

GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT

Positive Changes and Continuing Challenges

**2016-2017 El Dorado County Grand Jury
Case No. GJ 2016-17- 007**

May 17, 2017

EL DORADO COUNTY 2016-2017 GRAND JURY

Whiskey is for Drinkin' and Water is for Fightin'

GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT: POSITIVE CHANGES AND CONTINUING CHALLENGES

Case GJ 2016-17-007

SUMMARY

For the last 6 years, readers of the Mountain Democrat have read front page news stories regarding fightin', feudin' and fussin'. These stories were reporting on the actions taken by the Board of Directors of the Georgetown Divide Public Utility District. These stories have covered repeated fights, acrimony and dysfunction among the Board. This has led to key employees leaving and the District delaying key decisions, which has resulted in increased costs. The relevant Mountain Democrat stories are footnoted below.¹

Over the last decade, the Georgetown Divide Public Utility District (District or GDPUD) has been challenged by a deteriorating water delivery infrastructure, aging water meters, revenue shortfalls, lack of qualified professional leadership, significant staff turnover and turmoil within its Board of Directors.

While water purity meets or exceeds all safety standards, the District is currently under a compliance order issued in 2004 by the State of California to upgrade their treatment process at the Auburn Lake Trails (ALT) water treatment plant. In 2016 the District made significant progress in resolving the ALT treatment plant issue and recently took actions to upgrade aging water meters, but other intertwined challenges remain to be addressed.

The Grand Jury recommendations focus on ways the District can increase revenues, upgrade and replace aging infrastructure and equipment, and hire permanent qualified leadership.

BACKGROUND

A number of newspaper articles have described apparent dysfunction on the Board of Directors of the Georgetown Divide Public Utilities District (District or GDPUD) and rapid turnover in executive and managerial positions. The byproducts of that dysfunction were reported to be increased costs to the District, citations by state agencies for regulatory issues and degradation

¹ Lang, Roberta, "Georgetown Divide Water District Loses Key Employees", December 16, 2011: Hodson, Dawn (and all following articles), "Acrimony Over Upgrade at Georgetown Divide PUD Meeting", March 12, 2012; "File Wars Divide Georgetown PUD", June 15, 2012; "GDPUD GM Relieved to Leave", June 28, 2013; "GDPUD:Dysfunctional Board", January 6, 2014, "GDPUD GM Fired", August 5, 2016 and "ALT Project Starts a Fight", September 16, 2016.

of services provided to its customers. The Grand Jury sought to investigate and determined what the real state of this public water utility and its services was.

The District was formed as a public utility district In 1946, although its antecedents date back to 1852 and the Gold Rush. The District provides both potable treated water and untreated agricultural water to the northwest portion of El Dorado County (known as the Georgetown Divide) and supplies water to about thirty-five hundred (3500) treated (drinking) water customers and 375 agricultural customers. The District is a special district governed by an elected five-member Board of Directors (Board). The Board, with inputs from staff and professional contractors, adopts an annual budget to support staff and agency operations and authorizes hiring for necessary staff positions. The Board selects a General Manager to administer the day-to-day operations of the agency. The Board also recommends water and assessment fees which require voter approval.

Current GDPUD annual revenues are \$5.36 million which consist primarily (more than 90%) of water rates, paid by customers via a bi-monthly billing, and property tax collections. The District also obtains funding from grants, loans and fees paid by other agencies.

The District operates two water treatment plants to supply its customers with potable water- one at Walton Lake and the other at Auburn Lake Trails (ALT).

METHODOLOGY

The Grand Jury conducted interviews of:

Members of the District's Board of Directors, District staff and District consultants.

The Grand Jury reviewed:

District Board Agenda and Meeting Minutes for: *December 13, 2011, June 12, 2012, February 12, 2013, February 9, May 10 & 31, June 14, July 12, Aug. 9 & 23, Sept. 13, Oct. 13, 2016 and January 10, 2017*, on the District Web Site at www.gd-pud.org/.

District independent audits for the years 2011, through 2015, conducted by *Moss, Levy & Hartzheim, LLP*, available on the District web site.

Bid process documents for ALT water treatment plant:²

The Board's Regular Meeting on 2-9-16 for approval of plans, specifications & permission to solicit bids, and the Board's Special Meeting on 8-23-16 to award bid at www.gd-pud.org/.

Notice to bidders at www.gd-pud.org/.

Published Water rates for District, El Dorado Irrigation District (EID) and Grizzly Flat

PUD.

The Grand Jury inspected the Auburn Lake Trails water treatment plant.

DISCUSSION

GDPUD operates two water treatment plants to supply its customers with potable water. One is at Walton Lake and the other at Auburn Lake Trails (ALT). The Walton Lake plant is up to date and in compliance with all water quality and process regulations of the State and Federal agencies. The ALT treatment plant is a different story.

The plant was built in the 1970s by the developer of the Auburn Lake Trails subdivision. It is no longer capable of meeting mandated water processing requirements and has exceeded its

² Email to Grand Jury from GDPUD Consulting Engineer George Sanders, 10-31-16.

operational lifespan. ALT was the subject of a compliance order issued by the State of California in 2004. The plant meets water quality standards but employs a filtration process no longer approved for use by the State of California.

The District spent over \$1 million in the last decade on consulting and design firm fees seeking recommendations on how to proceed with the replacement or retrofit of the ALT plant. This search for solutions yielded three different design plans submitted to the district in 2008, 2012 and 2015-16, respectively. The first approach considered was to construct an entirely new plant in Greenwood for \$8 million. However, that amount did not take into account the significant topography and repiping issues which were estimated to cost some \$20 million. The second plan foresaw a retrofit of the current ALT plant at a cost of some \$10 million. The final, and now adopted, design is for a new plant at the ALT site at a current cost of \$12 million. Over the ensuing twelve (12) years, due to Board infighting and indecision, the cost of the retrofit-replacement project has increased from \$8 million to \$12 million.

Anticipating a \$10 million loan from the California Water Resources Control Board (WRCB), the District obtained voter-approval in 2016 for a bi-monthly assessment of \$30.16, to provide funds to service the WRCB loan. This will be the primary funding source for the \$12 million treatment plant rebuilding project at ALT. The 20-year loan, at 1.6% interest, requires the District to maintain a \$600,000 annual reserve to ensure uninterrupted servicing of the loan. The loan was granted in December 2016, and the \$30.16 assessment began to appear on customer bills starting with the January-February 2017 billing period. The District will also supplement the loan monies with grants and reserves to meet the overall budgeted cost of \$12 million .

These consist of:

Fund 24 ALT Capital Reserve	\$763,500	Monies dedicated to ALT
Fund 39 Capital Facilities (portion)	\$240,000	15% of reserves earned by new connections
EPA Grant	\$740,000	A matching grant from EPA
Fund 35 EPA	\$315,000	Matched funding from EPA

Table 1: Current ALT Funding Sources³

In the spring and summer of 2016, the District conducted requests-for-proposal (RFP) bid processes to select a contractor to build the new plant. That contract has recently been awarded to Myers & Sons Construction. Major field work is not expected to begin until the end of the 2016-17 rainy season.

³Memorandum by George Sanders, August 4, 2016, "Auburn Lake Trails Water Treatment Plant", Georgetown Divide Public Utilities District. Also on GDPUD web site.

DISTRICT WATER DELIVERY INFRASTRUCTURE

As detailed in their July 2016 GDPUD Board Agenda and minutes, repairs are needed to their irrigation network of canals, ditches and piping. The District also needs to replace aging water meters, valves, pumps and implement other improvements to their infrastructure.

The District's old meters are a substantial contributing factor in the agency's revenue challenges. Most of the meters are more than 30 years old and create inefficiency and missed revenue. The current meters must be physically read at each customer's property. The readings are then manually recorded, entered and re-entered on paper ledgers until finally transcribed by office staff into the District's billing system. When the current meters need to be read, it is an "all hands on deck" effort, as office and treatment plant staff have to go into the field to read and record meter readings. This is costly and inefficient.

In addition this old meter system is significantly under reporting usage. The District is losing revenue up to 10 million gallons of water a month due to unmetered usage. Reports and tests have found that these old meters under-read water usage by as much as 30% due to the wear of their internal mechanisms. One such test described turning on a shower in a customer home and observing that the meter registered no flow or usage.

The Board recently issued an RFP for new meters. The new meters will be similar to ones used by the El Dorado Irrigation District (EID). EID now utilizes an Automated Meter Reading (AMR) system in their service area. AMR allows EID personnel to read customer meters remotely using radio communication technology without having to directly access the meter box. This allows for accurate and faster collection of water usage readings and eliminates transcription error.⁴

REVENUE ISSUES

The generation of revenues is an ongoing issue for the District. In reviewing the agency's annual outside audit for last five years, the following statement is repeated in each report: "The fiscal year was once again challenging from an economic perspective."⁵

This statement is descriptive of the District's struggles. These annual independent audits have found total revenue decreasing in 3 of the last 5 years. However, even the increased revenues in 2011 & 2013 "...did not reach the levels expected to continue current service levels."⁶

Compared to other water districts in El Dorado County, the Georgetown District water rates are significantly lower than either EID or Grizzly Flats PUD.

	District	EID	Grizzly Flats
Basic Water Charge	\$47.14	\$58.14	\$59.39

⁴ El Dorado Irrigation District, "Are You Really Reading My Meter", 10/25/16, <http://www.eid.org/Home/Components/News/News/1582/26>.

⁵(Moss, et al, "Georgetown Divide Public Utilities District Basic Financial Statements", page 3, 2011, '12, '13, '14, '15, audits) www.gd-pud.org/

⁶ (Moss, et al, "Georgetown Divide Public Utilities District Basic Financial Statements", page 3, June 30, 2011 audit), *op. cit.*

Excess unit usage charges (per cubic feet)	0.01380	0.01412	0.01500
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Table 2: Water Rates Comparison Table

Neither Board members nor staff expect much new residential development in the District due to zoning, terrain and limited growth initiatives. Water conservation efforts are also hurting revenues as customers are using less water. Board members and staff agree that some level of water theft is occurring, and leaks within the system further reduce revenues.

While some of these factors are beyond the control of the Board, recommending rate increase for voter approval is within their control. During 2016, the Board initiated preliminary steps likely to lead to upward adjustment of water rates.

Prior to seeking voter approval for rate increases, a *Water Rate Study-Cost of Service Report* (Water Rate Study) must be conducted by the District. GDPUD has selected the Rural Community Assistance Corporation (RCAC) to perform the study.⁷ The Water Rate Study consists of analyzing financial, operational and regulatory factors related to revenues and expenses and determining the true and current cost of providing water to customers. The factors include: fixed and variable costs of providing water to treated and nontreated customers; a multi-year Capital Improvement Plan (CIP); 5-year budget projections, skills and number of District staff required to carry out the functions of the agency; salaries and benefits of staff compared to similarly sized districts; the agency’s long term need for reserves; and State required mandates and other factors.⁷ The study is in progress.

At the October 2016 Board meeting, the process of replacing old water meters was begun with the discussion of a bid process to replace the meters and exploration of ways the purchase could be financed through a loan. District staff started researching possible financing alternatives. The bid process to replace the meters has been started as of February 2017. According to the bid process schedule released by the District, it is anticipated that new meters can be installed between spring and fall of 2017.

DISTRICT LEADERSHIP AND STAFFING

Between 2011 and 2014 a new Board majority set as its priority maintaining low water rates by focusing on reductions in staff and pay and benefits for employees. The operational impacts of these policies were not considered or addressed. As a result, the District experienced a leadership vacuum, staff turmoil and employee turnover between 2012 and 2016 while this majority held sway. In the last four years there have been five general managers. There have been reductions in total staffing levels and in key professional positions (particularly engineering and upper management). From 2002 to 2010, the authorized staffing level was 28; at the end of 2016, it was down to 21 positions⁸. Current staffing levels were reported to be low for a District this size.

⁷ The District lacks staff qualified to conduct the Water Rate Study. At the July, and August, 2016, Board meetings the need to complete a Water Rate Study was discussed. The Rural Community Assistance Corporation (RCAC) is doing this study for free. The RCAC is a non-profit, independent, non-governmental agency. It is funded by grants (USDA, HUD) and contributions. Founded in 1978, RCAC provides training, technical and financial resources in 13 western states. RCAC works to support rural communities and their economic development. A focus area of the organization is the sustainability of rural community water, wastewater and solid waste systems. RCAC has a local office in West Sacramento.

⁸ Adopted District organizational charts, (Exhibits 1 and 2).

Several employees are filling multiple positions and they have difficulty giving their assigned duties the attention they deserve. Two key professional positions, District Engineer and Business Manager, are currently filled by part-time consultants. Numerous employees have resigned due to a hostile work environment, vis-a-vis the 2011-14 GDPUD Board, and non-competitive pay⁹. The 2016 General manager annual salary of \$100,000 was noted by several witnesses to be low for a water district this size . After terminating their most recent General Manager last summer, the Board has hired a new General Manager, who has started as of March 2017. The Mountain Democrat reported on 2/19/17 that the General Manager annual salary is \$155,000.

Ratepayers will see significant increases in basic water rates in two ways. New meters will accurately reflect usage and lead significantly higher bills even with conservation. The Water Rate Study is likely to demonstrate that current rates are too low and insufficient to support the water systems and continued delivery of plentiful, safe drinking and agricultural water.

CONCLUSION

The Georgetown Divide Public Utility District faces challenges arising from the intertwined issues of an aging infrastructure, inadequate revenues, over-worked staff and a lack of leadership. District Board members elected in 2014 and 2016 have taken steps to address these issues and have made real progress on the ALT plant project and the aging water meters. The District is to be commended for finally addressing these issues. Further significant progress is required to maintain services and water quality in the coming years. Effective, consistent leadership and increasing revenues are the keys to continuing positive change. Current employees are to be commended for continuing to provide safe water to their customers.

FINDINGS

- F1. The District water rates are insufficient to support current operations and infrastructure and maintenance.
- F2. Total revenues are not adequate to support operations and fund needed capital improvement reserves.
- F3. The District loses significant revenue due to outdated water meters.
- F4. The District also loses water and revenue due to leaks in the aging infrastructure.
- F5. Employee compensation is too low for an agency this size, making recruitment and retention difficult.
- F6. The current staffing levels are insufficient, which impairs the District's ability to operate efficiently.
- F7. The District cannot depend on new hookups and ratepayers to supplement revenues as population growth has slowed on the Divide, necessitating the need for the District to look internally for revenue.
- F8. The Jury found no evidence that either the District Board or staff is "preparing the ground" with their customers for what may be steep increases in their bills.

RECOMMENDATIONS

⁹ Roberta Lang, *G-town Water Loses Key Employees*, Mountain Democrat, 12-16-11

- R1. Once the water rate study is submitted to the Board, the District must initiate a voter-approved rate increase process as soon as possible.
- R2. Along with replacing the aging water meters, the District must upgrade their aging infrastructure and prioritize maintenance and capital improvement projects.
- R3. The District must offer competitive salaries to attract qualified professional staff.
- R4. The District must review staffing levels and fill key positions with permanent staff to ensure continuity of operations.
- R5. The District must undertake a public information program to inform its customers of impending changes in their water rates and consumption recording.

REQUESTS FOR RESPONSES

Pursuant to Penal Code section 933.05, the Grand Jury requests responses as follows:

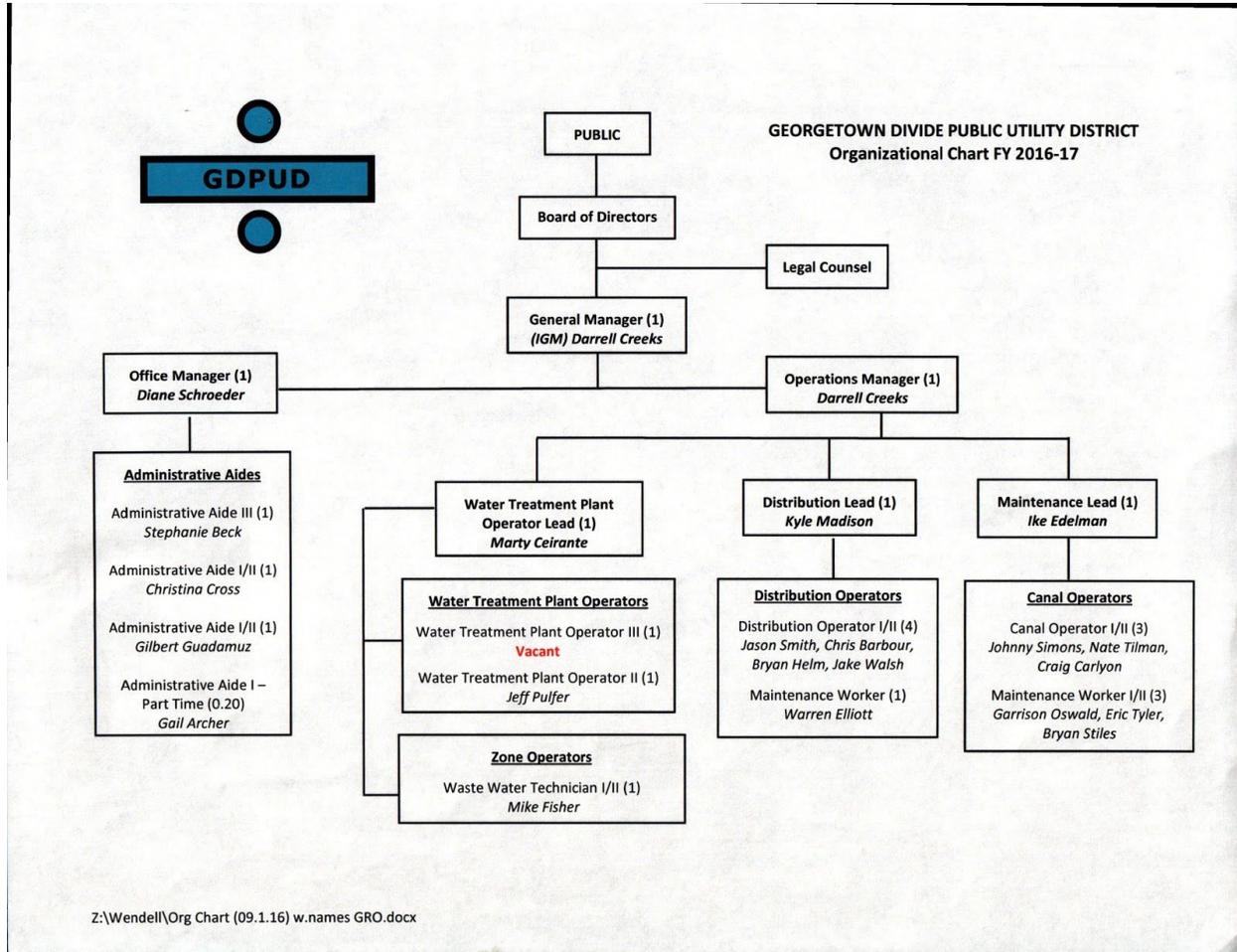
From the following individual:

*Steven Palmer, General Manager, Georgetown Divide Public Utility District as to all Findings and Recommendations.

From the following governing body:

*Board of directors, Georgetown Divide Public Utility District as to all Findings and Recommendations.

EXHIBITS ONE And TWO



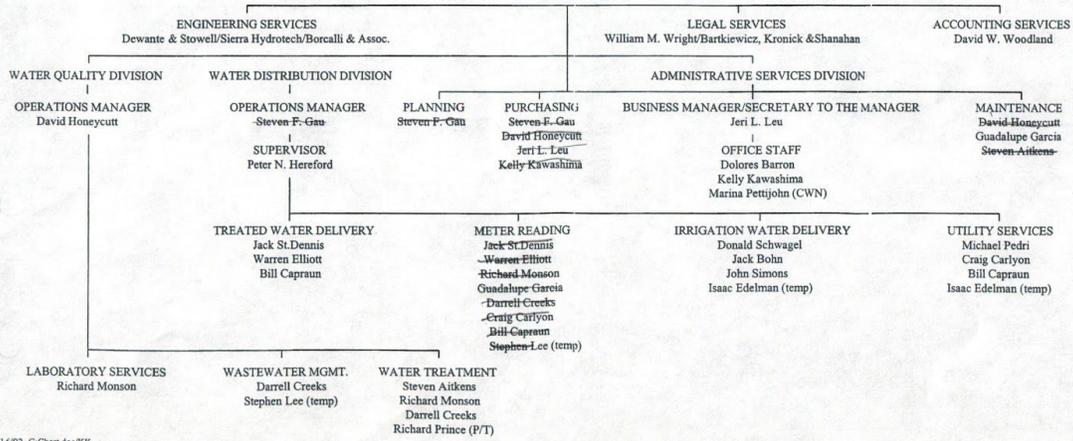
GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT

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