.

MSR and SOI Determinations

Per Government Code Section 56430, LAFCo is required to include MSR Determinations that address the following areas for any local agency:

1. Growth and population projections for the affected area.
2. The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the SOI.
3. Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies.
4. Financial ability of the agency to provide services.
5. Status of, and opportunities 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 LAFCo policy.
 - a. Water Resiliency and Climate Change
 - b. Impact of Natural Hazards and Mitigation Planning

MSR Determinations must be adopted before the Commission updates or amends a SOI. Per Government Code Section 56425, LAFCo is required to make the following five written SOI determinations when establishing, amending, or updating an SOI for any local agency:

1. The present and planned land uses in the area, including agricultural and open-space lands.
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, that occurs pursuant to Section 56425(g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

Report Review Process

This Circulation Draft Report is presented during a public hearing and afterwards circulated for comment to the agency under study, as well as interested individuals and groups. The Final Report will include the comments on the draft, as well as LAFCo staff's Determinations and Recommendations. This report has been written based on source documents that included

Adopted Budgets, Capital Improvement Plans, Meeting Minutes, Staff Reports, Consultant Reports, and information provided by Town and County staff.

Disadvantaged Unincorporated Communities

In 2011, SB 244 (Chapter 513, Statutes of 2011) made changes to the CKH Act related to “disadvantaged unincorporated communities,” including the addition of MSR determination #2 and SOI determination #5 listed above. Disadvantaged unincorporated communities, or “DUCs,” are inhabited, unincorporated 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. There are no disadvantaged unincorporated communities within the current boundaries or service area of the Town of Portola Valley.

Section II. Summary of Key Issues

The Town of Portola Valley is a Tax Equity Allocation city, meaning the amount of property tax it receives is lower than its neighbors. Property tax is the Town’s main source of revenue (53% of proposed revenue in FY2025-26). The Town has had a structural deficit for its General Fund since FY2021-22 necessitating the use of reserve funds to balance the budget. One of the largest drivers of rising costs has been the contract with the San Mateo County Sheriff’s Office. From FY2018-23, the annual contract amount for Sheriff services was \$1.49M. Under the FY2023-25 two-year contract, the annual cost increased by 59% to \$2.38M. It is anticipated that the cost of the contract with the Sheriff’s Office will continue to outpace Town revenue. The Town Managers of Portola Valley and Woodside are conducting preliminary discussions regarding sharing a contract with the Sheriff’s Office.

In order to balance the budget and not impact the Town’s general fund reserve, the Town will need an additional \$1M in expenditure cuts in FY2026-27 through FY2029-30. The Town’s reserve fund is on pace for a deficit by FY2029-30 without a new revenue source. The Town is currently exploring potential revenue measures to address this structural deficit.

The Town is behind on its financial audits, having only recently completed the FY2021-22 Annual Comprehensive Financial Report (ACFR). The Town has adopted a work program to catch up on outstanding audits, however, the lack of audited budget numbers has hindered fiscal forecasting.

Currently, due to budget constraints, the Town has adopted a one-year Capital Improvement Program (CIP) for FY2025-26 related to roads, storm drains, trails and IT enhancements. This CIP only identifies projects that will have expenditures in the upcoming fiscal year. According to Town staff, an expanded and compressive five-year CIP is anticipated to be created and adopted as part of the budget cycle for FY2026-27.

The Town has a compliant 2023-31 Housing Element, but there were challenges in having the plan approved by the State. The Town is required to plan for 253 units, which is four times the amount required in the previous Housing Element. The formation and approval of the Housing Element plan required over \$1M for staff, consultants, and legal services. The Town has budgeted additional funds for the current fiscal year to implement the programs and policies associated with the newly adopted Housing Element.

Section III: Affected Agencies

Cities/Towns and County: San Mateo County

School Districts: Sequoia Union High School District, Portola Valley Elementary School District

Independent Special Districts: Midpeninsula Regional Open Space District, Woodside Fire Protection District, West Bay Sanitation District

Dependent Special Districts: Los Trancos County Maintenance District

Section IV: Municipal Service Review for the Town of Portola Valley

Governance and Statutory Authority

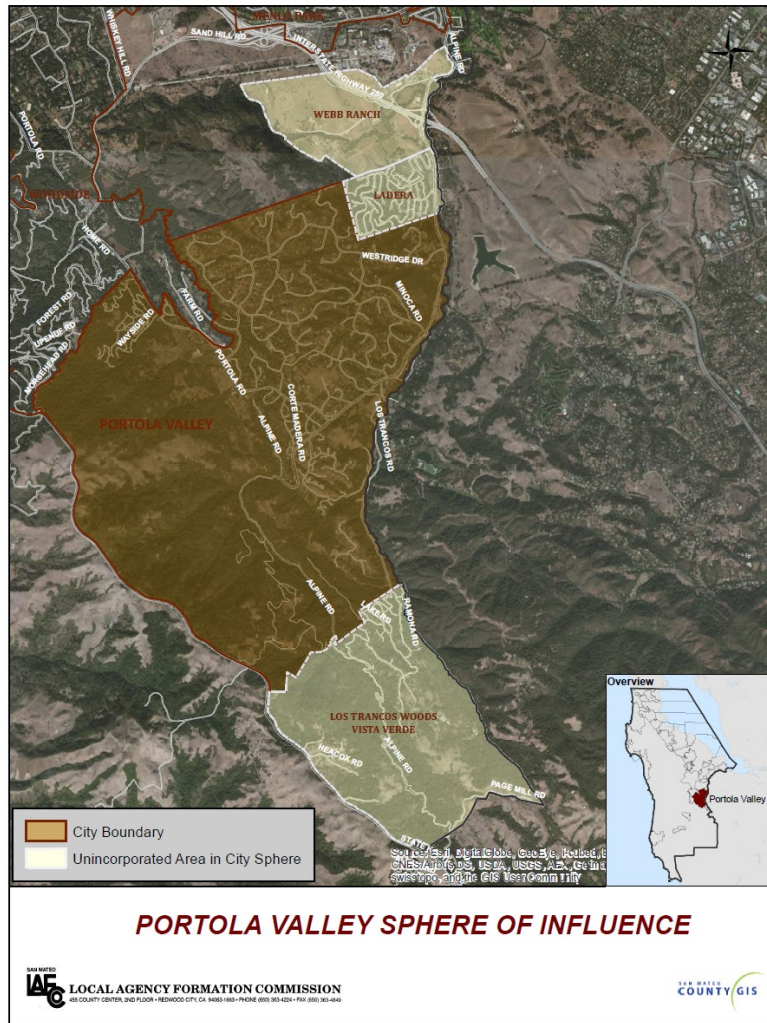
The Town of Portola Valley was incorporated in 1964 as a general law municipality. As of January 2025, the estimated population is 4,286.¹ The Town covers approximately 9 square miles of rural and suburban San Mateo County. The Town’s legislative body is the Portola Valley Town Council comprised of five members elected in at-large district elections to serve four-year terms. The Town Council annually appoints the positions of Mayor and Vice Mayor. The Town Council also appoints the Town Manager, Town Attorney, and all members of advisory committees and commissions. The Town Council budgets all revenues; adopts ordinances, policies and regulations; establishes fee schedules; and has the authority to declare an emergency. As of November 2025, the Town budget includes 15.5 Full Time Equivalent (FTE) staff. The Town Council establishes staff salary ranges.

Overview

The Town of Portola Valley provides finance, public works, engineering, building, planning, code enforcement and recreation services. Police services are provided through a contract with the San Mateo County Sheriff’s Office. Fire protection is provided by the Woodside Fire Protection District. Water service is provided by Cal Water. Portions of the Town receive sewer service from the West Bay Sanitary District. The Town’s sphere of influence is the 1984 Town limit boundary, plus the unincorporated communities of Ladera, Los Trancos Woods/Vista Verde, and Webb Ranch, see Figure 1.

¹ State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2024 and 2025. Sacramento, California, May 2025.

Figure 1. Town of Portola Valley Sphere of Influence Map



Source: San Mateo County Information Services Department

The MSR determinations checked below are potentially significant, as indicated by “yes” or “maybe” answers to the key policy questions in the checklist and corresponding discussion on the following pages. If most or all determinations are not significant, as indicated by “no” answers, the Commission may find that an MSR update is not warranted.

Town of Portola Valley MSR Determination Summary

	1) Growth and Population		2) Disadvantaged Unincorporated Communities
X	3) Capacity, Adequacy & Infrastructure to Provide Services	X	4) Financial Ability
X	5) Shared Services	X	6) Accountability, Structure, and Efficiencies
	7) Other		

1) Growth and Population

Growth and population projections for the affected area.	<i>Yes</i>	<i>Maybe</i>	<i>No</i>
a) Is the agency’s territory or surrounding area expected to experience any significant population change or development over the next 5-10 years?		X	
b) Will population changes have an impact on the subject agency’s service needs and demands?		X	
c) Will projected growth require a change in the agency’s service boundary?			X

a-c) As of January 2025, the estimated population is 4,286.² The Town’s population is estimated to grow between 2-4% in the ten years between 2020 through 2030, which is less than the projected growth rates for the County of San Mateo (8%) and the State of California (9%).

The Town of Portola Valley is characterized by steep canyons and gullies with dense vegetation interspersed throughout low density residential neighborhoods. The Midpeninsula Regional Open Space District owns over 1,000 acres of protected public open space within the Town limits. The potential for further development in Town is limited by geological regulations, wildfire hazards, and very steep terrain. Most of the remaining vacant land in Town is in steep areas. The Town Land Use Element states that general objectives include to maintain the “rural atmosphere of Portola Valley,” “minimize the need for non-local traffic”, and to “encourage the use of renewable energy sources while preserving the scenic and aesthetic qualities of the area.”³

Housing Element

The Town’s 2023-31 Housing Element includes policies and programs designed to meet the Regional Housing Needs Allocation (RHNA) mandated by the State Department of Housing and Community Development (HCD). The Town’s “Cycle 6” RHNA is 253 units, which is 4 times the RHNA amount of 64 units identified in the “Cycle 5” (2015-2023) allocation.⁴ While the Housing Element represents the Town’s plan for development of the requisite Cycle 6 RHNA over the 8-year period from 2023-31, the actual development of the 253 units could occur within this same time frame or at a later date. Therefore, as identified by LAFCo, there is not proposed to be significant population change within the Town of Portola Valley in the next 5-10 years.

The 2023-31 Housing Element contains the following nine policies:

² State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2024 and 2025. Sacramento, California, May 2025.

³ Portola Valley Land Use Element, May 10, 2023

⁴ State guidelines recommend including a buffer of additional units to adequately plan to meet the allocation. The Town elected to include a 20% buffer in addition to the base allocation for a total of 304 planned units. For comparison, the neighboring Town of Woodside has a Cycle 6 RHNA base allocation of 328 units. See Section 7: “Goals, Policies and Programs,” 2023-2031 Housing Element Town of Portola Valley.

- Policy 1: Allow for new housing through new General Plan land use classifications for multi-family and mixed-use districts, an opt-in housing program, and other programs.
- Policy 2: Create a well-managed affordable housing program that preserves affordability in perpetuity.
- Policy 3: Develop housing on town or non-profit owned parcels where feasible.
- Policy 4: Revise standards and approval process to reduce cost and uncertainty for affordable housing and lower cost market rate housing
- Policy 5: Improve the development review process to reduce uncertainty and encourage development that fits with the Town’s objective standards while preserving rural character.
- Policy 6: Continue to refine fire resistant building standards and land use policies to ensure they utilize the most up to date science in preparation for wildfire resiliency
- Policy 7. Promote Accessory Dwelling Units (ADU) and Junior Accessory Dwelling construction and affordability and encourage programs that would increase the diversity of ADU occupants.
- Policy 8: Encourage and support the enforcement of laws and regulations prohibiting discrimination in lending practices and in the sale or rental of housing.
- Policy 9: Assist in the development of housing for persons with developmental disabilities

The process of adopting and certifying the Town’s 2023-31 Housing Element has been resource intensive, involving significant use of staff and consultant time, numerous public meetings, and the formation of four ad-hoc housing related subcommittees. When developing the budget, the Town had not anticipated the one-time expenditures involved in certifying the 2023-31 Housing Element. (More budget discussion in Section 4, Financial Ability.)

In January 2024, the Town’s Housing Element was initially certified by HCD. However, in March 2024, HCD revoked the Housing Element certification due to the lack of “timely and effective implementation” of the Housing Element programs, including the required rezoning of several parcels to allow for greater density (Policy 1). Jurisdictions face financial consequences, including ineligibility for certain state and federal grants, if their Housing Element is noncompliant. The Town was provided technical assistance from HCD to help return its Housing Element to a state of compliance, which involved working with Town staff and Town Council.

On April 23, 2025, the Town Council adopted an ordinance (Ordinance No. 2025-452), amending Zoning Code Table 18.15.04: Development Standards – Note 2: “Up to a 2.48 acre portion of the Dorothy Ford Park Site... which shall exclude the existing deed restricted little league baseball field... shall be permitted to be developed as high density housing and that owner-occupied and rental multifamily uses are allowed by-right for housing developments in which 20% or more of the units are affordable to lower-income households on the specified portion of the Dorothy Ford Park Site.”⁵ The Town’s Housing element only identifies parcels within the existing Town boundaries.

⁵ The Dorothy Ford Park Site is APN 077-272-010, included in Table 6-6 of the 2023-31 Housing Element.

In May 2025, following the rezoning, HCD found that the Town’s Housing Element was once again in compliance with state law, and the Housing Element is certified. The Town is required to monitor and provide annual progress reports to HCD on the implementation status of its housing policy programs. The Town has budgeted in the Town Affordable Housing Fund—separate from the General Fund—for a consultant support this work.

While the Housing Element identifies parcels where residential development may occur in the future, the Town’s current Capital Improvement Plan (CIP) only covers the current fiscal year. Town staff are working on presenting a long-term and comprehensive CIP during the review of the FY2026-27 budget. As this plan has not been presented and adopted, there may be capital projects that require increased levels of services and demands on the Town.

MSR Determination No. 1: Over the next five years, the population of the Town of Portola Valley (4,286) is projected to grow between 2-4%. The Town’s 2023-2031 Housing Element addresses how the Town plans to meet its state-mandated Regional Housing Needs Allocation allotment of 253 units by year 2031. The Town hired a consultant to support the work associated with implementing the Town’s Housing Element plans and programs.

Recommendation: None.

2) Disadvantaged Unincorporated Communities

The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.	<i>Yes</i>	<i>Maybe</i>	<i>No</i>
a) Does the subject agency provide public services related to sewers, municipal and industrial water, or structural fire protection?			X
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)?			X
c) If “yes” to both a) and b), is it feasible for the agency to be reorganized such that it can extend service to the disadvantaged unincorporated community? (if “no” to either a) or b), this question may be skipped)			X

a-c) The Town of Portola Valley does not provide sewer, municipal and industrial water, or structural fire protection services. While the SOI of the Town does include unincorporated territory, these unincorporated areas are not classified as disadvantaged.

MSR Determination No. 2: The Town’s sphere of influence and corporate boundaries do not include disadvantaged unincorporated communities nor does the Town provide sewer, municipal and industrial water, or structural fire protection services.

Recommendation: None

3) Capacity and Adequacy of Public Facilities and Services

Present and planned capacity of public facilities, adequacy of public services, and 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.	<i>Yes</i>	<i>Maybe</i>	<i>No</i>
a) Are there any deficiencies in agency capacity to meet service needs of existing development within its existing territory?			X
b) Are there any issues regarding the agency’s capacity to meet the service demand of reasonably foreseeable future growth?			X
c) Are there any concerns regarding public services provided by the agency being considered adequate?			X
d) Are there any significant infrastructure needs or deficiencies to be addressed?		X	
e) Are there changes in State regulations on the horizon that will require significant facility and/or infrastructure upgrades?			X
f) Are there any service needs or deficiencies for disadvantaged unincorporated communities related to sewers, municipal and industrial water, and structural fire protection within or contiguous to the agency’s sphere of influence?			X

a) Are there any issues regarding the agency’s capacity to meet the service demand of reasonably foreseeable future growth?

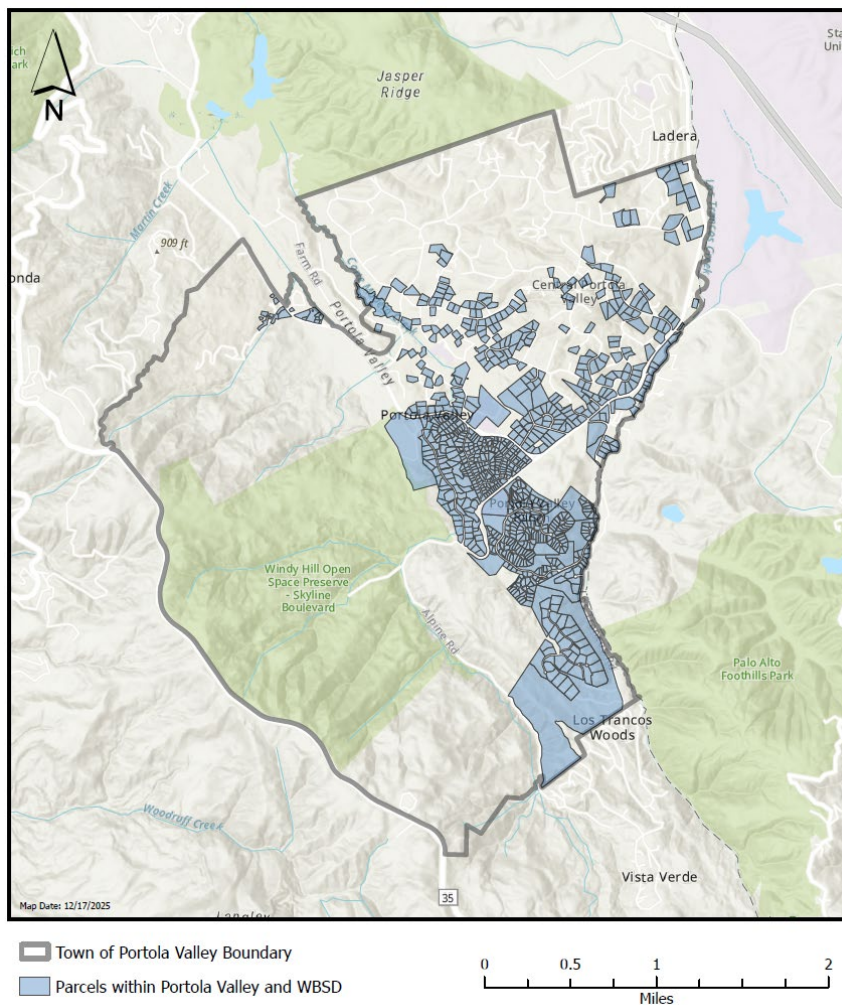
The Town meets the service needs of existing development within its sphere of influence and corporate boundaries. Town staff (15.5 FTE) provide the following services: public works, engineering, building, code enforcement, recreation, planning, and zoning. The Town offers the Portola Valley Library—a branch of the San Mateo County public library system. The Town hires

outside contractors for IT staffing, certain planning and building services, and legal services. The Town contracts for police services with the San Mateo County Sheriff’s Office. Fire protection is provided by the Woodside Fire Protection District. Water service is provided by Cal Water. Portions of the Town receive sewer service from the West Bay Sanitary District. These services are described in more detail below.

i. Sewer Services

The Town of Portola Valley does not have a municipal sewer system. Instead, most properties have private onsite septic systems. However, as of December 2025, West Bay Sanitary District (WBSD) provides sewer services to 889 parcels, or approximately 49% of the total 1,815 total parcels in Town. See Figure 2, below.

Figure 2. Parcels within Portola Valley and West Bay Sanitary District Service Area

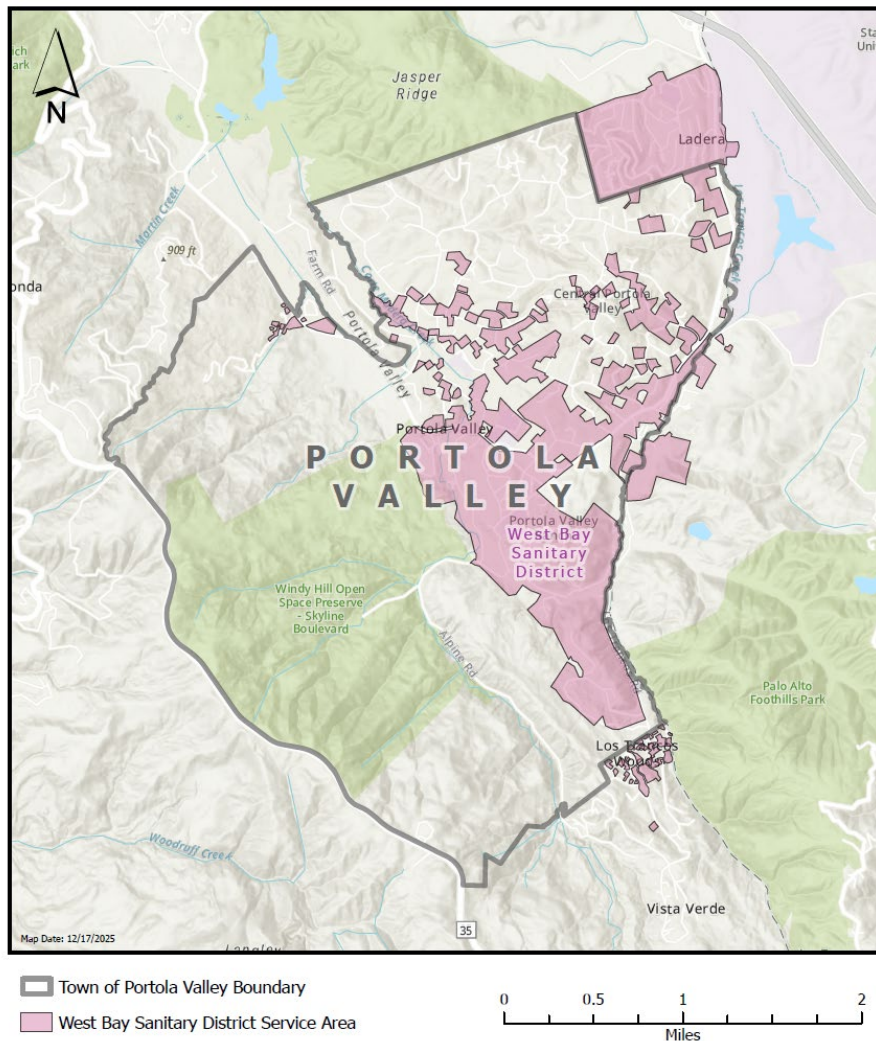


Source: San Mateo County Technology Services Department

WBSD is the regional sanitary sewer provider for the Town of Portola Valley, the City of Menlo Park and portions of Atherton, East Palo Alto, Redwood City, the Town of Woodside, south county unincorporated areas, and several parcels near Los Trancos Creek in Santa Clara County. Figure 3

shows areas in proximity to the Town of Portola Valley that are also served by WBSD. The WBSD was formed in 1902 and in total, serves approximately 19,486 residential customers and 625 commercial customers with approximately 216 miles of sewer mains. WBSD is a member of Silicon Valley Clean Water JPA. The current boundary of the District includes portions of the Westridge neighborhood, Brookside, Portola Valley Ranch, and Blue Oaks subdivisions, and parcels along Alpine Road.

Figure 3. West Bay Sanitary District Local Service Area



Source: San Mateo County Technology Services Department

Developers and homeowners in Town may choose to switch from onsite septic systems to sewer services by first annexing their property into WBSD. Homeowners are responsible for applying for annexation and for paying the cost of extended sewer infrastructure. The Town has not initiated or planned any comprehensive annexations of Town territory into WBSD, as the Town has not received any public requests or Town Council direction on this topic.

ii. Police Services

Since incorporation, the Town of Portola Valley has contracted with the San Mateo County Sheriff's Office for police services. The contract for FY 2023-25 included a service level for two deputies during the day shift; two deputies during the night shift; a portion of a detective (25%); a portion of an administrative sergeant (50%); and a portion of a Captain (25%). The FY2025-26 police services contract decreases the Administrative Sergeant allocation from 0.5 FTE to 0.25 FTE (similar to the Town of Woodside's contract) while maintaining the other staffing levels from the FY23-25 contract.

From FY2018-23, the annual contract amount for Sheriff services was \$1.49 million. Under the FY2023-25 two-year contract, the annual cost increased by 59% to \$2.38 million. In response to this increase, Town staff worked with the County Sheriff and the County Executive's Office for credits toward the current and future years in order to reduce the cost.⁶ The Town received a total of \$1.06M in credits/adjustments from both parties, with the last credit of \$211,000 effective this current fiscal year (FY2025-26). For FY2025-26, the one-year contract total is \$2.34 million, however, since the Town is receiving a credit of \$211,000, the new total amount is \$2.13M.

It is anticipated that the cost of the contract with the Sheriff's Office will continue to outpace Town revenue, leading to a continuation of the ongoing structural deficit. The Town Managers of Portola Valley and Woodside are conducting preliminary discussions regarding sharing a contract with the Sheriff's Office. Town staff report that they will involve the Sheriff's Office in these discussions in early 2026.

iii. Fire Protection Services

The Town of Portola Valley is located within the service area of the Woodside Fire Protection District (WFPD). WFPD is an independent special district formed in 1939 and then reformed in 1949. WFPD provides fire services to the towns of Portola Valley, Woodside, and to the unincorporated areas of Ladera, Los Trancos Woods, Skyline, Vista Verde, and portions of Emerald Lake Hills. WDPD has three fire stations, with Fire Station No. 8 located in the Town of Portola Valley at 135 Portola Road. The District's administrative offices are located at 808 Portola Road in Portola Valley.

The District also provides emergency operations, hazardous materials response, training, community risk reduction and fire prevention, office of emergency services, and administrative support. WFPD has 68 FTE's as of 2025 and a budget of \$30 million for FY 2025-26. The Town also contracts with WFPD for supplemental services including an annual wood chipping program, a fuel reduction engineer, and the Town right-of-way vegetation management program.

b) Are there any issues regarding the agency's capacity to meet the service demand of reasonably foreseeable future growth?

⁶ The credits were negotiated between the Town, County Sheriff, and County Executive to help address the increase in the contract in FY23/24 (57% increase).

The Town has adopted and certified its 2023-31 Housing Element. With assistance from a paid consultant as well as the Housing Element Post-Adoption Plan Town Council Subcommittee, the Housing Element policies and programs are being implemented.

Funding for Housing Element policy implementation and other long-range housing planning work is funded through the general fund. Work that relates specifically to affordable housing is sourced from the Affordable Housing Fund.⁷ The use of the funds from the Affordable Housing Fund is governed by the Affordable Housing Fund Policy which was adopted in December 2023. As of September 10, 2025, the Affordable Housing Fund has a balance of \$4,857,725. Of this balance, \$115,000 has been authorized to be used for the update of the Housing Element.⁸ On September 10, 2025, the Town Council approved an appropriation of \$1.35M from the Affordable Housing Fund as a grant and \$70,026 as a waiver of planning permit fees for the Willow Commons Housing Project.⁹

c) Are there any concerns regarding public services provided by the agency being considered adequate?

Currently, the Town is operating with reduced staff (15.5 FTEs). There are currently two vacant positions in the Planning and Building Department. According to Town staff, the main reason for the initial reduction in positions in FY2022-23 was to offset the increase in cost of the police services contract with the County Sheriff's Office. In lieu of full-time staff, the Town has hired consultants for work such as planning application review and building permit services. The Town reports that it has recovered the costs associated with hiring the consultants through the unused salaries of the vacant positions.

According to Town staff, the Town Hall public service counter is open in the mornings four days a week for walk-in and in-person customer service inquiries. Generally, service demand is very low for planning and building walk-in services, and the Town does not see a demand for more public service counter hours. Most service delivery is provided remotely through email or phone communication. The planning and building division accepts digital plan submittals and processes the applications digitally. The shift to digital plan submittals and processes is typical of many municipalities since the COVID-19 pandemic.

In order to inform Town public policy decisions and community engagement strategies, in October 2025, the Town Council had a community survey conducted to evaluate ballot and revenue measure feasibility, resident satisfaction with town services, and community priorities and needs. The Town Council will have additional meetings on revenue enhancement options in 2026.

⁷ Funds for the Affordable Housing Fund are from fees collected pursuant to inclusionary housing in-lieu fee regulations and other monies controlled by the town for affordable housing. Also, principal and interest from loan repayments, proceeds from grant repayments, forfeitures, reimbursements, and all other income from Fund activities shall be deposited into the Fund.

⁸ Town of Portola Valley Response to Request for Information from LAFCo.

⁹ The Willow Commons Housing Project provides permanent housing with supportive services for 16 intellectually and/or developmentally disabled adults, as well as common areas for building community among the residents. The Project was completed in June 2025.

d) Are there any significant infrastructure needs or deficiencies to be addressed?

Currently, due to budget constraints, the Town has adopted a one-year Capital Improvement Program (CIP). For FY2025-26, the CIP proposes \$1.36 million in capital expenditures related to roads, storm drains, trails and IT enhancements. This CIP only identifies projects that will have expenditures in the upcoming fiscal year. Indeed, there may be other capital projects that are needed, but for which funding has either not been identified or is not available. According to Town staff, an expanded and compressive five-year CIP is anticipated to be created and adopted as part of the budget cycle for FY2026-27.

e) Are there changes in State regulations on the horizon that will require significant facility and/or infrastructure upgrades?

Town staff is not aware of any State regulations on the horizon that will require significant facility and/or infrastructure upgrades that will impact the Town of Portola Valley.

f) Are there any service needs or deficiencies for disadvantaged unincorporated communities related to sewers, municipal and industrial water, and structural fire protection within or contiguous to the agency’s sphere of influence?

No, there are no disadvantaged unincorporated communities identified within or adjacent to the Town of Portola Valley.

MSR Determination No. 3: The Town meets the service needs of existing development within its sphere of influence and corporate boundaries. However, the cost of the present police contract with the County Sheriff’s office is anticipated to continue outpacing Town revenue, leading to a structural deficit and negatively impacting Town finances.

Currently, due to budget constraints, the Town has adopted a one-year Capital Improvement Program (\$1.36M for FY2025-26). An expanded and compressive five-year CIP is anticipated to be created and adopted as part of the budget cycle for FY2026-27.

The Town does not provide sewer services, however the independent special district West Bay Sanitary District does. Developers and homeowners in Town may choose to switch from onsite septic systems to sewer services by first annexing their property into WBSD. Homeowners are responsible for applying for annexation and for paying the cost of extended sewer infrastructure.

Recommendations:

1. LAFCo encourages the Town to develop a comprehensive Capital Improvement Program and to review this future plan against proposed development projects.
2. LAFCo encourages the Town to continue to coordinate with the West Bay Sanitary District and LAFCo in regards to future annexations of parcels to the Sanitary District for new sewer service.

4) Financial Ability

Financial ability of agencies to provide service	<i>Yes</i>	<i>Maybe</i>	<i>No</i>
a) Does the organization routinely engage in budgeting practices that may indicate poor financial management, such as overspending its revenues, failing to commission independent audits, or adopting its budget late?		X	
b) Is the organization lacking adequate reserve to protect against unexpected events or upcoming significant costs?	X		
c) Is the organization’s rate/fee schedule insufficient to fund an adequate level of service, and/or is the fee inconsistent with the schedules of similar service organizations?			X
d) Is the organization unable to fund necessary infrastructure maintenance, replacement and/or any needed expansion?			X
e) Is the organization lacking financial policies that ensure its continued financial accountability and stability?			X
f) Is the organization’s debt at an unmanageable level?			X

a) Does the District routinely engage in budgeting practices that may indicate poor financial management such as overspending its revenue, failing to commission independent audits, or adopted its budget late?

The primary source of revenue for the Town’s general fund is property tax (53% of proposed revenue in FY2025-26), followed by a Utility Users Tax (14%) and permit fees (11%). As the Town is largely residential, with only a small commercial base, sales tax equated to only 4% of total revenue to the general fund.

The Town of Portola Valley is classified as Tax Equity Allocation (TEA) city, because it had low or no property taxes in 1978, when Proposition 13 was passed and froze property taxes at their current levels in perpetuity.¹⁰ To help solve the problem of TEA cities lacking sufficient property tax revenue to support the growing costs of basic services, a series of bills were signed into law in 1980s. This legislation mandated a formula in which California’s no or low property tax cities receive a minimum of 7% of the property tax revenue available within their boundaries. See Table

¹⁰ When Proposition 13 passed in 1978, it froze property taxes at their current levels. Proposition 13 created significant problems for jurisdictions with no or low property tax rates at the time. These jurisdictions could not raise property tax rates to meet their community needs. Subsequent legislation, the first being AB 8 in 1979, established property tax distribution formulae to compensate. There are four TEA cities in San Mateo County: Colma, Half Moon Bay, Portola Valley, and Woodside.

4, below, showing the distribution of the 1% property tax in a sample tax rate area within the Town. While the Town receives 4.3% of the property tax, State law requires the percentage to be 7%, the difference of which is shifted from the County’s share. For cities in San Mateo County, the County Controller’s Office is charged with implementing the TEA formula. In 2005, Portola Valley discovered it was not being allocated property taxes in accordance with the TEA formula.¹¹ The County of San Mateo agreed that there were missed payments and five months later, paid Portola Valley the funds, \$2.5 million in total, that they had failed to allocate over the previous 15 years. Since that correction in 2005, LAFCo is not aware of any other issues related to the TEA funding formula for the Town.

Figure 4. 1% Property Tax Distribution – Sample Tax Rate Area

Agency	Share
County of San Mateo	23.67
Library	3.45
Town of Portola Valley	4.3
Portola Valley Elementary School Dist.	21.12
Sequoia High School District	15.6
San Mateo Community College District	6.77
Woodside Fire District	17.24
San Francisquito Creek Flood Zone 2	0.23
Midpeninsula Regional Open Space District	1.83
Bay Area Air Quality Management District	0.21
Harbor District	0.35
Mosquito Abatement District	0.19
Sequoia Health Care District	1.46
County Education Tax	3.52
Total	100*

Note: *Shares vary between tax rate areas. May not total 100.000 due to rounding of ten decimal shares.

Finance and Budget Audits

In November 2023, the Town hired Krisch & Company to provide a report related to the Town’s finances. The report highlighted several recommendations for the Finance Department regarding improvements in functions and operations.¹² The report noted that there were several

¹¹ 2006-07 San Mateo County Grand Jury Report, "Old Myths and New Realities Who's Responsible for Taking Care of Business?"

¹² Town of Portola Valley Fiscal Review, Krisch & Company November 2, 2023

deficiencies related to internal controls, accounting, and workflow in the Town’s Finance Department. According to staff, the Town has been working to implement these recommendations.

Separately, the Town reengaged Maze & Associates to complete Annual Comprehensive Financial Reports (ACFRs). These reports represent the Town’s financial position. While the ACFR was completed for FY2018-19 within one year of the end of the fiscal year, the ACFR for FY2019-20 was completed in 2022, the ACFR for FY2020-21 was completed in 2024, and the ACFR for FY 2021-22 was completed in September 2025. The gap in audited financial documents creates challenges for Town staff and the Town Council when drafting operating budgets, as the definitiveness of revenue and expenditures from past budget cycles is not certain. The Town has adopted a work program to catch up on outstanding ACFRs (see Figure 5 below).

Figure 5. Town of Portola Valley Audit Backlog Schedule

Audit Schedule	
Fiscal Year 2022-23	
Nov-25	Staff provides completed trial balance and schedules prepared by client to Maze
Dec-25	Maze provides a draft of the financial statements
Jan-26	Finance Committee and Town Council review and accept audited financial statements
Fiscal Year 2023-24	
Apr-26	Staff provides completed trial balance and schedules prepared by client to Maze
May-25	Maze provides a draft of the financial statements
Jun-26	Finance Committee and Town Council review and accept audited financial statements
Fiscal Year 2024-25	
Jul-26	Staff provides completed trial balance and schedules prepared by client to Maze
Aug-25	Maze provides a draft of the financial statements
Sep-26	Finance Committee and Town Council review and accept audited financial statements
Fiscal Year 2025-26	
Sep-26	Staff provides pro-forma financial statements

Source: Town of Portola Valley, Town Council Meeting Packet for Sept. 24, 2025

The most recent ACFR report (for FY2021-22) was completed and accepted by the Town Council in September 2025. The report found three significant deficiencies related to the Town’s segregation of duties, journal entry review and approval, and timely bank reconciliations related to internal controls. These findings were also highlighted by Krisch & Company in the 2023 report.

To address the ACFR findings, the Town has increased its finance team staffing levels, hired a consulting firm to review financial transactions and identify areas for improvement, and has taken steps to improve processes for more timely posting and financial information reporting. All audits that are accepted have been reviewed by the Finance Committee and Town Council and are posted on the Town’s website.

Town Budget

The Town budget has been consistently adopted prior to the start of the new fiscal year on July 1. The general fund is the Town’s operating fund. Since at least FY2021-22, the general fund has been running at a deficit, necessitating the use of reserve funds to balance the budget. In forming

its budget, the Town has historically relied on fund balance to close budget gaps. As shown in Table 1 below, the fund balance from the general fund is budgeted as revenue to be used to offset expenditures. In the FY2022-23 budget, the general fund deficit was estimated to be \$793,544, which subsequently grew to \$1,577,538 for just the next year. In FY2024-25 the use of fund balance in the proposed budget increased to 29% of anticipated revenue. However, in November 2024, the adopted revised budget included no use of fund balance reserve.

The Town is projected to continue to rely on fund balance in the future, which is not a sustainable practice for the fiscal health of the Town. In order to balance the budget, the Town is utilizing a variety of cost-saving measures. This includes pausing general fund capital project expenditures, leaving vacant positions unfilled, reducing discretionary spending like professional development, and reviewing existing contracts. While these have been able to address the current financial status of the Town, the Town has acknowledged that these are short-term solutions as deferred maintenance will increase capital project costs in the future and leaving positions vacant impacts the ability to provide services to residents and customers.

Table 1. Budgeted use of Fund Balance to cover deficit in General Fund Revenue (UNAUDITED), FY 2022/23-FY 2025/26

	FY 2025-26	FY 2024-25¹³	FY 2023-24	FY 2022-23
GF Fund Balance Appropriation	\$215,084	\$0	\$1,577,538	\$793,544
Total GF Revenue	\$7,952,775	\$7,479,875	\$8,802,813	\$8,146,487
Fund Balance as share of Total Revenue	3%	0%	18%	10%

Source: Town of Portola Valley Budget, Revenues & Expenditures by Government Fund

As of November 2025, the general fund reserve level is approximately \$2.5 million. Although the 2025 budget was balanced, general fund reserves have decreased over the past three fiscal years due to the increase in the Sheriff’s contract, additional use of consultants for the Housing Element, and loss of one-time, COVID-19 area Federal ARPA funds. During the course of 2025, Town staff held several community meetings and discussions at Town Council meetings regarding the fiscal health of the Town.

The Town is currently exploring revenue options to help stabilize the general fund and enable the allocation of funds back to the reserve fund, which is gradually being drained to balance the annual operating budget. Currently, with no new revenue sources, the Town projects that expenditures will continue to outpace revenues, meaning that the Town will need to rely on existing reserve funds. These reserve funds are projected to be near exhaustion by FY2031-32.

In addition to the Town’s general fund, the Town also has four road maintenance districts. Each district collects taxes for local road maintenance purposes: Crescent Road Maintenance District, Portola Valley Ranch Maintenance District, Wayside I and II Road Maintenance District, and the

¹³ Revised budget from November 2024 included no use of fund balance towards the General Fund. The originally adopted budget for FY24-25 anticipated the use of \$2.9 million

Woodside Highlands Road Maintenance District. The districts collect funds and expend them on local road related projects.

Table 2. Road Maintenance District Funds

	FY2025-26	FY2024-25	FY2023-24	FY2022-23
Total Revenue	142,644	141,664	128,012	137,470
Total Expenses	50,097	150,671	87,163	172,902
Net	\$92,547	\$(9,007)	\$40,849	\$(35,432)

Revenue Sources

For FY2025-26, the Town projects \$11.2M in total revenue. Of that, 39% is non-operating revenue from property taxes. In FY2024-25, an estimated 27% of revenue was from property taxes. The percentage of non-operating revenue to operating revenue has remained consistently below 50% over the past ten years. (See Table 3)

Table 3. Town of Portola Valley Total Revenue (UNAUDITED), FY 2022/23- FY 2025-26

	FY 2025-26 (Budget)	FY 2024-25 (Budget)	FY 2023-24 (Actual)	FY 2022-23 (Actual)
Property Tax Revenue	\$4,355,875	\$3,695,328	\$3,706,327	\$3,834,075
Other Revenue	\$7,446,858	\$7,333,273	\$8,217,014	\$8,247,357
Total Revenue	\$11,802,733	\$11,028,601	\$11,923,341	\$12,081,432

To address forecasted long-term revenue needs to fund Town operations and contract services like police, the Town is exploring revenue enhancement options with a focus on presenting a potential local revenue enhancement ballot measure on the November 2026 election ballot. In 2025, a nonprofit was established to collect donations in the form of cash and real or personal property from residents to supplement town finances and support capital projects.

At a study session on August 27, 2025, the Town Council reviewed several potential revenue enhancement options including a real estate transfer tax, parcel tax, or a new or modified utility user tax. The Town estimates that any new revenue measure should generate between \$1 to \$2 million dollars to backfill staffing, absorb ordinary cost increases, and maintain a 20% reserve level. At the direction of the Town Council, staff is currently conducting further analysis of a real estate transfer tax, and the hypothetical possibility of changing from a general law city to a charter city to facilitate the increase in the real estate transfer tax. One other potential revenue measure that the Town Finance Committee discussed is the annexation of Ladera and other governance changes. The feasibility of these LAFCo related options is discussed in Section 6.

Expenditures

The consistently largest expense for the Town is the contract with the San Mateo County Sheriff’s Office (see the “Services & Supplies” expenditure category in Table 4). The Sheriff’s contract is

funded through three police services funds: Public Safety Fund¹⁴, the COPS Fund¹⁵, and the majority (82% in FY 2023-24) of the contract is funded through the General Fund. The Sheriff’s contract comprises nearly 30% of the Town budget. Every year, the contract expense has exceeded Town revenue, and the Town has had to use reserves to pay for the contract. In FY2025-26, the credits for the contract expire, and the Town will be responsible for the full contract cost starting in FY2026-27.

Table 4. Town of Portola Valley Total Expenditures (UNAUDITED), FY 22/23- FY 25/26

	FY 2025-26 (Budget)	FY 2024-25 (Budget)	FY 2023-24 (Actual)	FY 2022-23 (Actual)
Services & Supplies	\$5,549,131	\$5,313,413	\$5,228,743	\$4,701,702
Employee Services	\$2,316,850	\$2,896,510	\$2,573,262	\$2,647,532
Employee Benefits	\$981,978	\$882,472	\$876,832	\$836,242
Fixed Assets	\$0	\$0	\$1,658,885	\$643,825
Reserves	\$497,626	\$0	\$525,330	\$621,453
Maintenance & Utilities	\$353,500	\$590,086	\$605,651	\$71,640
Operating Transfers Out	\$140,000	\$1,311,474	\$362,348	\$1,624,025
Education & Travel	\$63,700	\$80,900	\$92,290	\$935,014
Total Expenditures	\$10,780,694	\$11,078,455	\$11,923,341	\$12,081,433

The Town also had a larger than anticipated cost associated with certifying the Housing Element. In FY 2024-25, nearly \$1M was spent on consultants to assist the Town in securing state approval of the Housing Element. Additionally, the Town has hired a consultant to update its Safety Element (also on an 8-year update cycle).

Fire Services for the Town of Portola Valley are provided by Woodside Fire Protection District (WFPD). Structural fire protection and emergency medical services are funded through property taxes, as all properties in the Town are within the WFPD boundaries. Furthermore, the Town has a contract with WFPD for enhanced services, financed entirely by the general fund. In FY2023-24, actual contract costs totaled \$171,446.

Dispatch services are provided by San Mateo County’s Public Safety Communications Center.¹⁶ In FY 2024-25, the Town budgeted \$75,151 for these dispatch services related to police services.

The Town is currently developing a five-year capital improvement program that will be revised at least annually by the Town Council.

Fiscal Forecast

Town staff project that without additional revenue, expenses will exceed revenues by FY2027-28. In order to balance the budget and not impact the Town’s general fund reserve, the Town

¹⁴ A half-cent State sales tax revenue designated exclusively for local agency public safety services.

¹⁵ The Citizen’s Option for Public Safety (COPS) is a supplemental State Law enforcement fund for special law and traffic enforcement.

¹⁶ In accordance with the 1994 “Net Six Joint Powers Authority” agreement.

will need an additional \$1M in expenditure cuts in FY 2026-27 through FY 2029-30 . The Town’s reserve fund would be in deficit by FY 2029-30 without a new revenue source.

- b) Is the organization lacking adequate reserves to protect against unexpected events or upcoming significant costs?**

The Town has a policy of maintaining a reserve fund level that equals 20% of the general fund. According to Town staff, the practice of using reserve funds to support on-going Town operations is concerning since this precludes the availability of additional funds to set aside for capital improvements related to infrastructure, facilities and buildings, and vehicles, and no additional funds set aside to pay down pension liability. In the event of a natural catastrophe, the reserve fund may be fully depleted, and any potential repayment from federal funds could take years. Since FY 2020-21, the general fund reserve has decreased by \$3.07M, from \$5.47M to an estimated \$2.2M as of April 2025.¹⁷ Historically, the Town has been compelled to utilize reserve funds to balance the annual budget.

- c) Is the City’s rate/fee schedule insufficient to fund an adequate level of service, and/or is the fee inconsistent with the schedules of similar service organizations?**

The Town’s Master Fee Schedule was most recently revised in May 2024. According to Town staff, the Town is currently undergoing a comprehensive fee study to determine if fees are sufficient to fund an adequate level of service. The Town is also undergoing an Impact Fee Nexus study to determine if impact fees can be assessed as well. This should be completed and scheduled for review and action by the Town Council in late winter/spring 2026.

Table 5, below is a comparison of the Town’s total fees per unit (including entitlement, building permits, and impact fees) and those of the neighboring jurisdictions of the Town of Atherton, Town of Woodside and Unincorporated San Mateo County. There is no data for multi-unit developments since Portola Valley and Atherton have none, as of yet. According to the Housing Element, the Town’s entitlement fees are likely higher than other communities due to the detailed engineering and geotechnical review that happens early in the process.

Table 5. Total Town Fees Per New Unit Development

Jurisdiction	Single-Family	Small Multi-Unit	Large Multi-Unit
Atherton	\$15,941	No Data	No Data
Portola Valley	\$52,923	No Data	No Data
Woodside	\$70,957	\$82,764	No Data
Unincorporated SMC	\$36,429	\$27,978	\$10,012

Source: 21 Elements Survey, Portola Valley 2023-31 Housing Element

- d) Is the agency unable to fund necessary infrastructure maintenance, replacement and/or any needed expansion?**

¹⁷ Town of Portola Valley General Fund Minimum Fund Balance Policy, Adopted July 27, 2011, and revised June 11, 2025

The Town works in conjunction with the San Mateo County Department of Public Works on its Pavement Management Program. The Town currently has a stormwater assessment underway for FY2025-26. While the Town has adopted a Capital Improvement Plan (CIP), the CIP only covers projects that are proposed to be funded during the current fiscal year. The Town anticipates it will adopt a five-year CIP as part of the FY2026-27 budget cycle. As mentioned previously, if there was an emergency CIP project, that cost could deplete the Town’s reserve fund level.

e) Is the agency lacking financial policies that ensure its continued financial accountability and stability?

The Town has adopted multiple financial policies including a General Fund Minimum Fund Balance Policy (Originally Adopted on July 27, 2011, and revised on June 11, 2025), an Investment Policy (Originally Adopted on Dec. 10, 2003 and revised on June 27, 2012), and a Donation and Gift Acceptance Policy (Adopted May 14, 2025).

f) Is the agency’s debt at an unmanageable level?

The Town has no debt service, and the only long-term liabilities are related to pensions and Other Post-Employment Benefits (OPEB). The Town has made additional contributions to CalPERS in the past when reserve levels have permitted. Contribution rates are determined annually by CalPERS and the Town adjusts the employer and employee rates when applicable. The Town has set up a benefit trust through CalPERS and makes annual OPEB contributions towards employee semi-monthly deductions.

MSR Determination No. 4: The Town of Portola Valley is classified as Tax Equity Allocation (TEA) city. The primary source of general fund revenue is property tax and the accompanying TEA (comprised 53% of proposed general fund revenue in FY2025-26). Town staff project that without additional revenue, expenses will exceed revenue by FY2027-28. In order to balance the budget and not impact the Town’s general fund reserve, the Town will need an additional \$1M in expenditure cuts in FY2026-27 through FY2029-30. The Town’s reserve fund would be in deficit by FY2029-30 without a new revenue source. The Town is aware of these issues and has presented reports and fiscal forecasts to the Town Council and the public. Currently, the Town is exploring potential revenue measures to address this structural deficit.

The Town is behind on its financial audits, having only recently completed the FY2021-22 ACFR. The Town has adopted a work program to catch up on outstanding audits, however, the lack of audited budget numbers has hindered fiscal forecasting. The Town Council and management can benefit by making current financial data available as early as possible in the budgeting and planning process. According to a 2023 Krisch & Company report, there were several deficiencies related to internal controls, accounting, and workflow in the Town’s Finance Department. The Town has been working to implement these recommendations.

Recommendations:

- 3.** LAFCo supports the Town’s efforts to evaluate new potential revenue sources and encourages the Town to continue to explore revenue and expenditure options related to the Town’s General Fund in order to adopt a balanced annual budget.

4. LAFCo encourages the Town to adopt a long-term, comprehensive Capital Improvement Program for Town infrastructure projects.
5. LAFCo recommends that the signed resolutions for the adoption of the annual budgets and appropriation limits be uploaded to the Town’s budget webpages.
6. The Town should continue to provide updates to the Town Council and the public regarding the finances of the Town and explore additional opportunities to enhance transparency related to finance documents and reports. This could include the creation of a webpage that provides a summary of the current and recent past financial information related to the Town’s General Fund, reserve funds, and audits all in one location.
7. Budget documents and staff financial reports should explicitly show the amount of funds allocated to the Town’s fund balance and reserve fund.

5) Shared Service and Facilities

Status of, and opportunities for, shared facilities	<i>Yes</i>	<i>Maybe</i>	<i>No</i>
a) Is the agency currently sharing services or facilities with other organizations? If so, describe the status of such efforts.	X		
b) Are there any opportunities for the organization to share services or facilities with neighboring or overlapping organizations that are not currently being utilized?		X	
c) Are there governance options to allow appropriate facilities and/or resources to be shared, or making excess capacity available to others, and avoid construction of extra or unnecessary infrastructure or eliminate duplicative resources?		X	

a-b) The Town Manager is actively reviewing other police service options, including contracting with adjacent cities in San Mateo County. To date, none of the cities that the Town Manager has contacted has any interest in providing contract police services to the Town.

Portions of the Town of Portola Valley along Oak Forest Court are within the Los Trancos County Maintenance District (LTCMD). The San Mateo County Department of Public Works administers enhanced storm drain services in LTCMD. The storm drain program is funded through enhanced funds that are intended to improve existing storm drainage systems and/or associated roadways that have reached the end of their useful service life. DPW awarded HDR Engineering, Inc. a contract for \$125,000 to study the feasibility of high priority storm drain system improvement projects in LTCMD. LAFCo encourages the Town and LTCMD to work together on stormwater management plans for areas that may be impacted by stormwater coming from Los Trancos Woods. LTCMD and the Town may also identify if there should be any projects that impact the

parcels at Oak Forest Court, as LTCMD has not conducted any work in the area since its formation in 2015.

c) Are there governance options to allow appropriate facilities and/or resources to be shared, or making excess capacity available to others, and avoid construction of extra or unnecessary infrastructure or eliminate duplicative resources?

None at this time.

MSR Determination No. 5: The Town of Portola Valley partners with several agencies to share resources and reduce costs. The Towns of Portola Valley and Woodside are currently reviewing police service options for future fiscal years.

Recommendation:

8. The Town should continue discussions with the Town of Woodside regarding the possibility of a joint contract with the Sheriff's Office for police services, as well as explore other opportunities for shared services or contracts.
9. LAFCo encourages the Town and the Los Trancos County Maintenance District to work together on stormwater management plans for areas that may be impacted by stormwater originating from the unincorporated area of Los Trancos Woods.

6) Accountability, Structure, and Efficiencies

Accountability for community service needs, including governmental structure and operational efficiencies	<i>Yes</i>	<i>Maybe</i>	<i>No</i>
a) Are there any issues with meetings being accessible and well publicized? Any failures to comply with disclosure laws and the Brown Act?			X
b) Are there any issues with staff turnover or operational efficiencies?		X	
c) Is there a lack of regular audits, adopted budgets and public access to these documents?	X		
d) Are there any recommended changes to the organization’s governance structure that will increase accountability and efficiency?			X
e) Are there any governance restructure options to enhance services and/or eliminate deficiencies or redundancies?			X
f) Are there any opportunities to eliminate overlapping boundaries that confuse the public, cause service inefficiencies, unnecessarily increase the cost of infrastructure, exacerbate rate issues and/or undermine good planning practices?			X

a) Are there any issues with meetings being accessible and well publicized? Any failures to comply with disclosure laws and the Brown Act?

The Portola Valley Town Council meets in person at the Historic Schoolhouse at Town Center, 765 Portola Road on the 2nd and 4th Wednesday of every month at 7pm. Regular meetings are also accessible to the public by Zoom and recordings are available on YouTube.

There do not appear to be any issues with public meetings being accessible and well publicized. The Town also utilizes its website to provide detailed information about the current fiscal status of the Town along with updates related to long range and current planning projects, such as the Housing Element and the Portola Terrace development. The Town hosts an online portal that enables the public to make record requests. Documents can be mailed, emailed, or picked up by the requester.

In June 2022, the Town was served with a complaint alleging a violation of the Brown Act arising from texts sent during a Wildfire Preparedness Committee meeting. The Town Attorney investigated the allegations and concluded that the texts did not involve a quorum of the Committee and therefore did not violate the Brown Act. Nevertheless, the Town decided to resolve the lawsuit by making a “statement of unconditional commitment” restricting legislative

body members from texting and emailing 1) one another and 2) third party consultants (other than legal counsel) during a public meeting.

b) Are there issues with staff turnover or operational efficiencies?

Over the last three years, there has been significant staff turnover. In 2023, approximately over half of all Town positions turned over, including the Planning and Building Director and various staff. Over the past three years, there have been two interim Town Managers. In July 2025, the Town Council appointed a new permanent Town Manager.

The Town is aware of the issue of staff attrition and is in the process of recruitments and evaluation of opportunities to hire staff on contract for certain positions. Turnover and the Town's limited staffing has meant that the Town relies on consultants and contractors to continue to undertake projects. Another consequence of minimalist staffing is that when employees are absent, there is little staff redundancy.

As noted on the Town's website, when Portola Valley was incorporated in 1964, one of the founding goals was to keep costs low by having a government run as much as possible by volunteers. A collateral benefit of this model was that volunteer residents working together to build a town would foster a spirit of community and camaraderie. This spirit of volunteerism continues today with many thousands of hours being donated to town service every year. All members of the Town Council, commissions and committees serve without pay or benefits of any kind. There are approximately 125 members on the standing committees and commissions.

c) Is there a lack of regular audits, adopted budgets, and public access to these documents?

As discussed in Section 4, "Financial Ability," the Town is behind on its financial audits. The Town's most recent Annual Comprehensive Financial Report (ACFR) was conducted for FY 2021-22 and completed in September 2025. The Town has adopted a workplan to complete the remaining outstanding reports. It is anticipated that the FY2022-23 audited financial statements will be accepted by January 2026 and the FY2023-24 audited financial statements will be accepted by July 2026. As there is still a delay in the production of the ACFR reports, LAFCo is noting this as a concern. However, LAFCo also acknowledges that the Town and its auditor are actively working to address this issue.

The Town has increased staffing levels in its finance department and hired a consulting firm to review financial transactions and identify areas for improvement, such as how to improve processes for more timely posting and financial information reporting.

d-f) Changes in governance structure?

There are no proposed changes in governance structure. However, over the last two years, as the Town has contemplated how to address financial challenges, the Town Council and the Town Finance Committee have discussed potential forms of governance changes. In light of these public discussions, this MSR seeks to provide an overview of the governance changes that have been mentioned at Town meetings:

Option 1) Annexation of Ladera/Los Trancos: The Town could submit an annexation application by resolution. The application would need to include a plan for service (i.e. the range of services that would be provided to the annexed area and the financing of such services). Along with the

plan for service, the Town would need to go through a pre-zoning process to extend zoning to the area to be annexed. A general plan amendment may also be required if there is no general plan land use designation for the annexation area. Alternatively, the annexation application could also be submitted by petition from landowners or voters in the affected area.

It is important to consider the possibility that the annexation is protested. The only people that can protest an annexation proceeding or vote in an election are landowners and registered voters in the affected/annexation area. Under State law, an “inhabited annexation” occurs if there are 12 or more registered voters within the affected area. If the area qualifies as “inhabited”, and if the required protest threshold is met, then the annexation process could be subject to an election. If the area is uninhabited, then the protest threshold is based on assessed value and property owners.

Under state law, any annexation by a city or town would have to be contiguous to existing city/town boundaries. If the area of Ladera was proposed to be annexed to the Town, there is a review regarding whether the annexed area would be detached from the Ladera Recreational District. If the parcels were to be detached, there may need to be information about the financial impact on the District. Also, the County would be transferring service responsibility to the Town, including land use responsibility. There could also be additional costs to the Town if the Sheriff’s Office contract requires an amendment to include additional services to the annexed area as the population and geographic size of the Town would have been increased.

Additionally, the Town would receive sales tax from the commercial area in Ladera if the area was annexed, but the Town would still only receive 7% of the property tax within the annexation area (due to its status as a Tax Equity Allocation jurisdiction). Any taxes that the Town currently has in place, such as a Utility User Tax, would also be extended to the annexed territory. Annexation could include a portion of the Ladera community, including the commercial area along Alpine Rd., or the whole Ladera unincorporated area. Before undertaking an annexation, LAFCo would recommend that the Town explore potential benefits and costs associated with an annexation as well as conduct community outreach to property owners and/or residents that could be affected by an annexation.

Option 2) Consolidation with the Town of Woodside: Under state law, consolidation means the uniting or joining of two or more cities located in the same county into a single new successor city¹⁸. Both towns would need to be agreeable to this option. A proposal could be submitted via resolution from both town governing bodies, or by a petition from voters from both towns signed by not less the 5 percent of the registered voters of each affected town. An election is required for this action, with all registered voters in both towns eligible to vote in the election. Regarding the expenditures from the former separate towns, state law notes that the city (town) council of the successor city shall separately levy and collect the taxes necessary to pay the indebtedness or liability of each predecessor city within the territory of each predecessor city. This means that any liability from the Town of Portola Valley would still need to be paid for by the property owners in the Town’s former boundaries.

¹⁸ CA Government Code Section 56030

There are no examples of a consolidation between two cities or towns occurring in California. A similar action would be the disincorporation of the Town of Portola Valley in conjunction with the annexation of the area to the Town of Woodside. In this case, the Town of Woodside would remain in its current structure and would incorporate the area of the Town of Portola Valley.

Given the similar nature of the two towns' nature of revenue and expenditures, consolidation or disincorporation and annexation would be unlikely to enhance revenues or have a major reduction in costs to the municipalities.

Option 3) Disincorporation: This means the dissolution, extinguishment, or termination of the existence of a city and the cessation of its corporate powers, except for the purpose of winding up the affairs of the city¹⁹. A petition for the disincorporation of a city (town) may be in the form of a resolution from the affected city (town), or a petition signed by not less than 25 percent of the registered voters residing in the city that is proposed to be disincorporated (as shown on the county register of voters). The plan for services would identify the preferred provider for each service that the Town would no longer be providing. As part of the plan for service, a comprehensive fiscal analysis would be required²⁰. For disincorporation, any debt or contractual obligations and responsibilities of the city being disincorporated shall be the responsibility of that same territory for repayment.²¹

State law notes that the "Legislature finds and declares that a single multipurpose governmental agency (i.e. an incorporated city/town) is accountable for community service needs and financial resources and, therefore, may be the best mechanism for establishing community service priorities especially in urban areas."²² Any disincorporation proposal would need to be reviewed against the intent of state law for the sustainable provision of local municipal services²³.

If ultimately approved by the LAFCo Commission, the Board of Supervisors must submit the disincorporation to the voters residing within the affected area for confirmation. There is no protest hearing for a disincorporation.

If the disincorporation is confirmed at election, either the Commission or the County must prepare a certified statement regarding the city's debt, the balance in the city's treasury, and the amount of any taxes and other payments due to the city that have not yet been paid. Upon the effective date of disincorporation, the successor (the County) is responsible for winding up the affairs of the disincorporated city, much like the executor of an estate. A special fund would be established by the County for this purpose. The successor must utilize the assets of the city to pay off debt and other obligations. If there are insufficient funds to pay indebtedness incurred by the city, the current statute calls for the levy of taxes on property within the former city. The County would become the land use authority for the newly unincorporated area, as well as the governing body. It is unknown what the impact would be to the Town's housing element and how it would integrate with the County's own adopted Housing Element. The Town would also no

¹⁹ CA Government Code Sections 56034

²⁰ CA Government Code Sections 56800-56804

²¹ CA Government Code Sections 56815 – 56816

²² CA Government Code Sections 56001

²³ CA Government Code Sections 56770

longer have a contract with the San Mateo County Sheriff’s Office and instead the level of service would be similar to any other unincorporated community in the County.

The last Disincorporation in the State of California was in the 1970s in Riverside County (City of Cabazon). This has been the only disincorporation that has gone through the LAFCo process, and there would be number issues that would need to be reviewed and addressed prior to the submittal of any proposal for disincorporation.

Option 4) Disincorporation with the formation of a new district to manage open space and trail areas: Typically, upon disincorporation, most or all municipal functions would be assumed by the County. In some circumstances, however, services could be assumed by a special district. That would require formation of a new district. This action could be proposed in parallel with the disincorporation proposal. The action would need to be accompanied by a proposed plan for service as well as an election. The plan for service for a new district would need to include financial information, a list of services to be provided, staffing information, and governance information. A special assessment or tax may be required to provide on-going funds to the district, which would also be subject to an election. It is unclear how or what assets could be transferred from the Town to the new District (i.e. facilities, funds, equipment). There would also need to be a review conducted to determine whether any property tax could be allocated to a newly formed district.²⁴

Another possibility could be instead of the creation of another district, that the Ladera Recreational District (a Community Services District) annex the former Town area and expand its services to include trail and open space powers. No example of a disincorporation and formation of a special district exists in California.

Of the actions mentioned above, LAFCo only has the power to initiate the formation of a new district. LAFCo cannot initiate a city annexation, consolidation of cities, or disincorporation of a city. Any proposal that was submitted to LAFCo would require public meetings and notice. Members of the public would be able to provide input, comments, and participate in this public process. To reiterate, none of the actions listed above are recommended by LAFCo. Instead, these types of actions are referenced in this report to provide additional information about the steps involved, the information that would be required for any action, the role of elected officials and the public during the process, and the effect of the actions.

Determination No 6: There are no recommended actions to change the Town’s governance structure in the MSR, however several options have been discussed by the Town Council and Town committees in the context of addressing the Town’s budget and structural deficit. In recognition of these discussions, this report outlines several types of governance changes, but makes no proposal to implement any option. There do not appear to be any issues with public meetings being accessible and well publicized. As highlighted in Section 4, the Town is behind on conducting audited financial statements, with the most recent audit completed for FY2021-22 in September 2025. The Town has a workplan to catch up on financial audits and is currently implementing the plan. The Town has experienced high levels of staff turnover in the past 3 years and is in the process of recruitment and evaluation of opportunities to hire staff on contract for

²⁴ CA Government Code Sections 56813

certain positions. The Town has a culture of volunteerism, and there are approximately 125 volunteer members currently serving on Town standing committees and commissions.

Recommendation:

9. LAFCo recommends that the Town continue the process of implementing the audit workplan for past audits and that a work program or policy be adopted to ensure that future audits are conducted in a timely manner.

7) Other Issues:

Any other matter related to effective or efficient service delivery, as required by commission policy.	<i>Yes</i>	<i>Maybe</i>	<i>No</i>
a) Are there any other service delivery issues that can be resolved by the MSR/SOI process?			X
b) Water Resiliency and Climate Change			
i) Does the organization support a governance model that enhances and provides a more robust water supply capacity?		X	
ii) Does the organization support multi-agency collaboration and a governance model that provide risk reduction solutions that address sea level rise and other measures to adapt to climate change?	X		
c) Natural Hazards and Mitigation Planning			
i) Has the agency planned for how natural hazards may impact service delivery?	X		
ii) Does the organization support multi-agency collaboration and a governance model that provides risk reduction for all natural hazards?	X		

a-c) Other service delivery issues that can be resolved by the MSR/SOI process.

LAFCo staff did not identify any other service delivery issues that can be resolved by the MSR/SOI process. Along with the County and other San Mateo County cities, the Town of Portola Valley participated in the 2021 Local Hazard Mitigation Plan (LHMP) that assessed hazard vulnerabilities and identified opportunities for mitigation to reduce the level of injury, property damage and community disruption that could occur in manmade and natural disasters. An update to the 2021 LHMP is underway, and the Town is participating in this multi-jurisdictional effort led by the County.

The Town has an Emergency Preparedness Committee and Wildfire Preparedness Committee that works with Town staff to develop and maintain appropriate plans and procedures for responding to disasters, including wildfires, earthquakes, floods and other emergencies. The Emergency Preparedness Committee works in cooperation with the Woodside Fire Protection District and the San Mateo County Office of Emergency Services. The Wildfire Preparedness Committee advises the Town Council on ways to mitigate risks associated with wildfires while the Geologic Safety Committee provides the Town Council with expert advice regarding geologic matters as they might relate to Town issues including buildings, roads and infrastructure.

The majority of the Town is within an identified fire hazard severity zone. The Town contracts with the Woodside Fire Protection District for hazard mitigation efforts and defensible space creation along the Right of Way and Town-owned property.

MSR Determination No. 7: The Town ~~has adopted a Climate Action Plan and~~ participates in the Local Hazard Mitigation Plan. It has several committees that work in cooperation with Town staff to address emergency preparedness.

Recommendation:

- 10.** LAFCo encourages the Town of Portola Valley to continue its work in the areas of natural hazard mitigation and wildfire preparedness and to continue to coordinate with partner agencies.

Section 6. Town of Portola Valley Sphere of Influence Determinations

Government Code Section 56425 requires San Mateo LAFCo make determinations concerning land use, present and probable need for public facilities and services in the area, capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide, and existence of any social or economic communities of interest in the area if the Commission determines that they are relevant to the agency. These include the following determinations:

- 1. The present and planned land uses in the area, including agricultural and open space lands:** The Town of Portola Valley is comprised primarily of residential land use, with some commercial/office, open space, and institutional land use. The District boundaries contain land that is under the jurisdiction of the County of San Mateo, the Mid-Peninsula Open Space District, as well as other agencies that have land use review authority.
- 2. The present and probable need for public facilities and services in the area:** The Town meets the needs of its residents and businesses for municipal services, and the Town anticipates that it will be able to provide adequate facilities and services for the anticipated growth within its service area.
- 3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide:** The Town currently provides adequate public services to its residents, including public works, planning, recreation, police protection (via contract) and storm water services. In addition, the Town routinely adopts a Capital Improvement Program to fund critical repairs, replacements and improvements to the Town’s infrastructure and facilities.

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:** There are no disadvantaged unincorporated communities within the SOI of the Town of Portola Valley.
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:** There are no proposed changes to the Town Sphere of Influence.

On the basis of the Municipal Service Review:

Staff has reviewed the agency’s Sphere of Influence and recommends that a SOI Update is NOT NECESSARY in accordance with Government Code Section 56425(g). Therefore, NO CHANGE to the agency’s SOI is recommended and SOI determinations HAVE NOT been made.

Staff has reviewed the agency’s Sphere of Influence and recommends that a SOI Update IS NECESSARY in accordance with Government Code Section 56425(g). Therefore, A CHANGE to the agency’s SOI is recommended and SOI determinations HAVE been made and are included in this MSR/SOI study.

Appendix A. Town of Portola Valley Fact Sheet

Town Manager: Darcy Smith

Physical Address: 765 Portola Rd, Portola Valley, CA 94028

Email Address: towncenter@portolavalley.net

Phone Number: (650) 851-1700

Date of Incorporation: July 14, 1964

Town Council:

Town Council	Term Expiration Date
Craig Taylor, Mayor	2026
Mary Hufty, Vice Mayor	2026
Judith Hasko	2026
Rebecca Flynn	2028
Helen Wolter	2028

Compensation: Town Council members are all volunteers (not paid)

Public Meetings: Town Council meetings are held in person at the Historic Schoolhouse, 765 Portola Rd. on the second and fourth Wednesdays of the month at 7PM. Regular meetings are livestreamed on Zoom, and the public may provide remote public comments, in addition to in-person comments at the designated time. An archive of Council meetings is available on the Town’s website.

Services Provided:

Agency staff: 15.5 FTE

Area Served: Approximately 9 square miles of land area

Population: 4,286 (as of Jan. 2025)

Sphere of Influence: unincorporated areas.

FY 2025-26 General Fund Budget: \$8,167,859

Exhibit B

Municipal Service Review (MSR) Areas of Determination and Recommendations for
the Town of Portola Valley**Areas of Determinations and Recommendations****Growth and population projections for the affected area.***Determination*

Over the next five years, the population of the Town of Portola Valley (4,286) is projected to grow between 2-4%. The Town's 2023-2031 Housing Element addresses how the Town plans to meet its state-mandated Regional Housing Needs Allocation allotment of 253 units by year 2031. The Town hired a consultant to support the work associated with implementing the Town's Housing Element plans and programs.

Recommendation: None

The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the SOI.*Determination*

The Town's sphere of influence and corporate boundaries do not include disadvantaged unincorporated communities nor does the Town provide sewer, municipal and industrial water, or structural fire protection services.

Recommendation: None

Present and planned capacity of public facilities, adequacy of public services, and 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 SOI.*Determination*

The Town meets the service needs of existing development within its sphere of influence and corporate boundaries. However, the cost of the present policing contract with the County Sheriff's office is anticipated to continue outpacing Town revenue, leading to a structural deficit and negatively impacting the finances of the Town.

Currently, due to budget constraints, the Town has adopted a one-year Capital Improvement Program (\$1.36M for FY2025-26). An expanded and compressive five-year CIP is anticipated to be created and adopted as part of the budget cycle for FY2026-27.

The Town does not provide sewer services, however the independent special district West Bay Sanitary District does. Developers and homeowners in Town may choose to switch from onsite septic systems to sewer services by first annexing their property into WBSD. Homeowners are responsible for applying for annexation and for paying the cost of extended sewer infrastructure.

Recommendations:

1. LAFCo encourages the Town to develop a comprehensive Capital Improvement Program and to review this plan against proposed housing development projects.
2. LAFCo encourages the Town to continue to coordinate with the West Bay Sanitary District and LAFCo in regards to future annexations of parcels to the Sanitary District for new sewer service

Financial ability of agency to provide services.*Determination*

The Town of Portola Valley is classified as Tax Equity Allocation (TEA) city. The primary source of general fund revenue is property tax and the accompanying TEA (53% of proposed revenue in FY2025-26). Town staff project that without additional revenue, expenses will exceed revenue by FY2027-28. In order to balance the budget and not impact the Town's general fund reserve, the Town will need an additional \$1M in expenditure cuts in FY2026-27 through FY2029-30. The Town's reserve fund would be in deficit by FY2029-30 without a new revenue source. The Town is aware of these issues and has presented reports and fiscal forecasts to the Town Council and the public. Currently, the Town is exploring potential revenue measures to address this structural deficit.

The Town is behind on its financial audits, having only recently completed the FY2021-22 Annual Comprehensive Financial Report (ACFR). The Town has adopted a work program to catch up on outstanding audits, however, the lack of audited budget numbers has hindered fiscal forecasting. The Town Council and management can benefit by making current financial data available as early as possible in the budgeting and planning process. According to a 2023 Krisch & Company report, there were several deficiencies related to internal controllers, accounting, and workflow in the Town's Finance Department. The Town has been working to implement these recommendations.

Recommendations:

3. LAFCo supports the Town's efforts to evaluate new potential revenue sources and encourages the Town to continue to explore revenue and expenditure options related to the Town's General Fund in order to adopt a balance annual budget.
4. LAFCo encourages the Town to adopt a long-term, comprehensive Capital Improvement Program for Town infrastructure projects.
5. LAFCo recommends that the signed resolutions for the adoption of the annual budgets and appropriation limits be uploaded to the Town's budget webpages.
6. The Town should continue to provide updates to the Town Council and the public regarding the finances of the Town and explore additional opportunities to enhance transparency related to finance documents and reports. This could include the creation of a webpage that provides a summary of the current and recent past financial information related to the Town's General Fund, reserve funds, and audits all in one location.

7. Budget documents and staff financial reports should explicitly show the amount of funds allocated to the Town's fund balance.

Status of, and opportunities for, shared facilities.

Determination

The Town of Portola Valley partners with several agencies to share resources and reduce costs. The Towns of Portola Valley and Woodside are currently reviewing police service options for future fiscal years.

Recommendations:

8. The Town should continue discussions with the Town of Woodside regarding the possibility of a joint contract with the Sheriff's Office for police services, as well as explore other opportunities for shared services or contracts.
9. LAFCo encourages the Town and the Los Trancos County Maintenance District to work together on stormwater management plans for areas that may be impacted by stormwater originating from the unincorporated area of Los Trancos Woods.

Accountability for community service needs, including governmental structure and operational efficiencies.

Determination

There are no recommended actions to change the Town's governance structure in the MSR, however several options have been discussed by the Town Council and Town committees in the context of addressing the Town's budget and structural deficit. In recognition of these discussions, this report outlines several types of governance changes but makes no proposal to implement any option. There do not appear to be any issues with public meetings being accessible and well publicized. As highlighted in Section 4, the Town is behind on conducting audited financial statements, with the most recent audit completed for FY2021-22 in September 2025. The Town has a workplan to catch up on financial audits and is currently implementing the plan. The Town has experienced high levels of staff turnover in the past 3 years and is in the process of recruitment and evaluation of opportunities to hire staff on contract for certain positions. The Town has a culture of volunteerism, and there are approximately 125 volunteer members currently serving on Town standing committees and commissions.

Recommendations

10. LAFCo recommends that the Town continue the process of implementing the audit workplan for past audits, and that a work program or policy be adopted to ensure that future audits are conducted in a timely manner.

Any other matter related to effective or efficient service delivery, as required by LAFCo policy including the following:

- i. **Water Resiliency and Climate Change**
- ii. **Impact of Natural Hazards and Mitigation Planning**

Determination

The Town participates in the Local Hazard Mitigation Plan. It has several committees that work in cooperation with Town staff to address emergency preparedness.

Recommendation:

11. LAFCo encourages the Town of Portola Valley to continue its work in the areas of natural hazard mitigation and wildfire preparedness and to continue to coordinate with partner agencies.

RESOLUTION NO. 1347

**RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION
OF THE COUNTY OF SAN MATEO
MAKING DETERMINATIONS PURSUANT TO GOVERNMENT CODE
SECTION 56430 FOR THE TOWN OF PORTOLA VALLEY**

RESOLVED, by the Local Agency Formation Commission of the County of San Mateo, State of California, that:

WHEREAS, the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, set forth in Government Code Section 56000 et seq., governs the organization and reorganization of cities and special districts by local agency formation commissions established in each county, as defined and specified in Government Code Section 56000 et seq.,

WHEREAS, Government Code Section 56425 et seq. requires the Local Agency Formation Commission (LAFCo or Commission) to develop and determine the sphere of influence of each local governmental agency within the County; and

WHEREAS, the Commission conducted a Municipal Service Review pursuant to Government Code Section 56430 for the Town of Portola Valley;

WHEREAS, the Executive Officer prepared a written report of the Municipal Service Review that was provided to the Commission and affected agencies; and

WHEREAS, the Executive Officer set a public hearing date for January 21, 2026 for the consideration of the final Municipal Service Review and caused notice thereof to be posted, published and mailed at the times and in the manner required by law at least twenty-one (21) days in advance of the date; and

WHEREAS, the Commission heard and fully considered all the evidence presented at a public hearing held on January 21, 2026; and

WHEREAS, a public hearing by this Commission was held on the report and at the hearing this Commission heard and received all oral and written protests, objections and evidence which were made, presented or filed, and all persons present were given an opportunity to hear and

be heard with respect to the proposal and the Executive Officer's report; and

WHEREAS, the Commission is required pursuant to Government Code Section 56430 to make statement of written determinations with regards to certain factors; and

WHEREAS, the Commission is required pursuant to Government Code Section 56425 and local Commission policy to make statement of written determinations with regards to the following factors:

1. **The present and planned land uses in the area, including agricultural and open-space lands:** The Town of Portola Valley is comprised primarily of residential land use, with some commercial/office, open space, and institutional land use. The District boundaries contain land that is under the jurisdiction of the County of San Mateo, the Mid-Peninsula Open Space District, as well as other agencies that have land use review authority.
2. **The present and probable need for public facilities and services in the area:** The Town meets the needs of its residents and businesses for municipal services, and the Town anticipates that it will be able to provide adequate facilities and services for the anticipated growth within its service area.
3. **The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide:** The Town currently provides adequate public services to its residents, including public works, planning, recreation, police protection (via contract) and storm water services. In addition, the Town routinely adopts a Capital Improvement Program to fund critical repairs, replacements and improvements to the Town's infrastructure and facilities.
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:** There are no disadvantaged unincorporated communities within the SOI of the Town of Portola Valley.
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, that occurs pursuant to Section 56425(g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence:** No change to the SOI for the Town of Portola Valley is proposed at this time.

WHEREAS, based on the results of the Municipal Service Review, staff has determined that the SOI for Portola Valley does not need to be updated at this time; and

WHEREAS, the Municipal Service Review is categorically exempt from the environmental review requirements of the California Environmental Quality Act (CEQA) under Section 15303, Class 6, which allows for basic data collection, research, experimental management, and resource evaluation activities which do not result in a serious or major disturbance to an environmental resource. The Municipal Service Review collects data for the purpose of evaluating municipal services provided by an agency. There are no land use changes or environmental impacts created by this study.

The Municipal Service Review also is exempt from CEQA under the section 15061(b)(3), the common-sense provision, which states that CEQA applies only to projects which have the potential for causing a significant effect on the environment and where it is certain that the activity will have no possible significant effect on the environment, the activity is exempt from CEQA; and

NOW, THEREFORE, the Local Agency Formation Commission of the County of San Mateo DOES HEREBY RESOLVE, DETERMINE AND ORDER as follows:

Section 1. By Resolution, the Commission accepts the Executive Officer's Report dated January 14, 2026, Final Municipal Service Review for Town of Portola Valley, and all written comments and attachments incorporated herein and contained in attached "Exhibit A."

Section 2. By Motion, the Commission adopts the Municipal Service Review determinations set forth in "Exhibit B" which is attached and hereby incorporated by reference.

Regularly passed and adopted this 21 day of January, 2026.

Ayes and in favor of said resolution:

Commissioners: Stephen Rainaldi
Kati Martin
Debbie Ruddock
Ann Draper
Virginia Chang-Kiraly

Noes and against said resolution:

Commissioner(s): _____

Absent and/or Abstentions:

Commissioner(s): Jackie Speier and David Canepa



Chair
Local Agency Formation Commission
County of San Mateo
State of California

ATTEST:

Roberto Bartoli
Executive Officer
Local Agency Formation Commission

Date: _____

I certify that this is a true and correct copy of the resolution above set forth.

Diane Estipona
Clerk to the Commission
Local Agency Formation Commission

Date: 1/21/2026

SUMMARY OF COMMENTS FOR TOWN OF WOODSIDE DRAFT MSR				
Letter	Date Received	Respondent	Comment	LAFCo Response
1	1/9/2026	San Mateo County Department of Public Works	Staff comments related to the operation of the Fair Oaks Sewer Maintenance District, existing service area of the District, process for changing the boundaries of the District, and other comments related to sewer services provided by the District.	Comments noted. Details added regarding the Fair Oaks Sewer Maintenance District and sewer service within the Town of Woodside.
SUMMARY OF COMMENTS ON TOWN OF PORTOLA VALLEY DRAFT MSR				
Letter	Date Received	Respondent	Comment	LAFCo Response
1	1/11/2026	Emily Rubin, Intern to Vice Mayor Mary Hufty	The letter suggests additional topics of analysis related to the financial ability MSR determination area and comparison to peer Tax Equity Allocation (TEA) cities.	Comments noted. As the MSR notes, there are four TEA in San Mateo County – Portola Valley, Woodside, Colma, and Half Moon Bay. The Towns of Woodside and Portola Valley have a similar makeup in population size, demographics, geographic, services provided, and revenue streams (vast majority of revenue is from property tax). The other two cities, Half Moon Bay and Colma have vastly different demographics, levels of services, and revenue (Colma’s revenue mostly comes from sales tax and a tax on a local cardroom; Half Moon Bay relies mainly on Transient Occupancy Tax and sales/use taxes). The Towns of Woodside and Portola Valley are the most apt comparison in the County. While both Town’s budgets rely mostly on property tax, the Town of Woodside receives a greater amount (\$6 million) than Portola Valley (\$4 million) largely due to greater assessed property values in Woodside

				(average of \$4.2 million per property) compared to Portola Valley (\$3.1 million per property) and a greater number of parcels in Woodside (2,358) compared to Portola Valley (1,759).
2	1/12/2026	Betsy Morgenthaler, Portola Valley resident and Chair of the Portola Valley Open Space Committee	The letter expresses concern with the Town's fiscal management and accountability. The letter notes dissatisfaction with the Town's General Fund reserves, financial policies, financial transparency, and accounting practices. The letter offers the Town five recommendations to address the concerns. The letter is satisfied with LAFCo Draft Recommendations 3, 4, 5, & 6. The letter also included typographical edits.	Comments noted. New recommendation No. 6 added to report: "The Town should continue to provide updates to the Town Council and the public regarding the finances of the Town and explore additional opportunities to enhance transparency related to finance documents and reports..."
3	1/13/2026	Rebecca Flynn, Town Councilmember, Portola Valley	The letter provides LAFCo staff with copy edits, informational updates, and the correction that the Town has <i>not</i> adopted a Climate Action Plan. The letter suggests the MSR include more discussion regarding: the distribution of property taxes; the option to annex the Ladera commercial district as a subset of Ladera; and logistics and administrative costs for comprehensive sewer annexation options and/or phased approaches.	Comments noted. Figure 4, "1% Property Tax Distribution Sample Tax Rate Area" added to MSR. MSR updated to reflect that the Town has not adopted a Climate Action Plan. Comments were added for additional clarity regarding the potential of annexing commercial areas of Ladera as opposed to the whole unincorporated area of Ladera. A comment was incorporated into the MSR regarding future discussions between the Town, WBSD and LAFCo related to sewer services and annexations.
3	1/13/2026	Rebecca Flynn, Town Councilmember, Portola Valley	Suggestion to include data to confirm that the Town is receiving the full 7% of the 1% property taxes.	Not incorporated into this MSR since this investigation is beyond the scope of the LAFCo MSR process. LAFCo would recommend that the Town contact the County Controller's Office regarding this inquiry.

Fw: Public Comment on the MSR for the PV Town

From: Emily Rubin [REDACTED]
Sent: Sunday, January 11, 2026 4:40:06 PM
To: Sarah Flamm <sflamm@smcgov.org>
Subject: Public Comment on the MSR for the PV Town

CAUTION: This email originated from outside of San Mateo County. Unless you recognize the sender's email address and know the content is safe, do not click links, open attachments or reply.

Hello Ms. Flamm,

I am working as Vice Mayor Hufty's intern, and I have the following comments about the document and was hoping it isn't too late to get more information back before the final reading of this review. We are so grateful for the guidance LAFCo is giving us.

The review shows Portola Valley's fiscal issues and its status as a TEA city, but more clarification would strengthen the document's analysis for us. The review would also benefit from adding whether LAFCo's analysis concludes that Portola Valley's fiscal stress is primarily structural (driven by TEA constraints combined with limited tax base, or primarily operational) related to cost structure, staffing levels, or service delivery models. This would help us better understand what the challenges are within management control versus what is systemic.

The Review notes recurring deficits, reserve drawdowns, and rising contract costs. It would also be beneficial for LAFCo to clarify whether, absent new revenue authority or voter-approved revenue measures, the Town's current fiscal trajectory is viewed as unsustainable over the medium to long term, even assuming continued cost containment and service adjustments.

The MSR references TEA status but does not discuss comparative outcomes. Additional context on whether LAFCo is aware of peer TEA cities (in San Mateo County or elsewhere in California) that have successfully stabilized their finances without adopting new local taxes would be valuable. If such examples exist, identifying the structural differences that mattered most (for example, service models, shared services, governance arrangements, boundary conditions) would provide important context for evaluating Portola Valley's options.

We look forward to getting more information for our future approach to our town situation at the upcoming meeting on January 21st.

Thank You,

Emily Rubin

1185 Portola Road

Portola Valley CA 94028

January 12, 2026

San Mateo Local Agency Formation Commission
Rob Bartoli, Executive Director
Sara Flamm, Management Analyst

I write as a 13-year Portola Valley engaged resident. The Town faces a vitally important 2026 year and priority to get its fiscal house in order. Because the Town noticed Thursday's meeting with LAFCo regarding the Municipal Service and Sphere of Influence Review, it came to my attention, and I am glad to have the chance to share a perspective.

The LAFCo Review will be effective if it relates fully to today's concerns, most importantly fiscal management and accountability. The purpose of taking stock of where we are is to calibrate more closely where we are headed. As it stands, at least in the realm of finances, the draft MSR left a question mark over the commitment to take stock of where we are. My comments are made with this interest in mind.

My comments refer to the Executive Summary (pg 2), Key Issues (pg 4), and the chapter on Financial Ability (pg 14-21).

Note: When referencing the document, the 1st 35 pages pertain to Woodside. The 2nd chapter paged 1-32 pertain to Portola Valley's. These page numbers relate to the second set of pages 1-32.

Page 4, paragraph 2

— Section II. The Summary of Key Issues

"the Town's Reserve Fund is on pace for a deficit by 2029-30 without a new revenue source".

The Town depleted its General Fund Reserves a while ago, as we came to learn in May 2024. This fiscal year 2025-26, the Council passed a budget with a roughly \$200k General Fund deficit. "The Town's Reserve Fund" is a misnomer and likely refers to the Open Space Fund and the Affordable Housing Fund. The Open Space Fund is the largest of the Town's restricted funds (\$9 – 10 mil in value), unambiguously restricted to Open Space purposes. It is *not* the Town's Reserve Fund. It is in a co-mingled account shared by the General Fund.

Page 4, end of paragraph 3; and Page 21, last paragraph (redundant sentence)

— Section II. The Summary of Key Issues

"the lack of audited budget numbers has hindered fiscal forecasting"

Providing good budgets for review depends on access to past actuals. The Town Council members, the Commissioners, the Committees, the residents do not have access to our actuals, making oversight effectively impossible. This has been Portola Valley's continuous state for many years, and in order that we address it, our Review had/has the opportunity to be reasonably forthcoming.

— Page 15, top

(a) Does the organization routinely engage in budgeting practices that may indicate poor financial management, such as overspending its revenues, failing to commission independent audits, or adopting its budget late?

[Response]

The primary source of revenue for the Town's general fund is property tax (53% of proposed

revenue in FY2025-26), followed by a Utility Users Tax (14%) and permit fees (11%). As the Town is largely residential, with only a small commercial base, sales tax equated to only 4% of total revenue to the general fund.

The Town of Portola Valley is classified as Tax Equity Allocation (TEA) city, because it had low or no property taxes in 1978, when Proposition 13 was passed and froze property taxes at their current levels in perpetuity.¹⁰ To help solve the problem of TEA cities lacking sufficient property tax revenue to support the growing costs of basic services, a series of bills were signed into law in 1980s. This legislation mandated a formula in which California's no or low property tax cities receive a minimum of 7% of the property tax revenue available within their boundaries. For cities in San Mateo County, the County Controller's Office is charged with implementing the TEA formula. In 2005, Portola Valley discovered it was not being allocated property taxes in accordance with the TEA formula.¹¹ The County of San Mateo agreed that there were missed payments and five months later, paid Portola Valley the funds, \$2.5 million in total, that they had failed to allocate over the previous 15 years. Since that correction in 2005, LAFCo is not aware of any other issues related to the TEA funding formula for the Town.

Does this respond to the question asked?

— Page 14, bottom

Financial Ability Provision grid

Question (a), the response is “Maybe”.

In recent years the Town has suffered a great deal and continues to suffer from our financial issues. In November 2023, residents learned that our bookkeeping was in very serious disarray; the accounting omissions were significant. In May 2024, the residents learned our General Fund account balance was overstated by \$3.8 million, and we were faced with an insufficiency issue years before we thought we would be. Our still outstanding audits present staff with a daunting task they evidently struggle to stay abreast with. Meanwhile Council members and residents have severely limited access to actual expenditure information (warrant list), making oversight infeasible.

Does the response, “Maybe” point to an accountability problem, or why would the Review skirt this?

— Page 14 bottom

Financial Ability Provision grid

(e) *Is the organization lacking financial policies that ensure its continued financial accountability and stability?*

Question (e), the response is “No”.

— On Page 21, paragraph 2

Three Policies are provided to support the answer “no”:

- General Fund Minimum Fund Balance Policy (2025 revision),
- Investment Policy (2012 revision), and
- Donation Policy (adopted 2025).

Independently and at the time unaware of the LAFCo Review, I emailed the Town last week to request Portola Valley's written policy of how we allocate investment returns and expenses across our pooled assets. The Investment Policy nods to the pooling of funds, respective fund participation, and GAAP but without specificity.

I would like to make stewardship possible. Looking to the LAFCo Review, the Town appears satisfied with the status of existing policies. I am not yet confident.

Page 22, top

— Recommendations

LAFCo's Recommendations 3, 4, 5, and 6 seemingly flow from what has been provided. They are fine, and I offer a handful more for consideration.

- Strengthen monthly accountability through the warrant list/check register by including each check's account classification/category.
- Comply with California Govt Code 41004 (2023) such that the Town posts monthly Treasurer reports including receipts, disbursements, beginning/ending balances for all accounts.
- Create a separate Audit Committee who meet with the Auditor. Currently our Finance and Audit Committee serve a dual role. In the 5 years the Town has been in behind on our Audits, the F & A Committee has met with the Auditor a single time. Checks and balances in Portola Valley could use strengthening.
- Open-up Open Gov, our financial portal. For too long those allowed access have been limited to Town Finance, Town Manager, and more recently, the auditor.
- To avoid ongoing confusion and regularly arising accounting questions, create a separate account for the restricted Open Space Fund.

Though the Draft currently lacks a fully forthcoming assessment of our finances, the final MSR could serve as an important catalyst. The Town truly needs to leverage these next 7.5 months.

Thank you for your attention and oversight.

Sincerely,

Betsy Morgenthaler

Portola Valley resident and Chair of the Open Space Committee



timely Re: Comments to LAFCo, Portola Valley's Draft Municipal Services Review

From Betsy Morgenthaler [REDACTED]
Date Fri 1/16/2026 11:26 AM
To CTL_LAFCO <lafco@smcgov.org>
Cc Sarah Flamm <sflamm@smcgov.org>

CAUTION: This email originated from outside of San Mateo County. Unless you recognize the sender's email address and know the content is safe, do not click links, open attachments or reply.

Dear Mr. Bartoli,

Thank you for the opportunity to participate in Portola Valley's Municipal Services Review and acknowledging receipt of my comments made prior to your deadline, Monday October 13th.

- Most importantly I'd like to make a one word correction to my comments as I discovered a typo-word omission. The typo omission appears on my 2nd page, 2/3rds down, and as you received the sentence reads:
Meanwhile Council members and residents have severely limited access to actual expenditure information (warrant list), making oversight infeasible.
whereas, I intended the parenthesis to note the warrant list as an exception, so intended it to read "*(warrant list excepted)*".

It is an important correction, as since September 11, 2024, our warrant lists have been in order.

- Secondly, I understand LAFCo reached out to Portola Valley for information in late spring/ early summer 2025. Our permanent Town Manager Darcy Smith would not have been included in that response as she had not been hired.

Recent 5 Portola Valley Town Managers, a recap — Following the departure of Town Manager "A" in March 2023, the then Council appointed Interim Manager "b" who served from March 2023 - Aug 2023, the Council then appointed a permanent Town Manager "C" who served us for 1 year Aug 2023 - Sept 2024. The Council then appointed Interim Manager "d" who served us from Dec 2024 - late July 2025. Permanent Town Manager Darcy Smith "E" began July 26, 2025.

- Lastly for the sake of background, and although LAFCo's deadline has passed, a pair of pages (5 and 6) posted to the Finance and Audit Committee Agenda October 15, 2024 by Portola Valley Town Finance illustrate our financial situation, though for some reason the circumstances were not represented in fact or spirit in the LAFCo MSR report.

<https://www.portolavalley.net/home/showpublisheddocument/18762/638642416283800000>

Prior to the current Sheriff contract issues, Town spending regularly exceeded revenue. Over years of sparing access to financial information, the Town needs more revenue, timely reporting, and oversight. It will take *all* of our commitment, though if we have the will, we are in a position to reset ourselves on a solid course including timely financial reporting, structural oversight, and from there able to make a strong case for increased revenue.

Regards,
Betsy Morgenthaler

PV MSR

CAUTION: This email originated from outside of San Mateo County. Unless you recognize the sender's email address and know the content is safe, do not click links, open attachments or reply.

Hi Rob and Sarah,

Thank you for updating Portola Valley's MSR and SOI. It's great to have a new one after nearly 20 years.

My comments are the following: (I included page numbers for the full combined WD/PV document and the page numbers for just the PV document)

1. The option to annex the Ladera commercial district(as opposed to all of Ladera) is not discussed as a separate option.
2. A table detailing the 1% property tax distribution, showing where our community's property taxes go is not provided in the MSR. See attached for the 2007 version. It's important that residents understand how their full property taxes are being allocated.
3. The MSR doesn't provide any details on the logistics and administrative costs for more comprehensive sewer annexation options and/or for phased approaches.
4. The data to confirm that the Town is receiving the full 7% of the 1% property taxes is not provided.
5. Adequacy of services for planned RHNA growth
 - a. "Is the agency's territory or surrounding area expected to experience any significant population change or development over the next 5-10 years?" answered "NO" page 44. With the requirement to plan for 253 new housing units, the potential for 253 to 506 to 759 to even more new residents, depending on the makeup of the sizes of the units, could increase the population by 3-10% in the next 5 to 10` years. That seems significant enough to qualify at least as a "maybe" impact. This contrasts with the text in

the MSR: “As of January 2025, the estimated population is 4,286.2 The Town’s population is estimated to grow between 0-2% in the ten years between 2020 through 2030”. page 44/7 In addition the community is characterized by many longstanding (50-60+ years) residents who are now moving into care facilities or passing away. This aging out is accelerating the changeover of houses and adding more residents. The Town is also actively working to facilitate new ADUs and some multifamily developments so population will likely increase in the next 5 years but we will reach growth limits for future units due to our terrain and fire and geological hazards at the end of this RHNA cycle.

6. MSR Determination No. 3 Recommendations: Missing is the need for the Town to continue to coordinate with the SMC Sheriff’s office and Woodside or other municipalities on a reasonable public safety contract.
7. WFPD: “Furthermore, the Town has a contract with WFPD for enhanced services, financed entirely by the general fund. In FY2023 24, actual contract costs totaled \$171,446.” It would be helpful to indicate that 17.24% (updated number?) of PV property owners’ property taxes are paid to the WFPD to provide fire protection services. The contract for PV for \$171K is only for extra trimming and hardening services. It’s important that the MSR reflect the reality of how our taxes are distributed.
8. MSR Determination No. 7: The Town has adopted a Climate Action Plan. This is incorrect. The Town has NOT adopted a Climate Action Plan. Page 67/30
9. Minor updates to the information
 - a. new Mayor and Vice Mayor as of December 2025; page 69/32. The new Mayor is Craig Taylor and the Vice Mayor is Mary Hufty.
 - b. “and the formation of the ad-hoc Housing Element Post-Adoption Plan Town Council Subcommittee.” Actually, the Town formed four separate Ad-hoc committees: the Ad-Hoc Housing Element Committee, the Ad-hoc Housing Element Post-Adoption Plan Town Council Subcommittee, the Site Selection Town Council Subcommittee, and the Ad-Hoc Site Evaluation Committee
 - c. “MSR Determination No. 1: Over the next five years, the population of the Town of Portola Valley (4,286) is projected to grow between 2-4%.” Page 9/46. This conflicts with the information provided on page 44/7 which says 0-2%.

- d. “Funding for Housing Element policy implementation and other long-range housing planning work is sourced from the Affordable Housing Fund.” page 49/13. This statement is not correct. Only HE policy implementation and housing planning work that relates to *affordable housing* is eligible to use the Affordable Housing fund. All activities not related to affordable housing are funded through the General fund.
- e. “and the interim Planning Director position is currently being filled by a retired annuitant.” Page 50/13. This is now out of date. We have hired a new permanent Planning and Building Director, Sarah Cawrse. She started at the end of 2025.
- f. “The Town reports that it has recovered the costs associated with hiring the consultants through permit-fee collections.” Only the costs associated with development applications have been covered by permit fee collections. Consultant costs for general planning and building tasks have come out of the General Fund and have been covered by the unused salaries of the vacant positions.
- g. Table 4 shows the Town’s total expenditures but doesn’t separate out the cost of the Sheriff’s contract which would be helpful as that section discusses the issues of the extreme costs of the contract.

10. Minor typos

- a. Dependent Special Districts: Los Trancos Cofunty Maintenance District, page 42
- b. “the actual development of the 253 units could to occur within this same time frame or at a later date.” Page 44/7. Words would appear to be missing from this sentence.
- c. “The Town has budgeted in the Town Affordable Housing Fund, which a fund that is separate from the Town’s General Fund, for a consultant support this work.” Page 46/9 missing words.
- d. “However, West Bay Sanitary District (WBSD) does have 1,320 properties in the Town that are connected to its sewer system.” As mentioned in the meeting, this number is much too high. Page 48/11
- e. “there were several deficiencies related to internal controllers”. This should read internal controls. Page 52/15

- f. “In the FY2022-23 budget, the general fund deficient was estimated to be” This should read deficiency page 53/16
- g. “deferred maintenance will increases capital project costs in the future” Should read increase. Pag 54/17
- h. Table 1 numbers for FY23-24 and 22-23 do not match the verbiage on the previous page. “In the FY2022-23 budget, the general fund deficient was estimated to be \$793,544, which subsequently grew to \$1,577,538 for just the next year.”
- i. I find the term “non-operating revenue” when referring to property taxes confusing as property taxes are the largest source of the Town’s revenue. I don’t understand the concept of “operating revenue” wrt a Town government.
- j. “Sherriff’s” Sheriff’s- typo
- k. “there were several deficiencies related to internal controllers, accounting, and workflow in the Town’s Finance Department.” Should read controls. Page 58/21
- l. “This committee works in cooperation...” Should read: The EPC committee works in ... page 67-8/29-30

Thanks for your work on the MSR.

Regards,

Rebecca Flynn

Town Councilmember

Portola Valley