

**NOVATO SANITARY DISTRICT
RESPONSE TO GRAND JURY REPORT
SPECIAL DISTRICTS IN MARIN COUNTY**

FINDINGS

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

The District agrees with this Finding.

The Grand Jury may wish to more accurately report the \$100 as the median compensation rather than the average compensation.

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

The District agrees with this Finding.

Appendix B does not report the number of meetings per month for the special districts surveyed, nor is that data reported elsewhere in the report. Therefore, the District cannot judge the accuracy of Finding 2. Anecdotal evidence does suggest that many special districts do hold only one meeting per month.

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

The District agrees with this 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 cannot be evaluated effectively by the public, due to inconsistent terminology and format.

The District partially disagrees with this finding.

The District annually retains an independent auditor to audit the District's financial statements. That audit, which includes the appropriate financial statements, are made available to the public following acceptance by the District Board of Directors at a regularly scheduled public meeting. The annual audit is sent to the Marin County Auditor-Controller and the State Controller's office, and is readily available to the public through the District office. The District adopted a formal reserve policy in September 2001 that clearly describes the amounts and purposes of the various reserve funds established by the Board of Directors. In addition, the District's annual budget clearly shows the amount of money held in each reserve fund, and describes the purpose of each fund.

Special district financial statements prepared in accordance with generally accepted accounting principles should be clear enough to be evaluated by the public. Further, the District's reserve policies are clear and understandable by the public.

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

The District has no independent way to measure public knowledge of special district reserves.

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

The Grand Jury does not define the term “unreasonably large”, and only reports in detail the reserves from Richardson Bay Sanitary District. The Novato Sanitary District believes its reserves are necessary for prudent operation of the District and for financing ongoing operations and maintenance of existing facilities, infrastructure replacement, and other needed capital improvements,

RECOMMENDATIONS

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

This Recommendation has been implemented by the District.

The District Board of Directors believes its compensation (currently \$207/meeting) is appropriate, lawful, and that the changes in compensation have been subject to full public review and input.

From approximately 1986 through 2000, state law restricted Board member compensation to \$100 per meeting. Effective January 1, 2001, state law was changed to allow an increase in board member compensation by 5% for each year since the date of the last adjustment. In the District’s case, that was 1986. Following procedures outlined in law, the District Board voted in February, 2001 to increase its compensation. Those procedures included publishing public notices in both the Novato Advance and Marin IJ, and conducting all discussion and votes on the matter at regularly scheduled public meetings of the Board of Directors. The agendas for all of those meetings were distributed to all members of the public on the agenda mailing list, and to both the Advance and IJ. Further, state law provides that the ordinance implementing the change in compensation was subject to public referendum, meaning that the ordinance could be repealed if sufficient public controversy arose. Throughout this process, no comments were received from any member of the public.

The Board believes the compensation currently paid is fair and reasonable. Board meetings typically last 2 – 3 hours each, and there are usually at least 15 business items on each agenda. In addition to spending time in meetings, Board members also spend time preparing for meetings so they can be fully informed on issues coming before them. The District is facing a number of critical issues that have the potential to adversely affect ratepayers. These issues include responding to ever-tightening water quality regulations, dealing with aging treatment plants and sewers, implementing capital improvement projects, and responsibly managing the solid waste franchise. As an example, the District is in the early planning stages of a large program to rehabilitate and expand its two treatment plants to provide capacity for planned growth and to increase reliability, thereby reducing the number of violations of water quality standards. This program could cost local ratepayers up to \$40 million, so it is critical that the Board set the proper goals and path forward on this important project.

In addition, the Board feels that its compensation is entirely justifiable based on the efficiency with which District services are provided to the community. The District has the lowest sewer service charges and garbage rates in Marin County, and the Board feels its compensation is very fair, given the value delivered to the community.

2. Special district boards should strive to minimize the number of meetings held each month.

This Recommendation has been implemented by the District.

As discussed in the preceding answer, the Board meets twice per month. The Board has only one standing committee (Joint Solid Waste Committee with the City of Novato), and occasional ad hoc committees as the need arises. Even with two meetings per month, the Board agendas are very full, and the meetings typically last 2 -3 hours. Meeting once per month would result in very long meetings, which would decrease the efficiency of the Board. Also, a single meeting per month would delay progress on critical District projects. The Board believes that two meetings per month are the minimum necessary to conduct the District's business.

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

This Recommendation will not be implemented, as explained below.

The District provides full medical and dental coverage to current Board members. The cost of those benefits is very small (0.24%) relative to the overall District operating budget. Given the small cost to the ratepayers, the Board believes it is appropriate to provide the medical and dental benefits as an incentive for citizens to serve on the Board.

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

This Recommendation has been implemented by the District.

As reported in the Questionnaire, the District spent an average of \$7,459 in calendar years 2000 and 2001 on Board member travel expenses. These expenses were incurred while attending the three California Association of Sanitation Agencies (CASA) conferences each year. The District believes it is important to have Board members attend CASA conferences in order to keep apprised of important state-wide issues in the wastewater management field. The conferences typically provide current information on regulatory, technical, and legal issues facing the industry. Well informed Board members can make better decisions on behalf of their constituents. In addition, the conferences offer an opportunity for District Board members to interact with Board members from other agencies and other industry leaders. The resulting exchange of information is also an important component of staying abreast of industry developments and issues.

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.

This Recommendation has been implemented by the District.

The Grand Jury reports that the District has reserves totaling \$17,000,000. As discussed above, the District has adopted an Operating Reserve Fund Policy that establishes the amount and purpose of District operating reserve funds. The Policy was prepared with the assistance of an expert in the field of public finance. That policy was considered and adopted at a regularly scheduled public meeting of the District Board of Directors. The Policy requires that the District maintain operating reserve funds totaling approximately \$4 million to meet operating cash flow requirements, and provide funds for service charge rate stabilization, emergency repairs, and self insured retention.

In addition to operating reserve funds, the District has a capital reserve fund of approximately \$13,000,000. Those funds have been accumulated from connection fees and interest earnings. The funds are set aside for construction of capital improvements needed to replace or expand existing facilities. While \$13 million

may seem like a substantial reserve, in reality, it is only a fraction of the money needed to fund the District's capital needs.

The District has identified over \$40 million in capital projects to replace aging facilities, or provide increased capacity for planned growth. These projects need to be implemented over the next 5 years in order for the District to continue to provide reliable service to the ratepayers, and to comply with environmental regulations.

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

This Recommendation will not be implemented, as explained below.

The District believes this is unnecessary, as our Operating Fund Reserve Policy, budget, and financial reports are quite clear and understandable to any interested reader. Further, the capital reserve needs of the District are stated in the District's recently-adopted Strategic Plan and other related documents. In addition, the Governmental Accounting Standards Board has jurisdiction over government accounting and reporting standards. If improvements are needed to clarify special district financial reports, GASB would be the proper forum for seeking those improvements. That said though, if County auditor and other special districts wished to undertake a project to clarify terminology and report formats, the District would certainly support that effort.