

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

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December 5, 2012

TO: Sacramento Local Agency Formation Commission
FROM: Peter Brundage, Executive Officer
RE: **Rio Linda/Elverta Community Water District – Draft
Municipal Service Review – Report Back (L AFC 07-10)**

RECOMMENDATION

Receive and file status report.

Overall the District continues to provide adequate water service to the community and progress is being made to address the water supply and water quality issues. However, the overall financial condition is weak and the District continues to operate in the red. In addition, the District is not able to obtain liability coverage for employment practices.

DISCUSSION

This report summarizes the actions, developments, and events related to the Rio Linda Elverta Community Water District that have occurred since November 7, 2012.

I. Board of Directors

Four new Board members will take office on December 7, 2012. The first Board meeting will be on December 17, 2012.

II. Progress of Well and Pipeline Construction

Well No. 15

Well No. 15 is operational and can produce approximately 2,800 gpm.

Well No. 14

The District has completed drilling the test well. The California Department of Water Resources has taken water samples to determine the water quality. This well contains arsenic and cannot be used without treatment.

CDPH has indicated that a reservoir tank may be the more appropriate option in-lieu of drilling another well. The District and CDPH are updating a water demand study to determine the water supply deficit. A number of factors may have changed from the previous analysis such as the current number of vacancies and the change in the estimated growth rate of the community.

Well No. 3 Reactivation Project

CDPH approved the Water Supply Amendment Request for Well No. 3. The Well has been changed from inactive to active. A new variable speed chemical feed pump needs to be installed. The pump has been ordered and delivery is expected in early December. The well should be operational after the new pump is installed and tested. This Well is expected to produce 600 gpm.

Elverta Booster Station Pipeline Replacement Project

Funding for the pipeline has been added to the State Revolving Loan and Capital Improvement Program. This pipeline and booster station is needed to address low water pressure issues for a remote portion of the District service area.

Hydro-pneumatic Tank Evaluation

Recently, the District was notified that it is required to test and evaluate tanks for safety purposes. The District is developing a cost estimate for this test program. This project was not included in the current year budget.

Overall Operations

The District is improving its ability to remotely monitor wells using telemetry equipment.

Status of CDPH Compliance Orders

The water quality and quantity continue to be satisfactory. Water pressure is subject to variation because of leaks and equipment failures. However, generally, water pressures remain adequate and comply with CDPH standards. A summary of the water pressure readings for October 2012 is attached to this report.

The District has satisfied one of the Compliance Orders issued by the CDPH related to reporting requirements and staffing plans. The first Compliance Order related to water supply and capacity has not been satisfied because well construction is not complete.

The District has met with CDPH to discuss water supply issues and Well No. 14. CDPH has completed their initial review of the updated engineering report. They have requested that the District account for inactive connections and a 4 percent increase in the demand for future growth. This will require an increase in the capacity of the proposed tank and pump station. The District's Engineer is preparing an amendment to the Engineering report to account for the requested changes.

Progress is being made to address the District's water supply issues; however, it appears that the financial and litigation concerns currently are the more significant issues.

III. Sacramento Suburban Water District Interconnection

No changes in the operation or status of the intertie with Sacramento Suburban Water District. RLECWD and Sacramento Suburban Water District renewed this Agreement during March, 2012. This intertie operates only if water pressure drops below 30 psi.

IV. Status of District Operations

District Financial Condition

No significant changes in the overall financial situation of the District. Cash Flow remains tight. Accounts Payables **are not** current and the District is operating at a loss or in the "red" for last several months. The financial condition of the District is not improving and is actually beginning to erode at an increasing rate. The General Manager has estimated that the operating fund balance is currently \$192,000 in the red.

The District has been able to pay creditors and vendors because it is basically using money that should be deposited into capital and debt service accounts. In addition, over the last several years, the District did not deposit capital construction and debt service funds into the appropriate accounts. Currently, the District needs to put in approximately \$150,000. The District is proposing to repay these funds over a five-year period with annual payments of approximately \$30,000.

Legal costs are exceeding the annual budget amount and may increase as pending litigation goes to trial if settlements cannot be reached. The District acknowledges that it cannot control its legal expenses. *Also, the District is not able to terminate the contract without significant costs based on the severance clause. The contract cannot be terminated until June 30, 2014. Also, the contract provides that it will automatically renew under the same terms and conditions unless terminated with a minimum 60 days written notice.*

The District Attorney's Office has returned financial records from previous years. Also, the District is making progress to address this year's and previous year's audit findings. A summary is attached to this report. The financial records from the District Attorney's Office will be useful in addressing some of the Auditor Findings.

Operating expenditures except for legal expenses are under budget for the current fiscal year.

Note: The District has the ability to raise rates by Resolution based on a previous Prop 218 approved rate increase. Also, the District had received an offer to sell its cell tower leases. The Board has taken no action on either of these recommendations by the General Manager.

Staffing and Employee Relations

No significant issues to report.

Urban Water Management Plan

The UWMP is in progress and should be complete in about one month. The Board needs to schedule a public hearing for this matter.

Liability Insurance

The Association of California Water Agencies (ACWA) has extended the District's liability coverage for a 6 month period; however, this amended policy does not cover "employment practices". The District has not been able to get coverage for this exclusion. The General Manager has contacted ten (10) carriers. This continues to be a significant issue.

ACWA will be reviewing the coverage it is currently providing at its next Board meeting in December 2012.

District Operations

The General Manager's report for October 8, 2012 to November 11, 2012 is attached highlighting the status of various district operations.

Pending Litigation as of November 19, 2012

Currently, the pending litigation is set forth as follows:

1.) CONFERENCE WITH GENERAL COUNSEL - The Board of Directors will meet in closed session pursuant to Government Code § 54956.9(a). Pending Litigation - Joseph Sherrill. Sac. Superior Court Case # 34-2011-00103481.

2.) CONFERENCE WITH GENERAL COUNSEL - The Board of Directors will meet in closed session pursuant to Government Code § 54956.9(a). Pending Litigation - Joseph Sherrill. Sac. Superior Court Case # 34-2012-8000-1135.

3.) CONFERENCE WITH GENERAL COUNSEL - The Board of Directors will meet in closed session pursuant to Government Code § 54956.9(a). Pending Litigation - Joseph Sherrill. Sac. Superior Court Case # 34-2012-8000-1095.

4.) CONFERENCE WITH GENERAL COUNSEL - The Board of Directors will meet in closed session pursuant to Government Code § 54956.9(a). Pending Litigation - Joseph Sherrill. Sac. Superior Court Case # 34-2012-8000-1108.

5.) CONFERENCE WITH GENERAL COUNSEL - The Board of Directors will meet in closed session pursuant to Government Code § 54956.9(a) Superior Case # 05CS01365 – Michael Phelan.

6.) CONFERENCE WITH GENERAL COUNSEL - The Board of Directors will meet in closed session pursuant to Government Code § 54956.9(a). Pending Litigation. Cal OSHA v. RLECWD - Docket #R2D1-2288 to 2290).

V. Summary of Issues

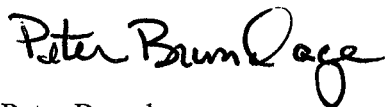
Overall the District is providing adequate water service to the community and progress is being made to address the water supply capacity issue. However, there are two significant issues: the inability of the District to obtain liability coverage for employment practices and the overall financial condition of the District.

VI. Next Steps

LAFCo staff will continue to work with CDPH and the District to monitor the situation. We will keep the Commission informed.

Respectfully Submitted;

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION



Peter Brundage,
Executive Officer

Attachments

Weekly Managers Report

October 8, 2012 to November 11, 2012

On October 9 and 10, 2012 Mr. Goyet and I attended Disaster Management Training for Water agencies provided by the Department of Homeland Security.

On October 11, 2012 I went to SGA. They discussed changing the conflict of interest code and parts of their Policy Manual. Director Johnson will be giving a report on that at our next regular meeting.

On October 12, 2012 I met with Joe Domenichelli, Pat Regan, Eric Koch, a representative from Frisch and Co. , and Jim Carson and discussed the scheduling for the startup of well 15 next week. I will be out at the site for much of the week.

On October 15, Startup of the well #15 pump station commenced. It was determined that the mechanical seal had to be removed and the shaft plate remachined before the pump could be started. The pump installer said they would return Tuesday with the parts. It was also determined that the wrong size spring had been put into the PGE gas regulator so the generator could not be started until that was replaced. PGE estimated 4 weeks to replace the spring.

On October 16, 2012 the contractor had obtained another regulator for the gas line and installed it the generator testing commenced and continued until 6 p.m. The generator uses 4,100 cu ft. of gas per hour. The pump was tested and it was determined that it works. The well was then chlorinated and left to sit overnight. Pat and I were also trained on the chlorinators.

On October 17, 2012 Pat and I went to a free Reasonable Suspicion training in Roseville. This training is necessary in order to determine if there is an employee under the influence of alcohol or drugs. If it is determined that there is reasonable suspicion then the employee is drug tested. After the training we went back to the well site and dechlorinated the well, sampled the well head and pipeline for bacteria and the discharge point downstream for Dissolved oxygen, temperature, ph and specific conductance per our discharge permit requirements. We also had staff and equipment at Mr. Blackshire's property in case we flooded his property with the water being discharged from the well.

On October 18, 2012 I went back out to Mr. Blackshire's property to see what had happened with the water discharged overnight. It was determined that we would need to be some additional trenching and berming on the channel we created to contain the flow. Later I attended SAWWA and learned about a new system where water modeling is used to determine critical valves and back-trace a contamination event. It was interesting but I do not think it would be used by our agency.

On October 19, 2012 the field staff went to well #15 and had a brief overview of the electrical equipment at the facility.

October 22, 2012 Start up issues and reviewed personnel policy.

October 23, 2012 planned ribbon cutting, reviewed personnel policy.

October 24, 2012 attended Board responsibilities and liabilities webinar.

October 25, 2012 Set up and attended ribbon cutting.

October 29, 2012 I received documents finally settling our OSHA matter of 12/21/09.

October 30, 2012 I went on a bus tour of park landscape and maintenance design. I learned about different water efficient irrigation systems, appropriate drought tolerant plant use, storm water capture and reuse, and native species diversity. All of this can be applied to the Urban Water Management Plan requirements for water audits and loss control.

October 31, 2012 I retrieved our records and computers from the District Attorney's office. They are now stored at our facilities hopefully I will be able to find additional information for our auditor's bank audit. There are still several pages of items that the Auditor needs in order to complete her audit of the bank accounts.

November 2, 2012 I attended the American River Basin Integrated Water Management Plan workshop. This workshop was the first step in determining priorities for funding of projects in the Sacramento area by RWA/SGA. They are reworking their website to better prioritize projects that are presented. The group had many comments on the current status of the prioritization process and what could be improved. There are going to be several committees and workshops in the near future to further this process. I also learned how to put proposed projects on the website and the information that is needed in order to get a project prioritized.

November 6, 2012 The asphalt replacement contract bids were opened. The apparent low bidder is AI's Grading and Paving at \$22,249.50.

November 7, 2012 I attended the Lafco meeting. Mr. Brundage presented an update of the District's current status. He asked a few questions regarding the new well. Later that evening I went to the last Green Gardener class and learned about lawn fertilization.

November 8, 2012 I went to RWA a Delta update was provided by RWA legal counsel. There was an update on the water efficiency program. The Board passed a Resolution to seek funding for planning from the California Water Foundation. Amy Talbot was introduced to the Board as the new Water Efficiency Program coordinator. Later that day I had a telephone conference call with Joe Domenichelli and Brian Walters of Domenichelli & Assoc., Mr. Carson of Affinity Engineering, Pat Goyet, Richard Hinrichs CDPH Regional Engineer, Pete Stamos CDPH Funding, and Salvador Turrbiartes CDPH Inspector. We discussed additional information that is needed by CDPH in order to determine the sizing of a tank. We also went over the punch list items that the Contractor still needs to complete before the contract is signed off.

November 9, 2012 I met with incoming Board member Dills and provided him with information about the District and the laws that govern the District. On another note I plan on going on vacation November 26 through 30, 2012. Pat Goyet will be in charge of operations I will also be available by email.

Rio Linda/Elverta Community Water District

Monthly District Pressure Readings - Compliance Order October 2012

	Ascot/2nd St.-southwest	26th St.-Southeast	30th St.-Northeast
10/1/2012	57.2	43.1	35.5
10/2/2012	58.1	41.9	35.3
10/3/2012	58.6	42.0	35.6
10/4/2012	55.4	41.9	35.5
10/5/2012	55.5	41.7	34.8
10/6/2012	55.4	42.2	35.7
10/7/2012	54.8	43.9	38.8
10/8/2012	59.3	44.6	37.8
10/9/2012	60.2	45.4	37.3
10/10/2012	55.3	43.9	37.7
10/11/2012	60.2	44.8	38.7
10/12/2012	60.5	44.7	32.8
10/13/2012	60.7	48.1	38.6
10/14/2012	60.2	47.2	38.2
10/15/2012	57.9	46.9	38.0
10/16/2012	58.6	47.8	38.3
10/17/2012	60.2	47.4	34.5
10/18/2012	59.5	45.4	34.9
10/19/2012	56.3	47.2	37.7
10/20/2012	57.8	47.3	38.8
10/21/2012	58.0	47.3	38.6
10/22/2012	57.7	45.8	38.4
10/23/2012	55.9	48.2	40.1
10/24/2012	55.9	48.2	40.3
10/25/2012	55.9	49.2	39.3
10/26/2012	56.2	49.8	40.3
10/27/2012	56.4	49.2	39.8
10/28/2012	55.8	48.9	39.1
10/29/2012	56.3	44.7	40.2
10/30/2012	56.3	50.1	40.0
10/31/2012	56.5	50.7	40.9
	60.7	50.7	40.9
	54.8	41.7	32.8
Pressure Avg PSI	57.5	46.1	37.8

2009-10/10-11 Audit Response Update 10-29-12

Item	Recommendation or Comment	Response
Auditors Report	Has not adopted Post employment benefits GASB 45	The District needs to have GASB 45 actuarial done. Waiting for funds.
	Did not perform physical inventory at June 30, 2010	The District has performed a physical inventory as of 6/30/12.
	Outcome of allegations of fraud is unknown.	Still unknown
	Sufficient recurring losses as to question going concern	A rate increase was implemented on 5/10 to increase operational income with a 3% increase annually to keep up with inflation. Another problem is we budget on a cash basis however when Auditor's book \$350,000 in depreciation and amortization it throws us into a loss each year. We do not fund amortization or depreciation.
Foot Notes		
Note A	No approved investment policy	Approved 8-13-12
	Do not provide for an allowance for uncollectible accounts	All losses are minimal because of liens however there are numerous old hanging balances (\$10-\$20) that will be corrected.
Note D	Pledged Revenue- Where did amounts come from/?	Completed
Note G	District contribution to PERS where did amounts come from	The District gives the amounts to PERS
Internal Control Letter schedule of findings		
2011-01	Payroll Accounting Entries were being recorded net of withholdings	This was corrected when payroll was taken back in-house
2011-02	Year-end payroll accrual. 5 days of year end payroll were not accrued	The District corrected this finding
2011-03	Internal Control and Management review	Finding was corrected
2011-04	Account reconciliations	Finding was corrected
2010-1	Need actuarial valuation performed for GASBS 45	Actuarial still needs to be done. Waiting for funding.
2010-2	Need checklist for year closing	Completed

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	procedures	
	All balance sheet accounts need to be reconciled and account balances analyzed	Completed
2010-2a	There are unreconciled differences in AR \$5984; AP \$3417 and surcharge account (\$5444).	Amounts have been written off.
	Need to reconcile billing system to the GL throughout the year	This is our current practice
	Evaluate the allowance for uncollectable accounts throughout the year	See above
2010-2b	Enter all AP invoices when received	This is our current practice
2010-2c	Calculate interest payable monthly	Completed
	Maintain supporting documents for deferred amount on Long Term Debt	Completed
2010-2d	Adjust net assets to agree with restricted cash	Completed
2010-2e	Well 14 land not valued and recorded Procedures need to be developed for donated assets	Was recorded in audit will develop process
	Need procedure for donated assets	Procedure implemented
2010-2f	Need proper procedure to track cell tower leases to insure revenue is collected	Completed
2010-2g	Prepaid expenses not amortized-need to amortize over estimated period they are used	Being done
2010-2h	Perform a physical inventory at least once a year	This is being done annually
2010-2i	Accruals not being performed prior to audit such as accrued water billings, liability for comp time and PERS retirement owed.	Completed
General	Develop an accounting manual	This is being developed
2010-3a	GM should receive bank statements and review before giving to bookkeeper	This is current practice
	GM should review bank reconciliations when they are	This is current practice

2009-10/10-11 Audit Response Update 10-29-12

	complete and sig off	
	Board should review lists of all checks written	This is current practice
2010-3b	Signed checks should not be returned to bookkeeper	Limited staffing has been an issue with this segregation of duties.
2010-3c	GM should review and review list of all billing adjustments and document the sign off of the review	This is current practice
2010-3d	Bookkeeper should reconcile all bank deposits to the billing register	This is current practice
2010-3e	All maintenance entries such as rate changes should be reviewed and approved by the GM	This is current practice
	GM should review the payroll registers and document the sign off	This is current practice
2010-3f	Conduct regular staff meetings to identify and resolve issues	This is current practice
2010-4	Establish a financial reporting system	This has been established
	Prepare investment reports to comply with the Government Code	Please provide code section so we can implement.
2010-5	Develop accounting procedures for proper filing and storing of accounting documents	The District's record retention policy addresses storage and retention of records
2010-6	Maintain a capital asset listing including depreciation	The capital asset list is maintained and depreciation is noted
	Record capital asset additions and retirements and depreciation to the asset accounts, not the operating accounts	This is being done as additions and deletions occur
	Sold and retired assets should be removed from the list	These are removed from the list
	Reconcile the capital asset accounts to the General Ledger	Completed
	Capital asset listing should include land, donated assets and intangibles	Completed
2010-7	Board of Directors should	It is not planned to need to

2009-10/10-11 Audit Response Update 10-29-12

	approve all loans or transfers from the Surcharge account	borrow from the Surcharge fund. But if needed it would be Board approved.
	Deposit surcharge collected directly to the surcharge bank account or at least quarterly reconcile the amounts deposited to the Surcharge account	The surcharge funds are collected daily and put into the Operating account. Monthly they are transferred to the Surcharge fund. It is not practice to deposit daily as surcharge and operating funds are on the same check from customer.
2009-1	Rebalance workloads and address item 2010-3	Working on this right now. Limited staffing is an issue.
2009-2	Prepare an organization chart	This is done
2008-2	Back up all computer data	Backed up nightly to server
2008-3	Prepare an adequate reporting system – see 2010-4	This has been established
2007-2	Prepare a formal accounting and procedural manual	Working on this it is an ongoing process
December 14,2011 letter to the Board		
	Implement GASB 45	Actuarial needs to be done. Need funds to complete
	Take periodic but at least annual physical inventories	This is current practice
	Investigate allegations of fraud	This is being done by DA, FBI & Auditor
	Record transactions in the proper period	This is current practice
	Audit required 28 adjusting entries to correct balances	This should not be a problem in the future
Letter to the Board and Management		
	Develop a fraud prevention/whistle blower policy	Approved 8-13-2012
	Develop a risk assessment plan and develop internal controls to mitigate	Approved 8-13-2012
	Develop an approved investment policy as required by the Government Code	Approved 8-13-2012
	Evaluate whether 2 and sometimes 3 employees need to	Only 1 employee is on call on any day now.

2009-10/10-11 Audit Response Update 10-29-12

	be on standby on the same day.	
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