

**Responses of Santa Cruz LAFCO to the 2009-10 Grand Jury
Final Report
Up a Creek without a Financial Paddle:
The Lompico County Water District**

Finding F4--Failure of Lompico County Water District Board to Perform Duties

1. LAFCO Policies, Page 157
2. LAFCO Response Date: August 4, 2010
3. Grand Jury Findings:

“F4. Through a review of district records and interviews with past and present directors, the Grand Jury determined that the boards of directors have failed to adequately perform some of the basic duties of a governing board.

- LCWD directors indicated that they had little or no training to be board members. In addition they have not taken sufficient advantage of opportunities to educate themselves, nor have they created a training manual or handbook to appropriately educate successive boards.
- The LCWD board has not created rules or guidelines for its proceedings, such as district bylaws, as required by the California Water Code section 30530.
- The Board Policy Manual created in 2009 was duplicated from San Lorenzo Valley Water District.
- Interviews and documentation reveal that the LCWD consistently failed to hold regular board and committee meetings.
- LCWD board members stated that the agenda for meetings did not reflect items board members requested to be placed on the agenda.
- The Grand Jury observed that some LCWD board members were not familiar with using Sturgis' Rules of Order and that they sometimes failed to treat each other and members of the public with civility when conducting their meetings.
- The Grand Jury's review of meeting minutes from 2006 to the present revealed that the LCWD board did not monitor minutes for completeness or accuracy.
- Letters from the District Attorney's office in 2008 and 2009 indicated that citizens filed complaints about alleged violations of the Brown Act. The

District Attorney did not find sufficient grounds to warrant criminal charges.”

LAFCO Response: AGREES to the extent that LAFCO does not have any information that contradicts the findings. In its role as a boundary regulatory agency, LAFCO gathers information for its periodic preparation of service reviews and agency spheres of influence. When a boundary change application is filed, LAFCO prepares a detailed staff report that analyses the proposed boundary change. LAFCO has not received a boundary change application concerning the Lompico County Water District in many years. Therefore, LAFCO does not have first-hand information concerning any of the subsections of Finding F4. LAFCO does maintain a file of district bylaws that special districts in Santa Cruz County voluntarily submit, and any public agency is welcome to use these samples when drafting a set of bylaws.

Finding F5--Lompico County Water District Board District Finances and Operations

1. Pages 157-158
2. LAFCO Response Date: August 4, 2010
3. Grand Jury Finding

“F5. The board of directors failed to adequately oversee the financial activities of the water district and to verify that operations were conducted according to good business practices, and they made questionable business decisions.

- LCWD board did not set rates and charges at a level sufficient to provide for repairs and depreciation of works owned or operated by the district as required by California Water Code section 31007.
- LCWD directors did not set rates and charges sufficient to cover the operational expenses of the water district, in part because they lacked the background or knowledge of bookkeeping and budgeting procedures in general, and they did not demand the information specific to the district that would allow them to set rates reasonably. In interviews, board members stated they were reluctant to impose higher rates on their friends and neighbors.
- In 1998, the LCWD board made a voluntary \$100,000 CalPERS retirement payment on behalf of the district manager for ten years he had worked for the district prior to the adoption of the retirement program.
- LCWD boards ignored or did not know about a 1999 resolution to cap the accrual of vacation and overtime pay to two years. The Grand Jury was unable to find any official action to rescind the limits. However, the board did re-impose the limits in 2009.”

LAFCO Response: AGREES to the extent that LAFCO does not have any information that contradicts the findings. As a boundary regulatory agency, LAFCO does not gather detailed information such as retirement system payments or employee vacation accrual rules. LAFCO does not have information that verifies or counters the Grand Jury's findings.

Recommendation R1--Evaluate and, if appropriate, pursue merger with SLVWD

1. Page 162
2. LAFCO Response August 4, 2010
3. Grand Jury Recommendation:

“R1.The Santa Cruz County Grand Jury recommends that the board of directors of LCWD should continue to evaluate and, if appropriate, pursue a merger with the San Lorenzo Valley Water District (SLVWD) using one of the three options listed below. Although many residents of Lompico are passionate about their independent water district, the Grand Jury finds the ongoing crises facing this water district too overwhelming for it to handle by itself. Three merger options are listed in order of increasing complexity and time:

(1) A working alliance with SLVWD using a Joint Powers Agreement (JPA) which is established by the two water district boards of directors. This type of agreement is very flexible. For instance, it could be used for management of the districts only, and can be revised as necessary. A JPA could go into effect immediately and could in time lead to LAFCO reorganization of the district.

(2) A consolidation of LCWD and SLVWD through LAFCO. If the boards of each district file with LAFCO for consolidation, it would happen automatically. This process generally takes about six months.

(3) Reorganization through application to LAFCO. Any party can file directly to LAFCO, for example, a group of property owners, registered voters, or a board of directors. Whoever applies pays the filing fee. This process usually takes at least a year and a half. “

4. Implementation:
 - a. LAFCO's response is that this recommendation should be implemented as quickly as possible. This section has not been implemented yet because the Lompico and San Lorenzo Water Districts are studying their options, and no application has yet been filed with LAFCO. After receiving a consolidation or reorganization application, LAFCO will prepare a comprehensive report and conduct a public hearing on the application. LAFCO expects its

review process and public hearing to take between three and six months. LAFCO staff has already provided information to Board Members of the Lompico County Water District and the San Lorenzo Valley Water District to explain the LAFCO processes. LAFCO staff attended a public forum at the Zayante Fire Station on July 8, 2010 at which the Lompico community discussed their options.

LAFCO acknowledges the 2009-2010 Grand Jury's thorough investigation of the Lompico County Water District, which emphasizes the problems facing the Lompico water system. LAFCO notes the Grand Jury's recommendation, under Recommendation R2 on page 162, that the Lompico County Water District evaluate an immediate merger with the San Lorenzo Valley Water District. In the last ten years, LAFCO has reviewed two applications to "merge" water systems into the San Lorenzo Valley Water District--the Mañana Woods Mutual Water Company and the Felton Service Area of the California-American Water Company. Both mergers were complicated. In both cases, the San Lorenzo Valley Water District presented a professional service plan, LAFCO authorized the mergers, the affected communities found the costs to be reasonable. The San Lorenzo Valley Water District is now operating both of the merged systems in a manner consistent with the service plans that accompanied the original applications to LAFCO.