

August 18, 2010

Hon. Steve White
Presiding Judge
720 9th Street, Dept. 47
Sacramento, CA 95814

Subject: Response to the Sacramento County Grand Jury Report
Survey of Independent Special Districts

Dear Judge White:

San Juan Water District received the Survey of Independent Special Districts completed by the 2009-2010 Sacramento County Grand Jury. The report requested responses to Finding 1 through 5, and their associated recommendations.

Attached please find San Juan Water District's responses to findings and recommendations. If you have any additional questions, please do not hesitate to contact me at 916-791-6936.

Sincerely,

Shauna Lorance
General Manager

SAN JUAN WATER DISTRICT
RESPONSE TO FINDINGS AND RECOMEMNDATIONS
2009-2010 SACRAMENTO COUNTY GRAND JURY

Finding 1.0 ISD directors perform valuable service at minimum cost. However, this survey reveals inconsistent behaviors regarding compliance with sound management practices.

Recommendation 1.1 Directors should review their by-laws every four years to assure compliance with applicable laws, ethical practices, and appropriate behavior.

Response: The District has adopted general District policies that include requirements related to ethical and appropriate behavior, as well as Board Rules for Proceedings. The District periodically reviews and revises the policies. The District will revise the policies to include a review every four years, starting with 2011.

Recommendation 1.2 Directors should limit compensation to reasonable meeting stipends and necessary costs of professional activities. All ISD Boards should ensure that their compensation practices conform to the principles in Section 5.1 of this report.

Response: The District has adopted general policies 2.4, *Compensation and Reimbursement for Board and Committee Meetings Directors*, 2.6, *Director Travel and Reimbursement Policy* that address and conform to the principles in Section 5.1 of this report. The Directors' expenses and reimbursements are individually budgeted and approved by the full board. Expenses are incurred only by board members, and are limited to documented necessary expenses of reasonable participation in scheduled approved professional activities. All Directors are required to complete a Form 700 to provide transparency regarding any meals, entertainment, or other services provided. All Directors compensations, expenses and reimbursements are provided to all Board members during the financial report quarterly and are available for public inspection.

Recommendation 1.3 Directors should limit the use of consent calendars according to the principles in section 5.1 of this report.

Response: The District complies with all principles listed in Section 5.1 of this report. The District generally limits consent items to the approval of any meeting minutes. All meeting minutes are documented in the agenda packet. Any Director can unilaterally remove any consent item. Consent items do not include adoption of any actions involving costs. Executive and Director compensation decisions occur during the open discussion portion of the agenda, and are not approved under the consent calendar.

Finding 2.0 Some ISDs grant monetary awards for education and training; many have inadequate evaluation of employees' degrees and certificates.

Recommendation 2.1 All ISDs should encourage education and training, but should not make direct monetary (cash) awards for educational achievement.

Response: The District has a policy to provide training opportunities for District employees so that job openings can be filled from within, whenever possible. The District does not provide direct cash awards for educational achievement. The District does provide for promotions and merit increases as appropriate for educational achievement and certifications.

Recommendation 2.2 All ISDs should recognize educational degrees and certificates only if they meet the criteria listed in Section 5.3.1.

Response: The District only recognizes educational degrees and certificates that meet the criteria listed in Section 5.3.1 of the report.

Finding 3.0 ISD pension awards and Other Post Employment Benefits (OPEB) have increased markedly in the last decade. Some of these awards are unfair and unsustainable.

Recommendation 3.1 All ISDs should adopt pension and OPEB plans that are fair, affordable and sustainable.

Response: The District has a two-tiered pension and two-tiered OPEB plan. The District's first tier includes:

- 3% at 60 PERS retirement plan based on the highest year compensation
- five-year vesting schedule for health benefits after retirement (the only OPEB provided by the District)

The second tier, adopted in 2009, includes:

- 3% at 60 PERS retirement plan based on 36 month average compensation
- A 10 to 20-year ramped vesting for health benefits after retirement (the only OPEB provided by the District)

The District is funding its actuarial required contribution each year to fully fund the OPEB liability within 20 years.

Recommendation 3.2 To minimize unfair pension boosting, all ISDs should ensure that calculations of employees' base pension awards are on actual base salary earnings over their highest 36 months of earnings and urge CalPERS to promote this standard.

Response: The District strongly supports basing pensions on actual base salary earnings, and strongly disapproves of the practice of "pension boosting". The District adopted a second tier retirement plan that is based on the highest 36 months average of earnings.

Recommendation 3.3 All ISD pension/OPEB changes should be made only after analysis and full disclosure to all parties of the fiscal ramifications.

Response: The District agrees with the statement above.

Recommendation 3.4 All ISD pension/OPEB benefits should have an employee contribution component.

Response: All District pension plans have an employee contribution component of 8%. Per Board resolution, the District pays the entire employee contribution amount. The employer pick up of the employee contribution is included in the compensation surveys performed by the District and used for benchmarking compensations with other agencies.

OPEB benefits have an employee contribution component through the use of copayments and deductibles levels. Employees in the second tier vest in OPEB benefits over a 10-20 year span.

Finding 4.0 The majority of the ISDs surveyed in this study are neglecting their fiduciary responsibility to taxpayers and ratepayers by excessive use of no-bid purchasing.

Recommendation 4.1 Every ISD in Sacramento County should establish and adhere to a goal of minimizing no-bid purchasing. Essentially all purchases except utilities and emergency construction should be by contracts awarded to the lowest responsive responsible bidders.

Response: The District, as a community services district, is required to bid all purchases greater than \$15,000, unless special conditions exist. The District follows this requirement in the vast majority of purchasing. When a specific requirement exists, such as existing equipment, the District is careful to have open communication and discussions during open session at a regularly scheduled board meeting and state the exact reasoning behind any negotiated purchasing.

Finding 5.0 ISDs have not consistently conducted and reported required Independent Financial Audit Reports and management audits.

Recommendation 5.1 All ISDs must complete and file the required annual Independent Financial audit.

Response: The District hires an independent auditor to conduct the required annual independent financial audit. The District files the annual audits with the State Controller and the County of Sacramento and the County of Placer.

Recommendation 5.2 All ISDs should commission a thorough periodic management audit. These audits should be completed by a multi-disciplinary team qualified to examine a district's management practices. This audit should be done in fiscal year 2011, and every four years thereafter.

Response: The District is evaluated by the Department of Public Works to ensure the District is providing proper care and safe operation of the water agency, including the technical, managerial, and financial capabilities of the District.

The General Manager agrees with the recommendation from the Grand Jury on the importance of conducting a periodic review of the management at the District. The District conducted a Human Resources Master Plan in 2005 that included an outcome to clarify and focus management structure and accountability with no increase in management staff. An update management audit would be beneficial, and would align with the goal of continuing to improve the operations of the District.