

**Report Title: Special Districts in Marin County****Report Date: June 14, 2002****Response by: Leon Willat Title: Board President****With the review and approval of the  
Board of Directors****FINDINGS**

- I (we) agree with the findings numbered: \_\_\_\_\_
- I (we) disagree wholly or partially with the findings numbered: 6, 7 & 8

(Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefor.)

**RECOMMENDATIONS**

- Recommendations numbered 1, 2 & 4 have been implemented.  
(Attach a summary describing the implemented actions.)
- Recommendations numbered \_\_\_\_\_ have not yet been implemented, but will be implemented in the future.  
(Attach a timeframe for the implementation.)
- Recommendations numbered \_\_\_\_\_ require further analysis.  
(Attach an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.)
- Recommendations numbered 3, 6 & 7 will not be implemented because they are not warranted or are not reasonable.  
(Attach an explanation.)

Date: \_\_\_\_\_ Signed: \_\_\_\_\_

Number of pages attached 7

**RICHARDSON BAY SANITARY DISTRICT**  
500 TIBURON BOULEVARD  
TIBURON, CA 94920  
TEL (415) 388-1345 FAX (415) 388-1339

April 16, 2003

Mr. Lowell W. Smith, Foreperson  
Marin County Civil Grand Jury  
3501 Civic Center Drive  
San Rafael, CA 94903

**Re: Richardson Bay Sanitary District Response to Marin County Civil Grand Jury's letter dated June 14, 2002 Regarding Special Districts in Marin County**

Dear Mr. Smith,

The Board of Directors of the Richardson Bay Sanitary District of Marin County has reviewed the above referenced correspondence and provides the enclosed response, consistent with the requirements of Penal Code section 933.05.

These findings and recommendations contained in the above referenced correspondence are directed to all special districts. Richardson Bay Sanitary District is responding only on its behalf.

If you have any questions or comments, do not hesitate to contact the District.

Respectfully,

Leon Willat, President  
Richardson Bay Sanitary District Board of Directors

**ATTACHMENT TO RESPONSE TO GRAND JURY REPORT FORM**

In response to findings:

- 1 & 2. The compensation paid to directors is \$100.00 per meeting. The number of meetings per month, usually one per month, is reasonable.
3. The District does provide dental coverage to directors while in office.

6 & 7. The District does not agree with the Grand Jury's characterization and analysis of its financial records and its conclusion that the District does not provide the public with "easily understandable" financial statements and analysis of existing and future reserves.

6. In addition, contrary to the Grand Jury Report, a concentrated effort is made every year to educate the public as to District's operations and expenses. For instance, a monthly accounting report is prepared and included in the meeting packet and minutes are available to the public at any time upon request dealing with the District's budgets and reserves.

Additionally, the District prepares annual year-end statements, setting forth its income, expensed and capital accounts under the supervision of Certified Public Accountants. Those year-end statements are public records available to the public and are prepared using standard generally accepted governmental accounting standards and procedures.

As part of its budgetary process, the District annually notices in the newspaper its meeting dealing with its sewer fees to be charged on an annual basis and the fact that these fees will be discussed at a public meeting. (See copy of notice attached hereto as Exhibit "A").

Short of picking up the telephone or doing a mass mailing to the public, which the District would consider to be an unreasonable expenditure of public funds, the District believes that it does as much as possible to make its records, accountings and finances understandable and available to the public. It goes without saying, of course, that the District readily responds to any input or requests from the public concerning District operations.

7. The Grand Jury Report also comes to the conclusion that the public has little, if any, awareness of the reserves maintained by the thirty-four (34) special districts and the districts do not provide the public with easily understandable financial statements and analysis of existing and future reserves.

The District questions just exactly what kind of an investigation the Grand Jury engaged in to determine how or what the public is, or is not, aware of concerning the operations and/or financial processed of the Richardson Bay Sanitary District or other special districts.

The District agrees that probably the average member of the public could not recite the specific reserves of any particular district, but it also does not believe that the Grand Jury has any particular insight as to exactly what the public does or does not know. Certainly, criticism of this District's or other special districts' "failure to inform the public" appears to be unjustified and unfounded. Again, as to the District's understanding, the Grand Jury performed no particular analysis of just exactly what the County of Marin public knows or understands and suggests that this is nothing more than speculation on the part of the Grand Jury.

The District also disputes the analysis of the Grand Jury that the accounting terminology and method of fixing reserves is not understandable or consistent.

Special districts are defined as "enterprise funds" in Governmental Accounting Standards Board opinion (GASB) No. 34 and the State Controller's uniform System of Accounts for Waste Management Districts. A special district (enterprise fund) is defined as an entity whose "cost of providing services, including capital cost (such as depreciation or capital debt service) is to be recovered with fees and (user) charges." Both documents specify that special districts (enterprise funds) should use accrual accounting and report events, for the most part, by observing generally accepted accounting principles applicable to commercial enterprises. The State Controller's Uniform System of Accounts for Waste Management Districts, in its chapter on enterprise accounting, provides a sample of the format financial statements of a special district should resemble and also suggests certain matters to be disclosed in the notes to financial statements.

8. The Grand Jury report notes that the Richardson Bay Sanitary District has significant resources claiming that they exceed eight million dollars (\$8,000,000) and that \$5,500,000 could rebuild the entire infrastructure.

The District disputes this characterization and description of the reserves it maintains.

The Grand Jury defined “reserves” as all “cash and equivalents as shown in the assets section of the balance sheet.” This definition is excessively broad, has no basis in accounting theory or practice, and apparently serves only to support the conclusion that the Grand Jury started with. In fact, in the case of Richardson Bay Sanitary District, “reserves” as calculated by the Grand Jury appear to include accounts receivable of approximately \$110,000.

Most people would agree that any business (and a special district is a business) requires cash to operate. Most prudent business people would agree that, in a special district, accumulating cash equivalent to six months of operating expenses would not be unreasonable. This is true because service charges and property taxes, which are remitted to the County in April and December, are transferred to the districts in May/June and January/February. In the case of Richardson Bay Sanitary District, and probably most other district, these funds constitute over 75% of their revenues. In other words, cash inflows in July, August, September, October, November and December, and March April are minor. Operating expenses, for the most part, are incurred ratably over the year. Richardson Bay Sanitary District’s operating expenses have averaged \$1,170,000 for the years ended June 30, 2001 and 2000. It follows that the District requires a minimum of \$585,000 to operate through December and this does not include any factor for inflation or increased expenses.

The Grand Jury makes no provision for the foregoing in its definition of “reserves.”

8. (CONT'D) Should the Grand Jury wish to reconsider the composition of Richardson Bay Sanitary District’s cash reserves at June 30, 2001, they would be composed of the following, using the Grand Jury’s definition of “reserves:”

Reserves:

Cash required for operations (minimum)	\$	585,000
Approved replacement of infrastructure		4,830,000
Catastrophic event reserves (by deduction)		<u>2,515,194</u>
Total cash	\$	7,930,194

Components on the June 30, 2001 balance sheet:

	=====
Cash and equivalents	\$ 1,308,335
Board restricted reserves	<u>6,621,859</u>
Total cash	\$ 7,930,194
	=====

As explained to the Grand Jury, certain sums are set aside for catastrophic claims that the District may incur.

The District disputes that these "set aside sums" should be considered as part of its financial reserves. In fact, these funds serve the function of a self-insured retention for the District because obtaining earthquake insurance for the District is neither feasible nor economically efficient. The funds set aside for a catastrophe serve the function of a blanket umbrella policy for the District to insure against catastrophic losses.

Contrary to the Grand Jury's report that the reserves set up by the District are "arbitrary and not based on a valid study," the reserves set aside were done so after careful analysis and consideration, including comparing and analyzing the records and experiences of a sanitary district that actually experienced a actual natural catastrophe (See report from the Department of Public Works of the City of Los Angeles regarding expenditures for sanitary repair costs attributable to the Northridge earthquake of January 17, 1994 attached hereto as Exhibit "B").

8. (CONT'D) It is correct that the District did not go out and hire an expensive consultant to perform a reserve analysis with supporting schedules and documentation. Rather, the District personnel directly contacted representatives of the Northridge Sanitary District and asked for concrete information about their experiences and losses following the Northridge earthquake.

Using those figures as to the cost of reconstructing a system, the District took into account some 211,200 feet of sewer lines at \$100 per foot, 22 pump stations at \$200,000 per station, and other facilities that might have to be completely or partially replaced in the event of a natural disaster. Extrapolating from that experience, the District arrived at what it believed to be a very conservative figure for reserves for natural catastrophes (See Exhibit "C" attached).

The District recognizes the Grand Jury's concern regarding its reserves. The District will carefully review the adequacy of its reserves, taking into consideration the matters described above, its planned infrastructure replacements, the need for operating funds and such other matters as deemed necessary. If, after full consideration of all of the facts, a rate modification is warranted, one will be made.

### RECOMMENDATIONS

- 1 & 2. The District notes that its practices with respect to these recommendations are justified and therefore will not be changed.
3. State law allows Special District's to grant directors this benefit, therefore we will not be implementing this recommendation.
4. Number 4 is currently being implemented in that Richardson Bay Sanitary District believes travel and conference expenses are reasonable.
6. The District is experiencing a decrease in revenues from connection charges of approximately \$100,000 for the year ended June 30, 2002 and expects this decrease to be permanent as our District is built out, therefore we will be receiving very little connection charge revenue. Also, the District anticipates its allocated share of property taxes will be adversely impacted by the budget crisis currently being experienced by the State. Additionally, savings interest rates are at a low not experienced for some time, and not expected to rebound in the near term, thereby depressing interest income.

The District recognizes the Grand Jury's concern regarding its reserves. Over the course of the next year the District will carefully review the adequacy of its reserves, taking into consideration the matters described above, it's planned infrastructure replacements, the need for operating funds and such other matters as deemed necessary. If, after full consideration of all of the facts, a rate modification is warranted, one will be made.

7. We believe that the form of our financial statements closely follows the State Comptroller's suggestions. We also understand from our auditing firm that our financial statements closely resemble those of other sanitary districts with which our auditing firm is familiar.

Finally, the District submits its annual audited financial statements to the County Auditor's office. We have had no comments as to deficiencies from the Auditor's office. As the County's resources are limited, we believe that expecting the County Auditor's office to do more than provide a cursory review is improbable, especially when standards have already been set on a state and federal level. However, the District is willing to work with the County at any time.