

**EID LOAN TO EI DORADO HILLS
INCORPORATION COMMITTEE
GJ04-005-B**

Reason for the Report

The Grand Jury received a public complaint that the El Dorado Irrigation District (EID) Board of Directors was exceeding their fundamental guidelines by loaning money to the El Dorado Hills Incorporation Committee and should be stopped from using taxpayer funds to support projects that are not within their jurisdiction.

Scope of Investigation

People interviewed

- LAFCO Executive officer
- EID General Counsel
- EID General Manager
- El Dorado Hills CSD General Manager

Documents reviewed

- Letter to LAFCO from EID Board of Directors concerning loan of \$25,000 to El Dorado Hills Incorporation Committee
- Audio tapes of EID Board of Directors meetings of May 17, 2004 and June 21, 2004
- E-mail dated June 22, 2004 between LAFCO and EID Counsel
- Director's Item #15 of June 21, 2004 EID Board of Directors' meeting concerning the El Dorado Hills Incorporation committee loan update.
- County of Fresno v Malaga County Water District (2002 DJDAR 8663) January 5, 2005 letter to Grand Jury from EID counsel concerning a promissory note issued by Grizzly Flats through a Joint Powers Authority.

Background

The Grand Jury identified a fundamental problem with the way the EID Board of Directors approved an unsecured, no interest loan to an anticipated entity (the City of El Dorado Hills). Because the city did not exist at the time of the loan they are not bound to repay the loan. In essence, the Board of Directors gave the money to LAFCO to benefit the El Dorado Hills Incorporation Committee with little chance of getting it repaid.

Facts

1. At the EID Board of Directors meeting of June 21, 2004 the directors approved by a 3-2 vote (Districts 1 and 4 voted no) a \$25,000 payment for the benefit of the El Dorado Hills Incorporation Committee to be deposited directly with LAFCO.
2. The payment was accompanied by a statement that the payment be considered a loan to be repaid by the future city, if formed.

3. Further, it was accompanied with a request that LAFCO condition any incorporation approval upon such repayment.
4. There was no interest stated for the loan.
5. There was no due date stated.
6. EID had approached the El Dorado Hills CSD to see if they would be the recipient and guarantor of the loan. The CSD Board rejected EID's request and challenged the EID Board to match CSD's own contribution as a grant to the incorporation effort with no strings attached.
7. The Board had received several comments from the public that the board should not support granting money to the incorporation effort.

Findings/Recommendations:

1a. Finding: The EID Board of Directors gave a \$25,000 unsecured, no interest loan to the El Dorado Hills Incorporation Committee to be repaid by the future city of El Dorado Hills knowing the loan would not be repaid if there was no city formed and knowing that even if El Dorado Hills were to be incorporated there was nothing but a moral obligation to repay the loan. EID Board of Directors had three choices: (1) granting money to the incorporation effort, (2) granting a loan or (3) making no funds available to the incorporation committee. The Board chose the loan because they felt many of their ratepayers did not support an outright grant. All the while, the board acknowledged the fact that the loan was to an anticipated entity which even if it came into existence would have no obligation to repay the loan. In essence, the board gave the \$25,000 to the incorporation effort disguised as a loan. If the loan had been presented to the public in a clear, concise and truthful manner they may have also had the same objections that they did for the outright grant.

1b. Recommendation: In the future, the EID Board of Directors should, in a clear, concise and truthful manner fully disclose to their rate payers the full terms and conditions of loaning the ratepayer's money, as in this instance, unsecured, with no interest due, no due date, and to an anticipated entity without the obligation to repay.

2a. Finding: The EID Board has no written policy on loaning the rate payers money.

2b. Recommendation: The EID board should adopt a written loan policy to guide future loan granting decisions.