

August 7, 2002

Lowell Smith, Foreperson
Marin County Civil Grand Jury
3501 Civic Center Drive, Room 303
San Rafael, CA 94903

Re: Response to Grand Jury Report - Special Districts in Marin County

Dear Mr. Smith:

Per your request of June 14, 2002, following is our response to the Grand Jury Report regarding Marin County Special Districts. We have responded, as requested, to Findings 1, 2, 3, 6, 7 and 8 and to Recommendations 1, 2, 3, 4, 6 and 7.

Finding 1: The average compensation for district directors who receive compensation is \$100 per meeting.

Response: North Marin Water District compensation is \$100 per meeting.

Finding 2: The majority of special districts hold one meeting per month, except when there are important business items on the agenda. Larger special districts, with a large number of employees and large budget, frequently hold two meetings per month and at times additional meetings for important business.

Response: North Marin Water District holds two regularly scheduled meetings per month, and on occasion holds an additional special meeting to deal with urgent business or complex topics requiring focused deliberation. It is appropriate that we continue to hold two regularly scheduled meetings per month in order to remain responsive to community needs. Meetings typically run about 3 hours, which is indicative of the volume of business conducted.

Finding 3: Seven special districts out of 34 give their directors medical or dental benefits.

Response: North Marin Water District does not provide medical or dental benefits to directors.

Finding 6: Most districts do not provide the public with easily understood financial statements and analysis of existing and future reserves. Special districts financial statements and reserves can not be evaluated effectively by the public, due to inconsistent terminology and format.

Response: North Marin Water District prepares monthly detailed financial statements for monitoring of operations by management and provides quarterly financial statements along with written analysis and oral reports to the Board during regularly scheduled public meetings. The District's detailed financial statement, which is included in its agenda packet (and mailed to the Independent Journal, the Novato Advance and the Point Reyes Light) includes a balance sheet, cash flow, income statement, and assorted cost schedules for each of its three improvement districts all prepared in strict accord with generally accepted accounting standards as established by the Governmental Accounting Standards Board. While some may justifiably take issue with selected accounting standards, we recognize and follow the current prescribed format and terminology, and consistently receive high marks from external

auditors who review our financial records and report to the Board annually.

Finding 7: The Grand Jury believes that the public has little, if any, awareness of the reserves maintained by the 34 special districts.

Response: We agree. While reserve levels, capital improvement plans and cash-flow projections are of keen interest and a regular topic of deliberation at North Marin Water District, we understand that the public at large has little interest in nor awareness of the day-to-day operation or reserve levels maintained by special districts. After over 54 years of stewardship in our community, we have come to believe that what the public wants from local government is responsive and reliable customer service provided at reasonable cost. To that end the public elects community leaders to whom it entrusts the affairs of the districts and expects these elected officials to carry out the special district mission in a business-like manner. We commend the Grand Jury for its focus on special districts and hope that its report will increase public awareness and interest in these vital organizations.

Finding 8: Several of the Districts reviewed by the Grand Jury appear to have reserves that are unreasonably large.

Response: We disagree. We assume this comment is directed at least in part to North Marin Water, as we have the second highest reserve level (after Marin Municipal Water District) in Appendix C to your report. As noted in your report, there are multiple reasons to hold reserves, significant among which is the need for infrastructure improvements. North Marin Water District is currently in the process of constructing a \$6 million water storage tank at Hamilton Field. We have accumulated reserve funds for over 10 years to pay for this project and avoid a resulting rate increase. Construction commenced last year and the tank is now approaching completion. Accordingly, our reserves have fallen 18% from the level shown in Appendix C, and is projected to fall another 15% over the next year. The District has responsibly planned and budgeted for this major improvement. In addition, the District has adopted an aggressive improvement projects plan to be conducted over the coming year, and has an even larger program planned for the following year. The District has developed a Master Plan identifying future capital projects to maintain and improve the water system to meet and future water supply and delivery needs. We have followed a pay-as-you-go philosophy over the years, planning carefully for the future, vigilantly scrutinizing our expenditures, and have thereby avoided large water rate increases to fund necessary improvement projects. This has been accomplished while keeping our water rates in the lower quartile of urban Bay Area water agencies.

Recommendation 1: In special districts where compensation is paid to directors for attending meetings, the amount should be specifically justified to the district's constituents.

Response: The district has adopted a board compensation policy on which it has deliberated at several public meetings and adopted in public.

Recommendation 2: Special district Boards should strive to minimize the number of meetings held each month.

Response: We agree – and have on occasion run meetings late into the night to complete the business at hand in order to avoid calling a special meeting to complete urgent business.

Recommendation 3: Special district board members should not receive medical and/or dental benefits at taxpayer expense.

Response: We agree. North Marin Water District directors do not receive medical or dental benefits.

Recommendation 4: Travel and conference expenses of special district board members should be kept to a reasonable amount.

Response: We agree. While there is much of value that can be gained for our customers by director's attendance at industry conferences, over the past three years expense for our directors has averaged \$133 per director per year.

Recommendation 6: All 34 special districts should develop and make public, written guidelines governing the present and future level of reserves shown in the balance sheets. The term "reserves" should be defined as cash or cash equivalents, both "restricted and unrestricted". If, based upon these guidelines, analysis shows that reserves are too high, the districts should implement plans to reduce fees or otherwise return the excess funds to their constituencies.

Response: We agree. The North Marin Water District annually updates its 5-year financial plan to assess reserve level balances projected into the future. Our reserves are clearly identified as restricted and unrestricted. We use this analysis to determine the need for adjustment in rates and charges.

Recommendation 7: The County Auditor and the special districts should work together to develop clear terminology and standardized formats for the reporting of reserves.

Response: We disagree. The Governmental Accounting Standards Board has jurisdiction over governmental accounting terminology and formats and to that end has issued GASB Statement 34 requiring all governmental agencies to move closer to "private-sector" format and terminology. GASB is the proper forum for standard setting. We support the County Auditor in aiding those special districts that may lack the staff or in-house expertise to provide regular and standardized reports for public and board review.

Please contact me if you should require further elaboration on any of the responses delineated herein.

Sincerely,

David L. Bentley
Auditor-Controller

c: The Honorable Lynn O'Malley Taylor
Marin County Superior Court
P.O. Box 4988
San Rafael, CA 94913-4988

Encl: Response Form, Diskette

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