



LOCAL AGENCY FORMATION COMMISSION

**Municipal Service Review and Sphere of
Influence Review for
Highlands Recreation District**

Final Draft

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Municipal Service Review and Sphere of Influence Review for the Highlands Recreation District

Highlands Recreation District

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EXECUTIVE SUMMARY

Section I: Report Overview

This report is a Municipal Service Review (MSR) and Sphere of Influence (SOI) study for the Highlands Recreation District. 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 is comprised of 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 an MSR

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 communities¹ 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.

Water Resiliency and Climate Change

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 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.

¹ "Disadvantaged community" means a community with an annual median household income that is less than 80 percent of the Statewide annual median household income. This area of determination does not apply to the study area.

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

A hearing for the Draft Report was held at LAFCo's May 20, 2026 meeting. The report will subsequently be circulated for comment to the agencies under study as well as interested individuals and groups. 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 the special district 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 "DUC's," 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 DUC's within the current boundaries or service areas of Ladera Recreation District or Highlands Recreation District.

Section II. Summary of Key Issues

HRD meets the recreational service needs of existing development within its boundaries, as well as extending services to residents outside its boundaries. HRD is at capacity and does not plan to expand services. Facilities and equipment are well maintained and annually inspected. However, currently, there is no process for adopting a formal multi-year Capital Improvement Plan, or a similar document. HRD Staff turnover rates are moderate, with 45% annualized turnover Districtwide in FY2024-25.²

In December 2010, HRD assumed a debt of \$3,195,000 for the purpose of constructing a new early childcare center. As of February 2026, the remaining balance on the loan is \$1,578,000, and for FY2025-26, HRD anticipates spending 5% (\$204,290) of total annual expenditures (\$4,531,790) on debt payment. The debt is scheduled to be paid off by 2035.

The financial position of HRD appears satisfactory, however the actual situation is not entirely confirmed since the annual independent financial audits utilize projected figures and not actual revenues and expenditures. HRD budgeted 35% more in total expenditures for FY2025-26 (\$4.5M) compared to \$3.3M FY2024-25, largely due to planned facility maintenance to address the backlog of deferred maintenance items. According to HRD staff, as of January 31, 2026, the HRD fund balance held in the San Mateo County Investment Pool was \$5,477,387. This amount exceeds the annual budgeted expenditures of the District. HRD does not have policies that set

² According to data provided by HRD staff.

target reserve levels for any of its five reserve accounts: the General Fund reserve, Contingency Reserve, Capital Reserve, EEC Building Reserve and the Building Renovation Reserve.

HRD theoretically could apply to LAFCo to provide any of the services offered by other districts in its area, however LAFCo is not aware of any application to do so.

Section III. Affected Agencies

Highlands Recreation District

Cities/Towns and County: San Mateo County, City of San Mateo

School Districts: San Mateo-Foster City Elementary School District, San Mateo Union High School District, San Mateo County Community College District

Independent Special Districts: Sequoia Healthcare District, San Mateo County Harbor District

Dependent Special Districts: County Service Area No. 1, Highlands Landscape Maintenance District, Bel Aire Lighting Maintenance District, Crystal Springs County Sanitation District

Section IV. Municipal Service Review for Highlands Recreation District

Background

In September 1957, local voters and the Board of Supervisors established the Highlands Recreation District (HRD), an independent Community Services District. HRD was formed for the purpose of providing public recreation by means of parks, playgrounds, swimming pools, or recreation buildings.³ HRD is operating pursuant to Section 61000 et seq of the CA Government Code (Community Services District Law).

HRD is located in the unincorporated San Mateo Highlands neighborhood of San Mateo County. HRD operates a recreation center which includes a swimming pool, baby pool, multi-use courts, and playground. HRD offers various childcare and athletic programs to residents and non-residents at tiered rates.

Inventory of Active Services

Pursuant to Government Code Section 56425(i), in preparing a MSR and SOI update, LAFCo is required to prepare a statement of the nature and location of functions and services provided. LAFCo must identify which services a multi-purpose district is actively providing, and which are inactive. HRD has the following active services:

- Acquire, construct, improve, maintain and operate recreation facilities including parks and open space.⁴
- Public recreation through parks, playgrounds, swimming pools, recreation buildings, community centers and child care facilities.⁵

³ San Mateo County Board of Supervisors Resolution No. 12232 adopted September 24, 1957.

⁴ Government Code Sections 61100(e) and (f)

⁵ Government Code Section 61100(s)

The district's enabling legislation permits a broad set of services similar to those of a city with the exception that community services districts do not have land use authority. If in the future it is determined that other services permitted in Community Services District enabling legislation should be provided and funded by HRD, the Board of Directors as governing body of the District could apply to LAFCo. The application would include a plan for providing services and a proposed budget, including revenues to fund services and any associated revenue sources such as an assessment, fee, or tax.

Overview

The Highlands Recreation District (HRD) is governed by an elected five-member Board of Directors, each serving a four-year term. There are no term limits, meaning Board members may run for re-election as many times as they choose, provided they remain registered voters living within the district boundaries. The board members do not receive compensation.

Meetings of the Board of Directors are held on the second Tuesday of each month at 7PM at the Multi-Purpose Room at 1851 Lexington Ave., San Mateo. Participation by the public is also available remotely via Zoom. Meeting agendas and minutes are published on the District website, for year 2019 to the present. As of January 2026, the HRD employs 20 full-time staff and 7.5 FTE part-time/seasonal staff.

HRD is comprised of 789 parcels on 3.45 acres of land, as well as 40 acres of unimproved open space land. Over the past 70 years, HRD boundaries have remained relatively unchanged. See Figure 1.

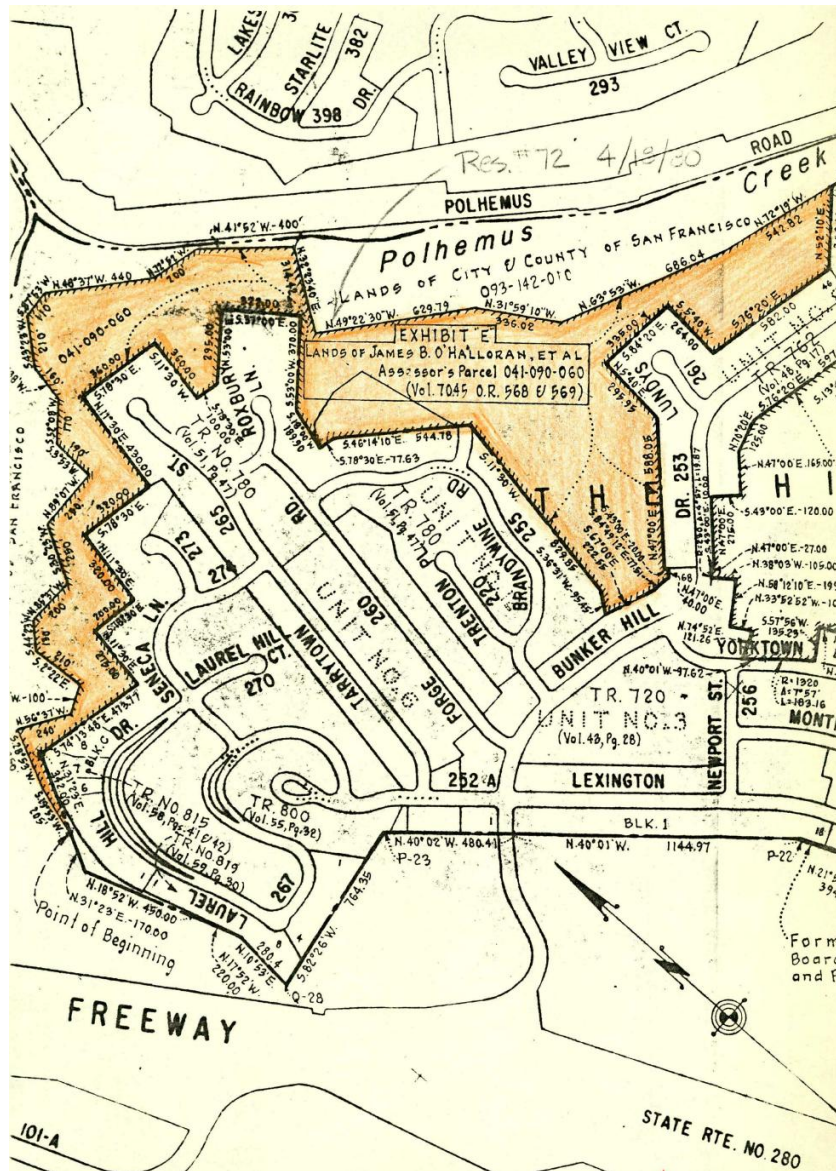
Figure 1. Original Highlands Recreation District boundaries



Source: Resolution 12232, Formation 9/24/1957

On March 18, 1980, HRD annexed 40 acres of undeveloped land contiguous to the District, as shown in Figure 2 below. According to a restriction on the 1986 deed to the property, no structures are to be built on the open space land.

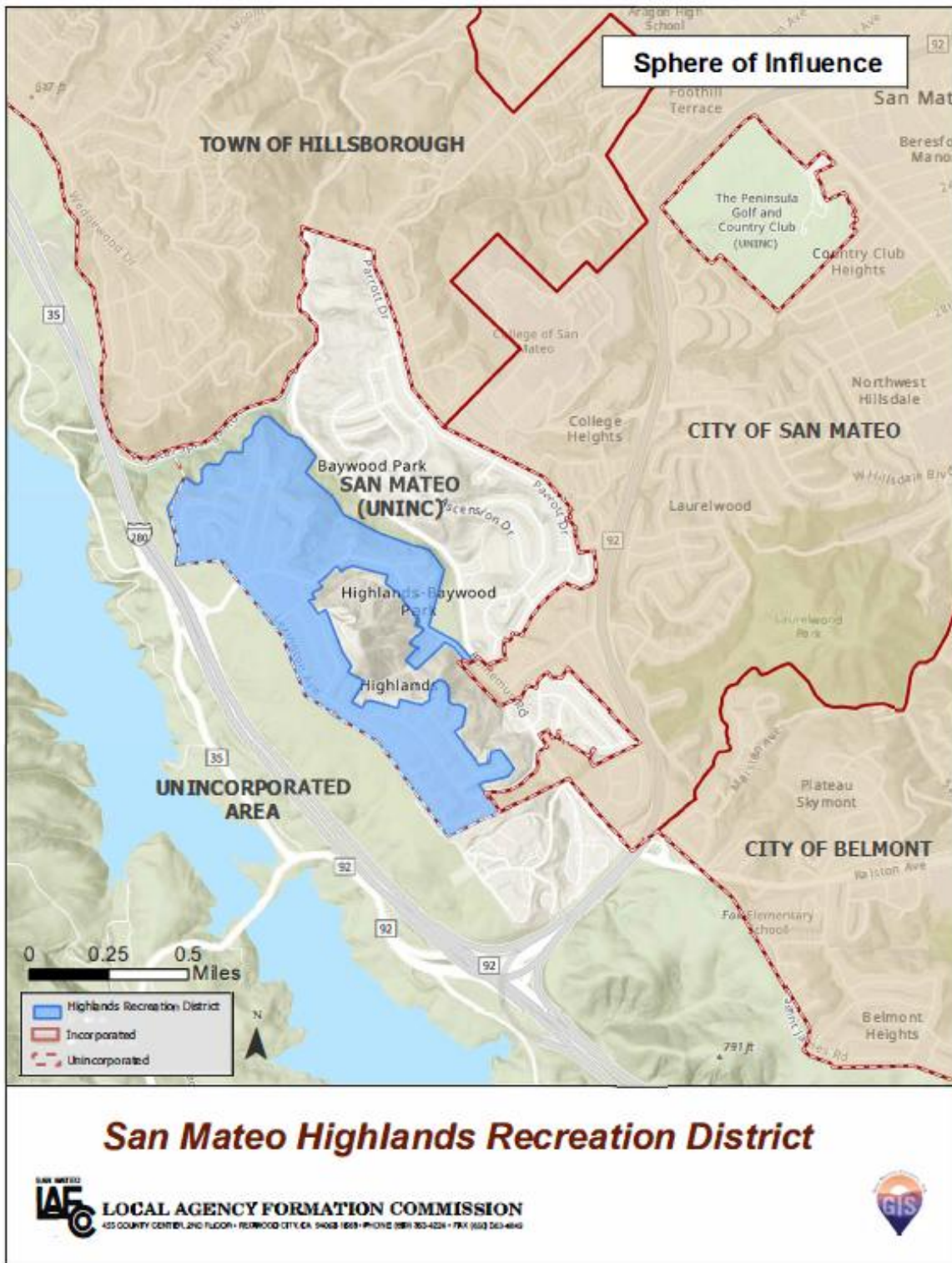
Figure 2. Annexation of open space land to HRD in 1980 (APN 041-090-160)



Source: LAFCo File No. 79-28, Reso. No. 72

The HRD sphere of influence (SOI) is coterminous with the district boundaries, as shown in Figure 3, below. While non-residents may utilize programs and services, there is no planned or recommended expansion of HRD boundaries or service area.

Figure 3. Sphere of Influence Map for Highlands Recreation District



1) Growth and Population: Highlands Recreation District

The MSR determinations checked below are potentially significant, as indicated by “yes” or “maybe” answers to the key policy questions in the checklist. If most or all determinations are not significant, the Commission may find that an MSR update is not warranted.

Growth and population projections	<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) The Highlands Recreation District (HRD) has an estimated population of 3,120. HRD covers a portion of the unincorporated community of the San Mateo Highlands.⁶ According to the County Assessor, as of 2026, there are 789 parcels within the boundary of HRD.

Over the next 5-10 years, no significant population change or new development is expected within the current HRD boundaries, based on a review of planning documents from the County of San Mateo and the Association of Bay Area Governments. The extent of development within HRD will likely be limited to the construction of accessory dwelling units (ADUs) on existing properties, and SB-9 lot splits. There are few opportunities for more development within the District given lack of site availability. Population growth is likely to remain within the 2-4% range over the next ten years.

MSR Determination No. 1: Over the next five years, the population of HRD (est. 3,120) is projected to grow between 2-4%. There are minimal opportunities for subdivision or infill, as the community is almost entirely built out. The district owns 40 acres of undeveloped land which has a restriction on the 1986 deed that specifies no structures are to be built on the land.

Recommendation: None.

⁶ The adjacent unincorporated community of Baywood Park is not located within the boundaries of HRD; Baywood Park is a separate CDP.

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 Highlands Recreation District does not provide sewer, municipal or industrial water, or structural fire protection services. While the sphere of influence of HRD is within unincorporated territory, this area is not classified as disadvantaged.

MSR Determination No. 2: HRD’s sphere of influence and corporate boundaries do not include disadvantaged unincorporated communities nor does HRD 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-d) HRD meets the recreation service needs of existing residents within its boundaries as well as residents that use District services that reside outside of HRD boundaries. According to staff, HRD has not expanded services as they are at capacity for space availability and state licensing permission. As of 2026, the Afterschool Program capacity for Grades K-5 is 86 children, In-Crowd, a middle school program is 14 children, and the Early Education Center capacity is 44 children across three classrooms.

District facilities include: swimming pool, baby pool, three tennis courts, one pickleball court, playground, outdoor basketball court, locker room and storage, lifeguard office and storage, fitness center, three-quarter size basketball gym, full kitchen, restrooms for men/women, staff, and children only; storage room, 670 square foot office and restroom, afterschool social room, licensed early education center, ADA accessible registration office and a community room with kitchenette.

Facilities are available for fee-based usage by HRD residents, non-residents, and guests. In general, usage fees are 10% higher for non-residents, and priority for program enrollment is given to residents.

As of February 2026, HRD staff includes 20 full-time employees (FTE) and 7.5 part-time/seasonal FTE, with two vacancies. The total number of staff has more than tripled from 9 in 2022 to 29.4 in 2026, largely due to COVID-furloughed staff returning to work over the course of FY 2023. See Table 1 below. The HRD Board appoints the General Manager, who in turn appoints managerial and supervisory staff. HRD hires contractors to provide services including a Preventative Maintenance Contract for annual inspections, repair and replacements and janitorial service.

Table 1. Highlands Recreation District Staff Count (FTE)

Year	Full-Time	Part-Time	Vacancies	Total
2022	24	10	15*	49
2023	21	3.1	11*	35
2024	22	4.4	7	33.4
2025	18	7.5	3	28.5
2026	20	7.5	2	29.5

Source: HRD staff

**Attributed to COVID-19, according to HRD staff*

Capital Projects: HRD maintains a list of capital projects and replacement and maintenance schedules for district-owned facilities, components, and equipment. This list is reviewed by the Board and project status is highlighted in monthly notes from the General Manager published on the HRD website. There is no official multi-year capital improvement plan, however. Funds for capital projects are maintained in the HRD Capital Reserve, which as of April 2026 had a balance of \$473,296 (audited). The HRD main building, pool, tennis courts, and playground were all built in 1966. As of early 2026, planning is underway for a pool renovation/construction project, slide repair project and tennis court renovation. There is a

Major capital projects completed in the last three years included a Playground Sports Court (\$305,765, completed June 2023); Pool Climbing Walls (\$24,304, completed August 2023); and the Administrative Building Balcony/Stairs Project (\$147,439 completed June 2024). In 2025, HRD purchased a truck (2017 Nissan Titan) and SUV (2024 Chevrolet Traverse). In 2019, HRD purchased a golf cart.

e-f) HRD staff do not foresee changes in State regulations that would require significant facility and/or infrastructure upgrades. There are no disadvantaged unincorporated communities within or contiguous to HRD boundaries.

MSR Determination No. 3: HRD meets the recreational service needs of existing development within its boundaries, as well as extending services to residents outside its boundaries. In FY2025-

26, HRD has 20 full-time staff and 7.5 part-time/seasonal staff. Funds for capital projects are maintained in the HRD Capital Reserve, which as of April 2026 had a balance of \$473,296. There is no process for adopting a formal multi-year Capital Improvement Plan or other facility planning document.

Recommendation

- 1) Consider adopting a process for the Board of Directors to approve a 3 to 5-year Capital Improvement Plan or facility planning document and publish the plan on the District website.

4) Financial Ability

Financial ability of the agency 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-f) Highlands Recreation District (HRD) typically adopts an annual budget in August. The FY2025-26 budget projected approximately \$4.4M in revenue and \$4.5M in expenditures. See Table 2, below. The HRD budget has one fund, the General Fund. According to HRD's most recent independent financial audit published on June 30, 2025, the District's financial position continues to be adequate.⁷

For the FY2025-26 budget, expenditures are projected to exceed revenue by \$136,408 and HRD plans to utilize fund balance to close the gap. HRD has budgeted 35% more in total expenditures

⁷ O'Connor & Company, June 30, 2025

for FY2025-26 (\$4.5M) compared to \$3.3M FY2024-25, largely due to planned facility maintenance to address the backlog of deferred maintenance items. These projects include plumbing repairs (\$25k budgeted), electrical system checks (\$34k), addition of a landscaping contract to address defensible space annual clean-up and monthly maintenance (\$30k), replacement of the HRD Entry Sign and other signage (\$7,500), and landscaping improvements (\$20k). Insurance expenditures have also increased in FY2025-26 due to rate increases.

Table 2. HRD General Fund Budget Actuals FY22/23-FY25/26 (Unaudited)¹

	FY2025-26 (projected)	FY2024-25	FY2023-24	FY2022-23	FY2021-22
General Fund Revenues					
Park and Rec. Fees	3,370,107	\$2,953,017	\$3,028,337	\$2,923,950	\$2,763,890
Property Tax	749,124	\$913,955	\$837,948	\$801,029	\$760,971
Interest	156,000	\$134,452	\$132,985	\$49,779	\$25,716
Misc.	\$120,151	\$7,499	\$83,312	\$127,658	\$485,193
Total Revenues	\$4,395,382	\$4,008,923	\$4,082,582	\$3,902,416	\$4,035,770
General Fund Expenditures					
Salaries & Benefits	\$2,671,506	\$2,147,579	\$2,197,058	\$1,981,798	\$1,991,853
Operating Expenses	\$1,333,294	\$968,154	\$916,958	\$889,437	\$773,433
Debt Service	\$204,290	\$203,955	\$204,481	\$202,852	\$202,053
Capital Outlay	\$322,700	\$23,006	\$188,823	\$314,889	\$86,039
Total Expenditures	\$4,531,790	\$3,342,694	\$3,507,320	\$3,388,976	\$3,053,378
Net	(\$136,408)	\$666,229	\$575,262	\$513,440	\$982,392

Notes: 1) Unaudited because due to accounts not including final actuals.

HRD Park & Recreation Fees: In FY2024-25, HRD generated \$2.9M in revenues from Park and Recreation fees, or 74% of total annual revenue. See Table 3. Park and Recreation fees include tuition for the Early Education Childhood Center (ECC), tuition for the AfterSchool Program (ASP), pool entry fees, school break camps, and half-day enrichment camps, among other HRD programs.

Table 3. Park and Recreation Fees as Share of Total Revenue, FY22/23-FY24/25 (Unaudited)

	FY2024-25	FY2023-24	FY2022-23	FY2021-22
Park & Recreation Fees	\$2,953,017	\$3,028,337	\$2,923,950	\$2,763,890
Total Revenue	\$4,008,923	\$4,082,582	\$3,902,416	\$4,035,770
Share	74%	74%	75%	68%

Unlike Ladera Recreation District (LRD), HRD does not charge an annual membership fee. Instead, each program or activity has an associated user fee. For both districts, nonresidents are charged more than residents and residents have more privileges such as the ability to use the gym, reserve a tennis court, and obtain first access to register for high-demand children's camps and programs.

HRD most recently increased its facility rental rates in 2021. Non-residents pay 10% more in rental rates compared to residents. Facilities available for rent include the multipurpose room \$105/hour, Gym \$115/hour, Picnic Area \$20/hour, or Pool \$150/day. Drop-in pool entry fees are \$7 for Highlands Residents and all seniors, and \$15 for non-residents. Alternatively, users can purchase a 10-swim punch card for \$60 for residents, and \$130 non-residents.

Both HRD and LRD offer private swim coaching, tennis lessons, and children’s summer and enrichment camps. In addition, HRD also offers daily childcare services through the Early Education Center (EEC) and the AfterSchool Program (ASP).

Enrollment fees for the EEC and ASP increase annually by 3-5%. Non-residents pay 9% more in tuition costs compared to residents. See Table 4. Most recently, in 2025, HRD increased the tuition based on market research, and staff report that the cost of the EEC is within market value of competitors. According to HRD staff, parents are concerned with the rising cost of childcare in the region.

The EEC is a state licensed child care center⁸ for children ages 3 months to 5 years old. The EEC was constructed in 2010 using debt financing. As of February 2026, the remaining balance on the loan is \$1,578,000. The EEC is divided into three classrooms based on age with a total capacity of 44 children, with 12 full-time staff who are direct employees of HRD. Each January, students are enrolled for the following year. Priority enrollment is reserved for 1) siblings of currently enrolled EEC children; 2) Highlands District Residents; 3) Students of siblings enrolled in the after school program; and 4) non-resident families. As of February 2026, EEC enrollment is full, and there is a waitlist. There are no plans to expand or increase capacity at the time of writing this report.

Table 4. Early Education Center (EEC) Monthly Rate for Residents vs Non-Residents, 2025-26

	Highlands Residents	Non-Residents	Difference
Infant Program	\$3,128	\$3,441	9%
Young Preschool	\$2,829	\$3,112	9%
Pre-Kindergarten	\$2,829	\$3,112	9%
TK Half Day Afterschool	\$1,697	\$1,867	9%

The ASP is a state licensed day care center (grades K-5) founded in 1985. The ASP employs 2 full-time staff, 8 part-time staff, and 8 seasonal staff, with exact numbers adjusted based on availability. Enrollment is typically at capacity, accommodating 109 students (64 residents and 45 non-residents as of February 2026). Nonresidents pay 10% more for ASP tuition than residents.

⁸ [Social Services - Community Care Facility search](#)

Table 5. AfterSchool Program (ASP) Monthly Rate for Residents vs Non-Residents, 2025-26

Sept/Oct/Nov/Jan/Mar/Apr/May												
TK/Kinder Grades 1-9	5 days/week		4 Days/week		3 days/week		2 days/week		1 day/week		Drop-In	
	Res	Non Res	Res	Non Res	Res	Non Res	Res	Non Res	Res	Non Res	Res	Non Res
	\$1,000	\$1,100	\$896	\$986	\$744	\$819	\$544	\$599	\$296	\$326	\$85	\$90
	\$824	\$906	\$756	\$832	\$639	\$703	\$474	\$522	\$261	\$288	\$80	\$85
Aug/Dec/June												
TK/Kinder	\$601	\$661	\$577	\$635	\$505	\$556	\$385	\$424	\$216	\$238		
Grades 1-9	\$495	\$545	\$492	\$541	\$441	\$485	\$342	\$376	\$195	\$215		

Property Tax Revenue: Property tax is consistently the second largest source of revenue for HRD after Park and Recreation fees. In FY2024-25, HRD received \$913,955 in property tax revenue, or 23% of the total annual revenue (\$4M). See Table 6, below. According to the County Assessor, as of 2026, HRD has 789 parcels, valued at an average \$1.2M per parcel. The HRD's actual tax revenue is consistently below the legal appropriations limit annually adopted by the Board.⁹

Table 6. HRD Property Tax Revenue as a Share of Total, FY22/23-FY24/25 (Unaudited)

	FY2024-25	FY2023-24	FY2022-23	FY2021-22
Property Taxes	\$913,955	\$837,948	\$801,029	\$760,971
Total Revenue	\$4,008,923	\$4,082,582	\$3,902,416	\$4,035,770
Share	23%	20%	20%	19%

As a result of Proposition 13, a share of HRD residents' property tax bill—approximately 10% of the 1% tax— is allocated to the HRD. Table 7 below shows the distribution of the 1% property tax in a sample tax rate area within the District.

⁹ [Resolution+2024-08+2024-2025+Appropriations+Limit.pdf](#)

Table 7. 1% Property Tax Distribution – Sample Tax Rate Area for Highlands Recreation District

Agency	Share (%)
County Service Area No. 1 ¹⁰	26
San Mateo-Foster City Elementary School District	18
County of San Mateo	17
San Mateo Union High School District	12
Highlands Recreation District	10
San Mateo County Community College District	5
County Education Tax	2.6
San Mateo County Libraries	2
Bel Aire Lighting District	2
Highlands Landscape Maintenance District ¹¹	1.8
Crystal Springs Sanitation District	1
Peninsula Health Care District	0.7
County Harbor District	0.2
Bay Area Air Quality Management	0.2
County Mosquito & Vector Control	0.1
Total	100*

Source: County Assessor

Note: Shares vary between tax rate areas. May not total 100 due to rounding.

Expenditures: The consistently largest expenditure category for HRD is Salary and Benefits. In FY2024-25, Salaries and Benefits accounted for \$2.1M or 64% of total annual expenditures (\$3.3M). In FY2022-23, HRD spent \$1.9M (58%) of total expenditures (\$3.4M) on Salaries and Benefits. Expenditures for Salaries and Benefits increased by 8% over the two-year period from

¹⁰ County Service Area No. 1 (CSA 1) is a dependent special district governed by the County Board of Supervisors, managed by the County Department of Public Works, and funded through property taxes and a parcel tax that Highlands' residents must reapprove every four years. CSA 1 is in practice a funding mechanism to provide contracted fire (CAL Fire) and policing (County Sheriff) services to residents in the unincorporated Highlands neighborhood.

¹¹ The Highlands Landscape Maintenance District is a dependent district governed by the County Board of Supervisors and managed by the County Department of Public Works. The special assessment district was formed in 1964 pursuant to Section 5820 et seq. of the CA Streets and Highways Code, for properties in the Highlands neighborhood to fund local landscaping, including erosion control and street island median maintenance.

FY2022-23 to FY2024-25, corresponding to a 152% increase in the total number of staff over the same period.

In October 2016, HRD began offering full-time and part-time staff working over 30 hours per. In 2021, HRD began offering the same group of staff 457(b) and Individual Retirement Accounts. As of February 2026, there are 20.5 FTE staff receiving benefits.

The second largest expenditure category is “Operating Expenses”. In FY2024-25, \$968,000 (29%) of total expenditures (\$3.4M) were for “Operating Expenses”. These include costs associated with programs and facility maintenance. Operating Expenses increased by 9% over the two-year period from FY2022-23 to FY2024-25.

HRD Debt: On December 9, 2010, the District issued \$3,195,000 of certificates of participation. The debt was issued for the purpose of constructing a new early childcare center. The debt was issued with a maturity of September 1, 2040, at an interest rate of 5.5%. In October 2017, HRD refunded the debt, changing the interest rate to 3.1%. As of February 2026, the remaining balance on the loan is \$1,578,000. For FY2025-26, HRD anticipates spending 5% (\$204,290) of total annual expenditures (\$4,531,790) on debt payment. See Table 8 below.

Table 8. HRD Debt Service Schedule for New EEC Building Project

Year Ending June 30	Principal	Interest	Debt Service Total
2026	\$ 153,000	\$ 51,290	\$ 204,290
2027	153,000	46,547	199,547
2028	158,000	41,726	199,726
2029	167,000	36,689	203,689
2030	171,000	31,450	202,450
2031	174,000	26,102	200,102
2032	182,000	20,584	202,584
2033	185,000	14,896	199,896
2034	193,000	9,037	202,037
2035	195,000	3,023	198,023
Total	<u>\$ 1,731,000</u>	<u>\$ 281,341</u>	<u>\$ 2,012,341</u>

Source: O’Connor & Company Financial Audit, 2024-25

Independent Financial Audits: HRD contracts with the independent auditing firm O’Connor & Company to conduct annual financial statement audits. The most recent audit of HRD finances was completed for FY2025. However, the financial reporting documents do not contain audited final actuals for funds and accounts. There are no significant audit findings from the past three years, as reviewed by LAFCo.

Fund Balance and Reserves: HRD funds are held in the San Mateo County Investment Pool. According to HRD staff, as of January 31, 2026, the account balance was \$5,477,387. The auditor reported that as of June 30, 2025, the account balance was \$5.3M. See Table 9. This amount is comprised of five fund balance reserve accounts, in accordance with HRD’s Financial Reserve Policy: 1) The Contingency Reserve not to exceed 15% of the annual operating budget; 2) The Capital Reserve is restricted for large infrastructure projects; 3) The General Reserve is unrestricted for general district use; 4) the EEC Building Reserve is restricted for repayment of

debt; and 5) the Building Renovation Reserve is for seismic upgrades, ADA compliance and renovation projects. As of June 30, 2025, the majority of funds (\$4M) are “unassigned”, and not allocated to one of the five reserve accounts. The District has over a year’s budgeted expenditures in reserves as of FY2024-25. The average excess of revenue has been approximately \$580,000 over each of the last three years.

Table 9. HRD Fund Balance, Audited

Year	Amount
FY2020-21	\$2,516,542
FY2021-22	\$3,498,934
FY2022-23	\$4,012,376
FY2023-24	\$4,587,638
FY2024-25	\$5,301,445

Source: O’Connor & Company Annual Financial Audits

HRD staff report they also utilizes First Citizens Bank, and the account balance as of February 12, 2026 is \$163,963. First Citizens Bank is the District’s primary checking account for district expenses and revenue. This bank does not hold HRD revenue from property tax, ERAF or San Mateo County interest earnings.

Transparency: In 2018, The District was awarded the Special District Leadership Foundation’s District Transparency Certificate of Excellence for its website content. The HRD website hosts an archive of public meeting agendas, minutes and meeting materials from 2019 to 2026. Recordings of meetings beginning in March 2026 are available on the HRD website. The past three years of HRD financial audits (FY23, FY24, and FY25) are available. However, the associated Audit Management Reports are not publicly available. HRD also publishes a monthly e-newsletter that includes information on upcoming classes, programs, job announcements, and a general manager’s note.¹²

Policies and Procedures: HRD maintains a list of existing district policies, with the most recent review date, as well as “recommended” policies for the HRD Board of Directors to adopt which were reviewed this year. The recommended policies that the Board will adopt at a future date include a Capital Asset Policy, Budget Policy, Fee and Revenue Policy, and Recruitment and Hiring Policy.¹³

MSR Determination No. 4: The financial position of the district is adequate. HRD budgeted 35% more in total expenditures for FY2025-26 (\$4.5M) compared to \$3.3M FY2024-25, largely due to planned facility maintenance to address the backlog of deferred maintenance items. According to HRD staff, as of January 31, 2026, the HRD fund balance held in the San Mateo County Investment Pool was \$5,477,387. This amount exceeds the annual budgeted expenditures of the District. HRD does not have policies that set target reserve levels for the District reserve funds.

¹² [General Manager's Note - February 2026 - Highlands Recreation District](#)

¹³ [HRD+Master+Policies+and+Procedures+Index.pdf](#)

The annual debt payment on a loan used to construct a new childcare facility represented 5% of total expenditures in FY2025-26, and the maturity date is 2035. HRD is on track with its independent financial audits, with the FY2025 audit available on the website.

Recommendations:

- 2) For each of the past three years, the annual independent financial audits were not conducted using actual budget figures. Fiscal documents with final actuals and auditor figures may allow for enhanced financial planning for the District, and greater transparency for the public. HRD should consider adjusting procedures and calendars to ensure that the Auditor is able to audit actual revenues and expenditures. Audits, along with their associated Management Reports should be made available for public viewing within one year of publication.
- 3) Adopt and publish a reserve policy that explicitly describes the target size and purpose of the General Fund reserve, Contingency Reserve, Capital Reserve, EEC Building Reserve and the Building Renovation Reserve. The purpose of these reserve funds should clearly articulate the need for and the size of reserves.¹⁴¹⁵
- 4) Review the currently unassigned reserves (approximately \$4M) and consider designating these funds to dedicated reserve accounts, including to the Capital Reserve account, and to specific capital improvement projects.
- 5) Reevaluate the General Fund budget and reserve account to achieve target fund balance, as established in a new HRD reserve policy (per Recommendation No. 2).

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-c) The San Mateo Highlands Community Association, a non-profit home owners association, serves many of the same residents as the HRD, but operates separately. Membership is voluntary.

¹⁴ Little Hoover Commission, Report #239 "Special Districts: Improving Oversight & Transparency," August 2017

¹⁵ California Special District Association "Special District Reserve Guidelines, 2nd Edition 2013

The HRD allows the Community Association to use District facilities for meetings and events under the same policies and insurance requirements that apply to other nonprofit groups. The HRD shares information in the Community Association’s newsletter.

The HRD also provides paid enrichment programs for the Highlands Elementary School, but does not share facilities. HRD rents the Crystal Springs Unity Methodist Church for After School programs. This program provides lunchtime enrichment (scheduled play activities and supervision) 5 days per week for 30 minutes.

MSR Determination No. 5: HRD permits the Highlands Community Association to use District facilities for meetings and events.

Recommendation: None.

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 restructuring 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?

HRD is governed by a five-member Board of Directors, elected by voters within the district. The Board meets monthly on the second Tuesday of each month. Meetings are open to the public

and are held in the HRD Recreation Room. Meetings have a remote access option via Zoom and public comment via Zoom is available. The District posts copies of meeting agendas on their website and the full meeting packets with staff reports are available. On the District's website, the current year agendas and agenda packet from 2019 to 2026 are available for viewing, as well as recorded video of meetings. LAFCo is not aware of any failures to comply with the Brown Act.

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

According to staff, recruitment and retention is challenging for HRD. In response, HRD is adjusting compensation to attract qualified candidates and expanding Human Resources capacity in order to dedicate more time to recruitment and simplify processes.¹⁶

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

HRD maintains on its website for public review the past three years of financial audits, and the FY 2024-25 and FY2025-26 budgets. Historical budgets are searchable in the archive of Board Meeting Packets.

d) Are there any recommended changes to the organization's governance structure that will increase accountability and efficiency?

None at this time.

e-f) Are there any governance restructure options to enhance services and/or eliminate deficiencies or redundancies?

HRD has four dependent special districts providing a narrow set of services within its boundaries: Crystal Springs County Sanitation District, County Service Area No.1, Highlands Landscape Maintenance District and the Bel Aire Lighting Maintenance District. The independent districts operating in HRD include the Peninsula Healthcare District. HRD theoretically could apply to LAFCo to provide any of these services itself, as Community Services District enabling legislation permits a wide range of authorized services.

HRD has a property tax base of less than 800 parcels. If HRD were to assume the responsibility of service provision of any of these other districts, it could initiate a property tax transfer through the dissolution of the other service districts. This observation was made in the prior MSR in 2007 and no change has been proposed to these districts since that report.

LAFCo is not aware of any applications from HRD to activate any additional powers at this time.

MSR Determination No. 6: HRD Staff turnover rates are moderate. Efforts to increase retention by adjusting salaries and dedicating staff time to recruitment are underway. On its website, HRD maintains from 2019-present archived Board Meeting agendas, minutes, agenda packets with staff reports and attachments, and as of March 2026, video recording of the meeting. HRD theoretically could apply to LAFCo to provide any of the services offered by other districts in its area, however LAFCo is not aware of any application to do so.

Recommendations:

¹⁶ [20250812+Board+Packet+FINAL.pdf](#)

- 6) Continue exploring policies and practices that will improve staff retention.
- 7) Consider posting historical budgets for at least the past five years on the dedicated “Agency Budget” page on the HRD website.

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/NA</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) According to CAL FIRE, as of 2025, most of HRD is in a moderate fire severity zone.¹⁷ HRD participates in the San Mateo County Local Hazard Mitigation Plan. In 2025, HRD utilized its own staff for fuel reduction of defensible space, and Fire Safe resources for fire mitigation efforts on District-owned open space. CalFire grants have historically been utilized for fuel reduction of district-owned open space. HRD utilizes San Mateo County Fire Department for defensible space inspections and Highlands CERT for drill reviews and feedback.

MSR Determination No. 7: HRD participates in the San Mateo County Local Hazard Mitigation Plan. HRD utilizes San Mateo County Fire Department for defensible space inspections and Highlands CERT for drill reviews and feedback.

¹⁷ Fire Hazard Severity Zones | OSFM

Recommendation: None.

Section 6. Highlands Recreation District 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 Highlands Recreation District (HRD) is comprised primarily of medium-low density residential land use with some institutional land use and open space land. HRD boundaries contain land that is under the jurisdiction of the County of San Mateo.
2. **The present and probable need for public facilities and services in the area:** HRD meets the needs of its residents and businesses for recreation services, and the District staff anticipate that they will be able to provide adequate facilities and services for the minimal anticipated growth within the service area.
3. **The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide:** HRD currently provides adequate public services to District residents and out of district visitors, including childcare programs, camps, tennis courts, pool, playground, recreation building, and more. In addition, HRD maintains a list of capital projects and an infrastructure depreciation schedule to monitor necessary capital improvements, repairs, and replacements to District 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 HRD.
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:** No change to the SOI for HRD is proposed at this time.

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. Highlands Recreation District Fact Sheet

General Manager: Tamsen Burke (appointed by Board)

Physical Address: 1851 Lexington Ave., San Mateo, CA, 94402

Email Address: gmdirect@highlandsrec.ca.gov

Phone Number: (650) 341-4251

Date of Incorporation: 1957

Board of Directors: Board members serve a four-year term. There are no term limits. Must reside in District.

Board Members	Term Expiration Date
Uy Ut, President	2026
Ranya Francis, Vice President	2026
Andrew Aquino	2026
Chris Carlos	2028
Pamela Merkadeau	2028

Compensation: Board members are volunteers (not paid).

Public Meetings: Regular meetings of the Board of Directors are held on the second Tuesday of each month at 7PM at the Multi-Purpose Room at 1851 Lexington Ave. San Mateo, CA. Participation by the public is also available remotely via Zoom, including the option to provide live public comment on agendized items. Meeting agendas, minutes and materials are published on the District website, with archives for years 2019-2026.

Services Provided: Public Recreation by means of parks, playgrounds, swimming pools, recreation buildings, and a community meeting hall, as well as year-round childcare facilities. Weed abatement.

Agency staff: 20 full-time staff, 7.5 part-time/seasonal staff

Area Served: 3.45 square miles plus 40 acres of open space.

Population: 3,200

Sphere of Influence: Contiguous with corporate boundaries.

FY2025-26 General Fund Budget: \$4.5M (projected)