



PLACER COUNTY GRAND JURY

Placer County Water Agency

Enhanced Service to Placer County Residents Utilizing Reserves from Sale of Surplus Water and Electricity

June 26, 2015

Placer County Water Agency

Enhanced Service to Placer County Residents Utilizing Reserves from the Sale of Surplus Water and Electricity

Summary

The Placer County Water Agency (PCWA) was authorized by the Placer County Water Agency Act (the Act) in 1957, to manage certain water resources for the public good of Placer County residents. PCWA has emerged as a financially secure agency with Unrestricted Reserves in excess of \$110 million plus a Water Systems Expansion Restricted Account balance of \$40 million. PCWA has done an admirable job of managing their water and infrastructure assets for their rate payers. What has not been legislatively specified is how PCWA should manage excess cash generated from either the sale of surplus water or from net revenues derived from the sale of electricity from their hydroelectric operations on the Middle Fork of the American River.

The realities of the ongoing nature of the drought, and its effect on some Placer County communities not part of the PCWA service area, could create a situation where water availability becomes a serious health and welfare issue.

PCWA has Unrestricted Reserves in excess of \$110 million. They need to consider the application of some of those reserves to improve the availability and dependability of potable water to all residents of Placer County.

The Placer County Grand Jury recommends that PCWA consider expanding their vision and mission to include assistance for Placer County neighborhoods and communities not currently in their service areas. This assistance might come in the form of emergency financial aid to other water districts to develop the necessary infrastructure to connect to existing PCWA treated drinking water during extreme drought conditions.

Background

The media has reported on the sale of 35,000 acre feet of surplus water by PCWA to Westlands Water District for \$325 per acre foot in 2014. The sale was approved by the State Water Resources Control Board (SWRCB) and resulted in \$11.4 million of revenue for PCWA. The water became “surplus” because PCWA has no means of storing all of its appropriated water from the Middle Fork Project (MFP). The sale occurred at the same time as PCWA was instructing its customers to conserve water as a result of the drought. Revenue from this sale was

placed into an unrestricted reserve account from which the PCWA board can allocate funds for any type of project or purpose within the authority of the PCWA Act. The Grand Jury, aware of the ongoing drought and potential needs of county residents, decided to look at PCWA's future plans for use of reserve funds.

Investigation Methods

- Interviews of PCWA management staff and board member
- Review of current documents: 2015 Budget, 2013 Audit, 2014 draft Audit (portion only), 2015-19 Capital Investment Program (CIP), and PCWA Resolution 08-16 and accompanying Policy
- Review of information available on the PCWA web page including the Act, and, State Water Control Board (SWRCB) approved contract between PCWA and Westlands Irrigation District
- Media reports and PCWA Update newsletters

Facts

- Clean water for all Placer County residents is necessary to insure the health and welfare of the entire County.
- Pursuant to PCWA Act § 81-15.2, "Sec. 15.2 - The Board may by resolution create an advisory council for any zone to assist and advise the board on all matters pertaining to that zone." PCWA has not utilized this provision to date.
- PCWA's territory is contiguous with the boundaries of Placer County. However, PCWA does not provide water service to all residents in Placer County. Water services are provided to the balance of the county by other water suppliers.
- The December 31, 2014 PCWA draft Audit for 2014, shows \$61 million of Operating Revenues and \$49 million of Operating Expenses (excluding depreciation). In addition, Non-operating Income of \$32 million and Capital Contributions of \$14 million were received by PCWA during 2014. The Net Position increased \$4.5 million (2013 Audit) and \$35.7 million (2014 Audit).

- PCWA is an independent governmental entity with an elected Board that appears to have done an admirable job of managing their water and infrastructure assets for its rate payers.
- PCWA generates revenue from the sale of water and electricity.
- PCWA's Capital Investment Plan (CIP) is ongoing. Already completed projects include new water plants, tanks, pipelines, and extensive renewal and replacement of aging infrastructure of its canal and treated water systems.
- PCWA Board Resolution 08-16 sets forth policy that cash distributions from the sale of electricity are to be used toward water-related projects. This policy is also used as a template for PCWA's use of capital funds. One of the policy objectives is: "*Development of new or extension of existing water systems to serve existing homes, neighborhood and communities that do not have adequate domestic water supplies.*"
- PCWA receives water from PG&E and has water rights directly from the American River, including Folsom Reservoir. PCWA is negotiating with the US Bureau of Reclamation for Central Valley Water Project water (delivery from the Sacramento River to southwest portions of Placer County that are planned for future growth).
- PCWA staff is currently preparing a Water Master Plan, to be completed by the end of 2016 or early 2017.

Findings

The Grand Jury found that:

- F1. PCWA is a well-managed special district agency and uses its water and electrical assets to the advantage of its rate payers.
- F2. The ongoing reality of drought and reduced water inflows into all water districts serving Placer County residents and businesses is requiring PCWA to reevaluate how all county residents are served with water.
- F3. During the ongoing drought PCWA may benefit from utilizing advisory councils as provided by the Act.

Recommendations

The Grand Jury recommends that:

- R1. A significant portion of revenue from the sale of surplus water and some of the net revenues from the sale of electricity be used to extend delivery of potable water to neighborhoods and communities not currently served by PCWA.
- R2. Consideration be given to potential or emergency needs of existing underserved areas within Placer County in the Water Master Plan being prepared by PCWA.
- R3. For public water systems not currently served by PCWA, the Water Master Plan should include the opportunity to connect their water service to PCWA. PCWA should make emergency financial aid available for this purpose.
- R4. PCWA form zone advisory councils pursuant to PCWA Act § 81-15.2.

Request for Responses:

	<u>Recommendations Requiring Response</u>	<u>Response Due Date</u>
PCWA Board of Directors Placer County Water Agency P. O. Box 6570 Auburn, CA 95604	R1 – R4	September 22, 2015
Mr. Joseph Parker Director of Financial Services Placer County Water Agency P. O. Box 6570 Auburn, CA 9560	R1 – R4	September 22, 2015



PLACER COUNTY WATER AGENCY
SINCE 1857

BOARD OF DIRECTORS	BUSINESS CENTER
Gray Allen, District 1	144 Ferguson Road
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September 4, 2015

The Honorable Colleen Nichols
Presiding Judge of the Superior Court
County of Placer
PO Box 619072
Roseville, CA 95661

RE Grand Jury Final Report – Placer County Water Agency – Enhanced Service to Placer County Residents Utilizing Reserves from Sale of Surplus Water and Electricity dated June 26, 2015

Dear Judge Nichols:

We are pleased to forward Placer County Water Agency's (PCWA) response to the Placer County Grand Jury's three findings and four recommendations in the above titled report.

On behalf of PCWA we thank the members of the Grand Jury for familiarizing themselves with the responsibilities and opportunities that PCWA has in its retail, wholesale and stewardship roles for the provision of clean, reliable water to Placer County residents and the generation of clean hydroelectric energy.

The compliments noting that PCWA is a "well-managed special district" that "uses its water and electrical assets to the advantage of its rate payers" are very much appreciated. The PCWA Board of Directors and management staff are dedicated to confronting the challenges of securing our future water supply reliability and the efficient generation of energy in California today.

PCWA's work is accomplished through a dedicated team of the Board of Directors, management, staff and legal counsel and through the cooperative efforts of numerous consultants, cooperating agencies and member associations.

We are pleased to respond to the findings and recommendations of the Grand Jury:

**Placer County Water Agency
Response to the Grand Jury Report**

Report Title: *Placer County Water Agency – Enhanced Service to Placer County Residents Utilizing Reserves for Sale of Surplus Water and Electricity*

Report Date: *June 26, 2015*

Response By: Einar Maisch
Joseph Parker

Title: General Manager
Director of Financial Services

FINDINGS AND RESPONSES

Finding F1

PCWA is a well-managed special district agency and uses its water and electrical assets to the advantage of its rate payers.

PCWA Response:

PCWA agrees with this finding numbered F1.

Finding F2

The ongoing reality of drought and reduced water inflows into all water districts serving Placer County residents and businesses is requiring PCWA to reevaluate how all county residents are served with water.

PCWA Response:

PCWA disagrees wholly with this finding numbered F2.

Placer County's numerous surface water purveyors have relatively abundant surface water resources. The combination of this year's precipitation (which, although well below normal still contributed considerable water to reservoir storage), available

carryover reservoir storage from prior years, water conservation by customers and improved operational efficiency has provided sufficient water supplies to meet the needs of most residents who are dependent upon surface water. Similarly, most residents reliant on purveyors that pump from recognized groundwater basins in west Placer, Squaw Valley, Martis Valley and along the perimeter of Lake Tahoe have also had sufficient water this year.

However, we are aware that some small water systems and individual residents in rural areas that are reliant on small reservoirs in small watersheds or groundwater from rock wells have increased water supply challenges during periods of drought. Drought can reduce the yield of these types of wells, sometimes to levels that are insufficient to sustain normal household needs, and the problem can be worse in areas with many neighboring wells trying to access the same groundwater source. These problems are extremely difficult and expensive to solve because of a lack of alternative water sources and the dispersed and low-density nature of such development.

PCWA, acting in its stewardship role, is moving forward with the preparation of a Master Plan to identify areas with water supply problems and to identify potential solutions. PCWA also anticipates that in the future it will have Agency Wide funds from the sale of surplus water and/or energy from its Middle Fork Project that it can allocate to its Financial Assistance Plan to help solve these problems.

However, the implication of Finding F2 that a majority of county residents are suffering critical water shortages or that a reevaluation of how water is served throughout the county is needed as a result of the drought is not accurate, and neither is the implication that PCWA is responsible for water planning for other water purveyors or for all county residents.

PCWA will continue its stewardship work within the County to protect water rights and entitlements by providing assistance to purveyors when needed, including through legal assistance, through planning and the development of the Master Plan and through legislative and regulatory advocacy on water issues.

Finding F3

During the ongoing drought PCWA may benefit from utilizing advisory councils as provided by the Act.

PCWA Response:

PCWA disagrees wholly with this finding numbered F3.

During this drought PCWA staff has been directed to engage in an extensive public outreach program to identify water supply problems and help customers meet water conservation goals. The Agency's Board of Directors meets twice a month during which any member of the public may address the Board on any matter within the jurisdiction of the Agency. In addition, there are frequent news releases, and a host of information is posted on PCWA's website through which the Agency attempts to inform the public on important matters affecting customers and residents. Also, PCWA staff frequently takes advantage of the County's Municipal Advisory Committees to provide information to, and seek input from, the public regarding important matters pending consideration. PCWA's staff is available to listen to suggestions or respond to any questions or concerns that customers or residents may have. And finally PCWA Board members and management are routinely in communication with community groups, community leaders and individual constituents, in a variety of different venues, in order to keep informed on the issues that are important to the communities they represent and serve.

The Board does not believe that there is an unmet need that the formation of an advisory council(s) would help fulfill and does not believe that there would be any benefit to interjecting other parties between the Board and its constituents.

RECOMMENDATIONS AND RESPONSES

Recommendation R1

A significant portion of revenue from the sale of surplus water and some of the net revenues from the sale of electricity be used to extend delivery of potable water to neighborhoods and communities not currently served by PCWA.

PCWA Response:

The recommendation R1 has not yet been implemented, but it is anticipated to be implemented in the future, following the adoption of the Master Plan.

To begin, we would like to provide clarification on the Agency's available funds discussed in the Summary section of the report. On December 31, 2014, the Agency had Unrestricted Reserves (cash and investments) totaling \$110,370,043. This is money from 3 different funds: Agency Wide, Power Division and Water Division.

The Water Division is the largest component with \$85.2 million of unrestricted funds, which includes customer deposits, funds designated for capital projects, reserves and working cash. All the unrestricted water system cash and investments are ratepayer monies, and their expenditure must benefit the existing water system and ratepayers. Expenditures from this source as a grant to provide water service to new customers would be an inappropriate gift of public funds. In addition to the unrestricted funds, the Water Division has \$40 million of restricted funds, primarily from water connection charges that are restricted by California Government Code Sections 66012-66014.

The Power Division fund had an unrestricted cash balance of \$300,000. This is working cash, appropriated by the Middle Fork Project Finance Authority (Authority), and is not available for other purposes.

The Agency Wide fund had an unrestricted cash balance of \$28.9 million, of that, working cash and committed capital project funding total \$7.2 million. The remaining \$17.7 million, a substantial portion of which was derived from recent out of county water sales, is currently designated for specific purposes. The Board could re-designate a portion of these funds to its Financial Assistance Program (FAP) for use in meeting the objectives identified in Resolution 08-16, including objectives recommended by the Grand Jury. Until now the Board has decided to wait to make those funding allocation decisions until the Master Plan is complete and available to guide those funding decisions. Completion of the Master Plan is expected in 2016. There can be no commitment at this time as to what portion of those existing reserves would be added to the FAP or what portion of FAP funds would be allocated specifically to the objective

of extending potable water to neighborhoods and communities not currently served by PCWA.

The Agency understands there are unmet water supply needs within the county and it is anticipated that a portion of future Middle Fork Project net energy sale revenues from distributions from the Authority will be appropriated to the FAP. However, with the current drought and low energy prices, the Authority's 2015 Budget Schedule does not anticipate any distributions to the Agency or County within the next 5-years (2015 – 2019).

Recommendation R2

Consideration be given to potential or emergency needs of existing underserved areas within Placer County in the Water Master Plan being prepared by PCWA.

PCWA Response:

The recommendation R2 has been implemented.

PCWA staff has been actively seeking data regarding the effects of the drought on small water systems and rural water supplies throughout Placer County for inclusion in the Master Plan.

Recommendation R3

For public water systems not currently served by PCWA, [a.] the Water Master Plan should include the opportunity to connect their water service to PCWA. [b.] PCWA should make emergency financial aid available for this purpose.

PCWA Response:

The recommendation R3 [part a.] has been implemented.

The Master Plan will evaluate potential solutions to identified water supply problems. Those solutions may include the opportunity to connect existing PCWA water systems when it is judged to be physically practical and financially feasible for the water system or land owner(s).

The recommendation R3 [part b.] will not be implemented because it is not warranted.

PCWA has leveraged its resources to assist in securing emergency state and federal funding to solve water supply problems during this drought. In the winter of 2013/14 the Ophir Gardens community reached out to the Placer County Department of Environmental Health for help due to the failure of the single well that was the sole water supply for 15 residences. The Agency was ultimately able to secure a \$1,000,000 in grants for a pipeline to connect to PCWA's water system.

In addition, for over 20 years the Agency has maintained the FAP through which the Agency has distributed \$1.6 million in grant funds to help meet the county's water supply needs. And PCWA will continue to address critical water supply problems in the most effective way it can on a going forward basis.

However, a blanket approach of providing emergency financial aid to a select group without regard to feasibility or making best use of available financial assets is not warranted.

Recommendation R4

PCWA form zone advisory councils pursuant to PCWA Act § 81-15.2.

PCWA Response:

The recommendation R4 will not be implemented because it is not warranted.

The Agency's Board of Directors meets twice a month during which any member of the public may address the Board on any matter within the jurisdiction of the Agency. In addition, PCWA staff frequently takes advantage of the County's Municipal Advisory Committees to provide information to, and seek input from, the public regarding important matters pending consideration. PCWA's staff is available to listen to suggestions or respond to any questions or concerns that customers or residents may have. And finally PCWA Board members and management are routinely in communication with community groups, community leaders and individual constituents, in a variety of different venues, in order to keep informed on the issues that are important to the communities they represent and serve.

The Board does not believe that there is an unmet need that the formation of an advisory council(s) would help fulfill and does not believe that there would be any benefit to interjecting other parties between the Board and its constituents.

As noted in the responses, all actions by PCWA staff in regards to matters of policy and budget are subject to review and final approval by the Board of Directors.

Once again, thank you for your interest in PCWA. Should you have any questions or need clarification or further information on any aspects of my letter, please let us know and our team will follow up immediately with you. Please feel free to contact one of us at any time.

Sincerely,

PLACER COUNTY WATER AGENCY



Einar L. Maisch
General Manager



Joseph Parker
Director of Financial Services

c: PCWA Board of Directors
PCWA General Counsel