



PLACER COUNTY GRAND JURY

Placer County Water Agency

Enhanced Service to Placer County Residents Utilizing Reserves from Sale of Surplus Water and Electricity

June 26, 2015

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Enhanced Service to Placer County Residents Utilizing Reserves from the Sale of Surplus Water and Electricity

Summary

The Placer County Water Agency (PCWA) was authorized by the Placer County Water Agency Act (the Act) in 1957, to manage certain water resources for the public good of Placer County residents. PCWA has emerged as a financially secure agency with Unrestricted Reserves in excess of \$110 million plus a Water Systems Expansion Restricted Account balance of \$40 million. PCWA has done an admirable job of managing their water and infrastructure assets for their rate payers. What has not been legislatively specified is how PCWA should manage excess cash generated from either the sale of surplus water or from net revenues derived from the sale of electricity from their hydroelectric operations on the Middle Fork of the American River.

The realities of the ongoing nature of the drought, and its effect on some Placer County communities not part of the PCWA service area, could create a situation where water availability becomes a serious health and welfare issue.

PCWA has Unrestricted Reserves in excess of \$110 million. They need to consider the application of some of those reserves to improve the availability and dependability of potable water to all residents of Placer County.

The Placer County Grand Jury recommends that PCWA consider expanding their vision and mission to include assistance for Placer County neighborhoods and communities not currently in their service areas. This assistance might come in the form of emergency financial aid to other water districts to develop the necessary infrastructure to connect to existing PCWA treated drinking water during extreme drought conditions.

Background

The media has reported on the sale of 35,000 acre feet of surplus water by PCWA to Westlands Water District for \$325 per acre foot in 2014. The sale was approved by the State Water Resources Control Board (SWRCB) and resulted in \$11.4 million of revenue for PCWA. The water became “surplus” because PCWA has no means of storing all of its appropriated water from the Middle Fork Project (MFP). The sale occurred at the same time as PCWA was instructing its customers to conserve water as a result of the drought. Revenue from this sale was

placed into an unrestricted reserve account from which the PCWA board can allocate funds for any type of project or purpose within the authority of the PCWA Act. The Grand Jury, aware of the ongoing drought and potential needs of county residents, decided to look at PCWA's future plans for use of reserve funds.

Investigation Methods

- Interviews of PCWA management staff and board member
- Review of current documents: 2015 Budget, 2013 Audit, 2014 draft Audit (portion only), 2015-19 Capital Investment Program (CIP), and PCWA Resolution 08-16 and accompanying Policy
- Review of information available on the PCWA web page including the Act, and, State Water Control Board (SWRCB) approved contract between PCWA and Westlands Irrigation District
- Media reports and PCWA Update newsletters

Facts

- Clean water for all Placer County residents is necessary to insure the health and welfare of the entire County.
- Pursuant to PCWA Act § 81-15.2, "Sec. 15.2 - The Board may by resolution create an advisory council for any zone to assist and advise the board on all matters pertaining to that zone." PCWA has not utilized this provision to date.
- PCWA's territory is contiguous with the boundaries of Placer County. However, PCWA does not provide water service to all residents in Placer County. Water services are provided to the balance of the county by other water suppliers.
- The December 31, 2014 PCWA draft Audit for 2014, shows \$61 million of Operating Revenues and \$49 million of Operating Expenses (excluding depreciation). In addition, Non-operating Income of \$32 million and Capital Contributions of \$14 million were received by PCWA during 2014. The Net Position increased \$4.5 million (2013 Audit) and \$35.7 million (2014 Audit).

- PCWA is an independent governmental entity with an elected Board that appears to have done an admirable job of managing their water and infrastructure assets for its rate payers.
- PCWA generates revenue from the sale of water and electricity.
- PCWA's Capital Investment Plan (CIP) is ongoing. Already completed projects include new water plants, tanks, pipelines, and extensive renewal and replacement of aging infrastructure of its canal and treated water systems.
- PCWA Board Resolution 08-16 sets forth policy that cash distributions from the sale of electricity are to be used toward water-related projects. This policy is also used as a template for PCWA's use of capital funds. One of the policy objectives is: "*Development of new or extension of existing water systems to serve existing homes, neighborhood and communities that do not have adequate domestic water supplies.*"
- PCWA receives water from PG&E and has water rights directly from the American River, including Folsom Reservoir. PCWA is negotiating with the US Bureau of Reclamation for Central Valley Water Project water (delivery from the Sacramento River to southwest portions of Placer County that are planned for future growth).
- PCWA staff is currently preparing a Water Master Plan, to be completed by the end of 2016 or early 2017.

Findings

The Grand Jury found that:

- F1. PCWA is a well-managed special district agency and uses its water and electrical assets to the advantage of its rate payers.
- F2. The ongoing reality of drought and reduced water inflows into all water districts serving Placer County residents and businesses is requiring PCWA to reevaluate how all county residents are served with water.
- F3. During the ongoing drought PCWA may benefit from utilizing advisory councils as provided by the Act.

Recommendations

The Grand Jury recommends that:

- R1. A significant portion of revenue from the sale of surplus water and some of the net revenues from the sale of electricity be used to extend delivery of potable water to neighborhoods and communities not currently served by PCWA.
- R2. Consideration be given to potential or emergency needs of existing underserved areas within Placer County in the Water Master Plan being prepared by PCWA.
- R3. For public water systems not currently served by PCWA, the Water Master Plan should include the opportunity to connect their water service to PCWA. PCWA should make emergency financial aid available for this purpose.
- R4. PCWA form zone advisory councils pursuant to PCWA Act § 81-15.2.

Request for Responses:

| | <u>Recommendations Requiring Response</u> | <u>Response Due Date</u> |
|---|---|---------------------------|
| PCWA Board of Directors Placer County Water Agency P. O. Box 6570 Auburn, CA 95604 | R1 – R4 | September 22, 2015 |
| Mr. Joseph Parker Director of Financial Services Placer County Water Agency P. O. Box 6570 Auburn, CA 9560 | R1 – R4 | September 22, 2015 |