

Infighting and Turmoil Drown Florin County Water District



SUMMARY

On the surface, things appear to be running fine at the Florin County Water District (FCWD). The water tastes good, the monthly charges are reasonable, and there is plenty of water to meet the demands of the District's customers. However, a closer look reveals there is much more to the Florin County Water District than just the infrastructure that delivers the water to its customers.

FCWD is a small independent water district located in Sacramento County. The former General Manager (GM) dominated the District for 25 years. The Board of Directors not only leaned on the former GM to run the daily operations of the District, but they deferred to him in most management decisions. The Board's actions were little more than a rubber stamp for all of the former GM's decisions. Acting more like a social club, they were all trusting friends and neighbors. The Board's over-reliance on the former GM led to ineffective, almost non-existent, oversight.

The Board should have recognized it was their failure to exercise effective oversight which led to a series of mistakes. No financial audit took place for four consecutive years (Fiscal Years ending 2018, 2019, 2020, and 2021). When a four-year audit was finally completed in 2022, it revealed the former GM took significant financial actions without specific board approval.

The Grand Jury received two complaints concerning the management of FCWD. Those complaints led the Grand Jury to investigate the reported financial misdeeds uncovered by the audit, and found severe, almost paralyzing, dysfunction on the Board.

Distrust within the Board and with management results in chaotic board meetings. Board members bicker for hours and fail to make decisions on agenda items. The District is not planning for its long-term challenges, such as the state-mandated installation of water meters and anticipated replacement of aging infrastructure. With expenses growing while revenues remain flat, the District plans to tap its reserves, risking the financial viability of the District.

Also, by not engaging with regional water organizations, the tiny district ignores the larger discussion of groundwater viability along with the opportunities that membership can provide for training, cooperation, and grant funding.

Information about FCWD is difficult for ratepayers to access. Compared to other Sacramento County water agencies, FCWD's website is rudimentary and lacks full transparency.

The residents of FCWD deserve better.

BACKGROUND

Established on October 19, 1959, the Florin County Water District (FCWD) operates as an independent special district governed by an elected board under the California Water Code.

FCWD encompasses an area of 2.5 square miles, including Old Florin Town, which is part of the unincorporated area of Sacramento County. Generally bounded by Florin Road on the north, Gerber Road on the south, Power Inn Road on the west and Gardner Avenue on the east (*See map in Appendix A*). This area has a population of 7,831 with 3,911 registered voters. FCWD operates 10 ground wells, tapping into the region's aquifer as the source.

FCWD is surrounded by other water providers, including the two largest in Sacramento County. To the east is the Sacramento County Water Agency, with over 200,000 customers. On the north and west is the City of Sacramento, serving 130,000 customers. Both providers obtain water through a combination of surface water from the Sacramento and American rivers and groundwater.

FCWD exists to provide customers an accessible and adequate water supply that complies with the federal Safe Drinking Water Act. One of the smallest water districts in the county, FCWD serves residential and commercial customers in suburban and rural areas. FCWD has 2,405 water connections, 37 of which are commercial or industrial and four are agricultural. The balance of their customer base is residential.

FCWD requires all new services to be metered in order to begin the implementation of conservation measures. Meters provide accountability for water use and discovery of water loss due to leakage. California state law requires all water connections be metered by 2032 and charged at a meter rate to reflect usage. Currently less than 2-percent of FCWD residential services are metered.

Water Regulations

All California water districts must meet various federal, state, and county standards and regulations to ensure the sustainable management and distribution of water resources. These include:

Water Quality Standards

- Water Conservation Mandates
- Groundwater Management
- Water Supply Reliability
- Environmental Regulations
- Water Rights Compliance
- Emergency Preparedness



Meeting these standards and requirements is increasingly complex. Operations require collaboration among water agencies, government entities, stakeholders, and the public to develop effective water management strategies and policies to balance competing interests and ensure the long-term sustainability of California's water resources.

FCWD Governance and Management

The District is governed by a five-person Board, elected at-large from registered voters within its boundaries. As set forth in the California Water Code, the FCWD Board of Directors has the responsibility and authority to:

- Adopt and enforce the District's policies and procedures.
- Maintain the financial viability of the District, including the performance of periodic audits.
- Acquire or sell the District's real property, construct and operate facilities, purchase equipment, and enter contracts.
- Adopt and oversee annual District budgets and finances, set water rates and charges, and approve the purchase of resources needed by management to carry out District policies; and
- Appoint and conduct annual performance evaluations of the General Manager and General Counsel and approve compensation for all District employees.

The General Manager position is charged with carrying out responsibilities of the District's day-to-day operations. Currently, the District is supported by a staff of 10. An additional eight positions were budgeted and remain vacant.

Local Agency Formation Commission

The Sacramento County Local Area Agency Formation Commission (LAFCo) is the only governmental agency with review authority over independent special districts. Among LAFCo's responsibilities is the performance of periodic Municipal Service Reviews (MSRs) that analyze the capacity of local agencies to provide services, assess infrastructure needs, and identify opportunities for service efficiencies.

Grand Jury Complaints

Ratepayers first attempted to bring their concerns about public misuse of funds to law enforcement for investigation. They found the path unclear for reporting possible local government malfeasance.

The Sacramento County Grand Jury received two complaints about board dysfunction and possible financial malfeasance at FCWD. After a review of these complaints and additional research, the Sacramento County Grand Jury determined an investigation was warranted focusing on the FCWD Board, management, staff, and operations.

METHODOLOGY

The Grand Jury investigation began with two complaints and obtained more in-depth information through the following:

1. Interviews of 20 individuals, representing various aspects of our investigation:
 - Current and former employees and contract professionals of FCWD
 - Current and former members of the FCWD Board of Directors
 - Employees of organizations associated with regulating or providing water
 - FCWD Ratepayers / Concerned voters
 - Sacramento County employees
2. Review of FCWD website and materials provided directly from the District:
 - Annual Budgets for Fiscal Years 2023 and 2024
 - Audited Financial Statements covering Fiscal Years 2016 through 2021
 - Board of Directors meeting agendas and minutes from 2016 to March 2024
 - Website link: <https://florincountywd.org/>
3. Websites to provide information about water regulation, special districts, and water agencies and associations (*See Appendix B*)
4. Websites associated with investigating or reporting suspected fraudulent activity (*See Appendix B*)

DISCUSSION

For many years FCWD has drawn little attention or interest from its residential ratepayers who pay a low flat rate and are not subject to meters that monitor their water usage.

Manager Dominates the District

For approximately 25 years, the former GM dominated FCWD's operations and governance. The Board displayed confidence in his management, took his direction, and rarely questioned his recommendations. Essentially, the Board relinquished its oversight responsibilities to the former GM.

Under the former GM, FCWD handled all construction projects and routine maintenance in-house and no professional engineer was on staff or on contract. The former GM never built a long-term capital plan, but identified only short-term capital projects in the District's annual budget. Those practices continue today.

In addition, the District lacked inventory controls for equipment and materials, which remains applicable today. For example, FCWD's headquarters at 7090 McComber Street in the unincorporated area of Sacramento County has limited space for its corporation yard. As a result, some equipment has been stored at private locations where security varies. This haphazard practice places FCWD at risk of damage, theft, and exposure to liability.

The former GM hired his daughter as the Office Manager, as well as her husband whom he ultimately promoted to Superintendent. The 2022 audit and a 2023 complaint to the Grand Jury raised the issue of nepotism related to separation of duties. To date, the Board has taken no action to address nepotism or employees directly supervising close family members.

Board Abdicates Leadership to the General Manager

During the former GM's tenure, the Board's membership was stable and subject to limited turnover. These Board members seldom faced contested elections. When Board vacancies occurred without elections, replacements were filled through appointment, with family members sometimes selected to succeed the departing Board members.

In interviews with the Grand Jury, Board members stated they never received any formal orientation or training from the District about their duties. Board meetings rarely attracted members of the general public and FCWD's contracted legal counsel usually did not attend those sessions. The former GM instead would consult with counsel only on occasion. The former GM prepared board meeting agendas and solely chose what information the Board needed to know.

Rate Lawsuit

Upon the former GM's recommendation in 2016, the Board adopted a three-year stepped rate increase that resulted in a 200-percent increase overall. Before it took effect in 2017, two ratepayers challenged the rate increase in court. While the matter was litigated, FCWD continued to charge the increased rates. In 2021, the Court of Appeals ruled against FCWD, finding the District failed to follow the state law requirements regarding how to raise rates. The Court ordered the two ratepayers who brought the suit to receive refunds. The District was under no legal obligation and chose not to provide refunds to any other ratepayers.

FCWD rolled back its fees to historical levels for all ratepayers during the 2021-22 Fiscal Year. By choosing not to issue refunds to all ratepayers, this windfall allowed FCWD to build up a reserve of \$6 million.

The Audit Exposure

The Board did not initiate audits for four consecutive fiscal years ending in June, from 2018 through 2021. One reason cited for the missing audits was the COVID pandemic; however, this was not a barrier for many other public agencies. In the summer of 2022, the District's long-time Certified Public Accountant (CPA) firm began the audit that covered the overdue four years. In December 2022, the audit was completed and released to the Board with a number of significant findings. The audit highlighted that the former GM in 2018 had given himself, along with two family members (Office Manager/daughter and District Superintendent/son-in-law), raises of two and half times the amount the Board approved.

The audit noted FCWD is at risk of financial mismanagement due to the lack of separation of financial duties, as well as the familial relationship between the former and current General Managers and the Office Manager. The audit further disclosed the District did not have a written financial and accounting policy manual nor a current investment policy and conflict of interest policy.

During the investigation, the Grand Jury learned the long-time CPA firm dropped FCWD as a client after the completion of the audit.

New General Manager

In early 2022, the Board began planning for the former GM's retirement by placing a job posting for a successor. The Board decided to interview the only two candidates who applied for the interim GM position. One candidate removed himself from consideration, and the other candidate was the District Superintendent, the former GM's son-in-law.

That same year, confidence in the former GM began to erode because Board members challenged his representation of the status of FCWD's wells. At a meeting, a Board member presented documentation that some wells were not operational.

After that meeting, the former GM abruptly retired.

Following the former GM's sudden retirement, the Board appointed the District Superintendent as the interim GM, although his experience did not include the executive skills detailed in the job description requirements. Additionally, the Board did not enter into an employment contract with him, and that status has not changed.

Board Turnover

Board composition shifted following the former GM's resignation.

Three of the five board seats opened up in 2022. No incumbent filed for election. Two individuals who did file faced no opposition and were automatically elected. The Board filled the remaining third seat by appointing one of the incumbents who missed the 2022 filing date for re-election.

When another veteran board member resigned later in 2023, the Board could not reach a consensus on a replacement. It fell to the County Board of Supervisors to make the appointment.

Board Chaos Follows

Starting in January 2023, the presence of FCWD legal counsel became routine at board meetings unlike during the former GM's tenure. Continuous concern about the wells and the audit findings led to Board friction. Members of the public began attending Board meetings more frequently, usually averaging 4-10 attendees.

Bickering among the Board and with FCWD staff began following the former GM's departure and continues today ultimately leading to inaction. In multiple interviews, the Grand Jury heard descriptions of chaotic meetings and name-calling between the Board members. The Board does not follow overly long agendas and rarely takes action. Items re-appear month after month.

The Board has not approved or publicly posted meeting minutes dating back to 2023, which is inconsistent with transparency. No action has been taken with respect to the audit findings. The District's annual budget has not been adopted in a timely manner. And no audit has commenced for Fiscal Years 2021-22 or 2022-23.

The Board is also split about whether the adoption of a budget is sufficient approval to cover all salary increases. Despite the auditor's finding that the Board had not approved salary increases for the former GM and his two family members, the issue continues to create dissension among the board members.

No action plan has been agreed upon by the Board to address the state law mandating water meter installation by 2032.

Without the former GM's dominance, the Board spun out of control. They began a search for governing documents and found none existed. Examples of these missing

documents are by-laws, procedural manuals, adopted policies and/or procedures. Individual board members have attempted to draft such documents on their own. The Board has failed to adopt easily accessible best-practice templates from special district or local government associations. The Board has made some progress in developing these documents; however, the situation continues to paralyze the board from acting on issues such as performance appraisals, contract bidding, etc.

More Public Review and Transparency

FCWD has been operating without much public accountability. For instance, Sacramento LAFCo has never performed an MSR on FCWD. A review by LAFCo would provide an independent assessment of the District's governance structure and its ability to provide efficient and effective service to its customers.

The growing interest by the rate-paying public, evidenced by increased attendance at FCWD Board meetings, demands greater transparency of District operations and better access to information. FCWD customers do not have an adequate source of information about water operations and governance because the District's website is rudimentary and the only contact is the monthly bill sent to the customer of record.

Because the terms of the Board members have fluctuated over the years due to various appointments, the public cannot easily ascertain who has served as a director and their terms of office. FCWD can learn from many special district websites, such as Del Paso Manor Water District. These websites include a concise agency history, a list of elected officials along with their emails, and easy access to financial information.

Looming Fiscal Deficit

Financially, FCWD generated significant cash flow with the rate increase that began July 2017. However, once that increase was rolled back pursuant to the court order, this trend reversed which resulted in an operating deficit. FCWD's budget uses a portion of the District's reserves to plug the leak instead of planning for a properly adopted rate increase. The District faces additional costs over the coming years due to water meter requirements, aging infrastructure replacement, increasing repairs, and technology upgrades. As a result, the District will rapidly deplete its \$6 million reserve.

With flat revenue and growing major expenses, FCWD's financial viability is threatened. The physical limits of the District and little land available for development indicate stagnant customer growth and a lack of new revenue potential. Without a five-year capital improvement plan, FCWD cannot accurately prepare for future expenses. The Board did not require a capital improvement plan from the former GM and fails to demand one from the interim GM. FCWD cannot pursue a rate increase as a possible solution without first completing a capital improvement plan to justify the need.

The Future of Water Management is Increasingly Complex

The complexities of modern water district operations involve more than pumps and pipes. FCWD operates in isolation. Board members and staff refer to the regional aquifer, the source for the District's wells, as "their" water. That insular outlook fails to recognize all local water providers are dependent on the shared aquifer serving this region. Yet, FCWD management does not engage with any of the regional associations. For example, FCWD is absent from discussions being held by the Sacramento Central Groundwater Authority or the Regional Water Authority regarding local groundwater management projects. These two organizations ensure water viability for all applications within the region.

In addition to coordination with regional water management, FCWD management needs to be prepared to deal with finance, human resources, and the effects of climate change. Past training has focused on the technical aspects of pumps and pipes offered through trade associations like the California Rural Water Association. Management has not sufficiently developed executive skills for how FCWD will address future challenges.

Conclusion

The Board and management of FCWD face immense challenges of governance, operations, and long-term planning. Customers and ratepayers are generally unaware of the District's dysfunction and its problems. While the water continues to flow for now, FCWD is not prepared for the future.

FINDINGS

- F1 Members of the FCWD Board of Directors have limited understanding of their duties and bicker among themselves as well as with staff, resulting in mismanagement and little planning for the future. (R1, R2, R3)
- F2 FCWD management lacks professional executive experience in finance, water management, human resources, and climate change, so they are unprepared for the complexities of modern water district operations. (R4, R5, R6, R7)
- F3 FCWD Board of Directors, management, and legal counsel downplay the appearance of impropriety posed by employees directly supervising close family members, which raises questions about the integrity of the District. (R8)
- F4 The FCWD Board of Directors fails to address the problems and financial risks identified in the delayed four-year fiscal audit dated October 27, 2022, so the District remains financially vulnerable. (R9)
- F5 Because the FCWD Board of Directors fails to initiate annual audits as required by law, FCWD is unable to ensure public money is accounted for and controls are in place to protect against misappropriation and misuse. (R10)

- F6 The FCWD Board of Directors' disagreement about the salary increase given by the former General Manager only to himself, the Office Manager, and Superintendent (all close family members) contributes to Board conflict and paralysis. (R11)
- F7 FCWD does not provide an adequate source of information about water operations and governance because its website is rudimentary and the only regular contact with ratepayers is the monthly bill, resulting in an uninformed customer base. (R12, R13)
- F8 Flat revenue and growing major expenses, including water meter installation and aging infrastructure replacement, threaten FCWD's financial viability. (R14)
- F9 Without a LAFCo review, FCWD has not benefited from an outside evaluation that would address governance, service capacity, infrastructure, and efficiencies. (R15)

RECOMMENDATIONS

- R1 FCWD Board members should adopt and ensure staff adhere to Policies and Procedures (e.g., operations, accounting, and human resources) based on the best-practice templates provided by FCWD legal counsel or those available from special district or local government associations, no later than December 31, 2024. (F1)
- R2 FCWD management should establish a checklist by November 30, 2024, of all state-mandated training and forms required to be completed by Board members and staff, and document the completion dates. (F1)
- R3 FCWD management should maintain a list of terms of office for all current members of the FCWD Board of Directors, including start and end of terms of office for each Board Member, no later than October 31, 2024. (F1)
- R4 FCWD Board members and management should take advantage of membership in the California Special Districts Association and attend relevant training sessions by March 31, 2025. (F1, F2)
- R5 FCWD Board should adopt an employment contract for the general manager position that requires, but is not limited to: demonstrated ability in financial management and budgeting, personnel management, groundwater conservation, and water treatment operations, and the performance assessment of the Interim General Manager by October 31, 2024. (F2)
- R6 FCWD management should engage with the Sacramento Central Groundwater Authority and the Regional Water Authority regarding local groundwater management projects no later than October 31, 2024. (F2)

- R7 FCWD's operating policies and procedures, including provisions to require construction plans be reviewed by a professional civil engineer, should be adopted by the Board by December 31, 2024. (F2)
- R8 FCWD Board should establish human resource policies that address nepotism and lack of separation of duties between family members no later than December 31, 2024. (F3)
- R9 FCWD Board should review the four-year audit and management report presented in October 2022 and establish an action plan to address problems no later than December 31, 2024. (F4)
- R10 FCWD Board should ensure that audits for Fiscal Years 2021/2022 and 2022/2023, are completed no later than December 31, 2024, and arrange that future annual audits are completed within 6 months of the end of each fiscal year. (F5)
- R11 FCWD Board should require budgets include a schedule that lists by job title all actual and budgeted positions and salaries starting with Fiscal Year 2025/2026. (F6)
- R12 FCWD management should add key documents to the FCWD website by the dates below. (F7)
- Adopted policies and procedures, by December 31, 2024. (see R1)
 - Terms of office for current members of the FCWD Board of Directors, including start and end of terms of office for each Board Member, by October 31, 2024. (see R3)
 - The action plan developed to address the deficiencies identified in the four-year audit and management report presented in October 2022, by December 31, 2024. (see R9)
 - Audited Financial Statements with accompanying Management Reports, within two months of delivery to the Board. (see R10)
- R13 FCWD management should update and maintain the FCWD website for ease of use by all, no later than March 31, 2025. (F7)
- R14 FCWD Board should study the need to implement a rate increase, with the first step being the creation of a five-year capital improvement plan, no later than November 30, 2024. (F8)
- R15 A Municipal Service Review should be performed by LAFCo to study and analyze information about the District's governance structure, service capacity, infrastructure, and efficiencies, by March 31, 2025. The Grand Jury also recommends that FCWD fully cooperate with LAFCo. (F9)

REQUIRED RESPONSES

Pursuant to Penal Code sections 933 and 933.05, the grand jury requests responses as follows. From the following governing body of a public agency within 90 days, for all Findings and Recommendations:

Florin County Water District Board of Directors
c/o Board President, Cindy Russell
7090 McComber Street
Sacramento, CA 95828

Mail or deliver a hard copy response to:

The Honorable Bunmi Awoniyi
Presiding Judge Sacramento County Superior Court
720 9th Street
Sacramento, CA 95814

Email the response to:

Ms. Erendira Tapia-Bouthillier
Sacramento County Grand Jury Coordinator
Email: TapiaE@saccourt.ca.gov

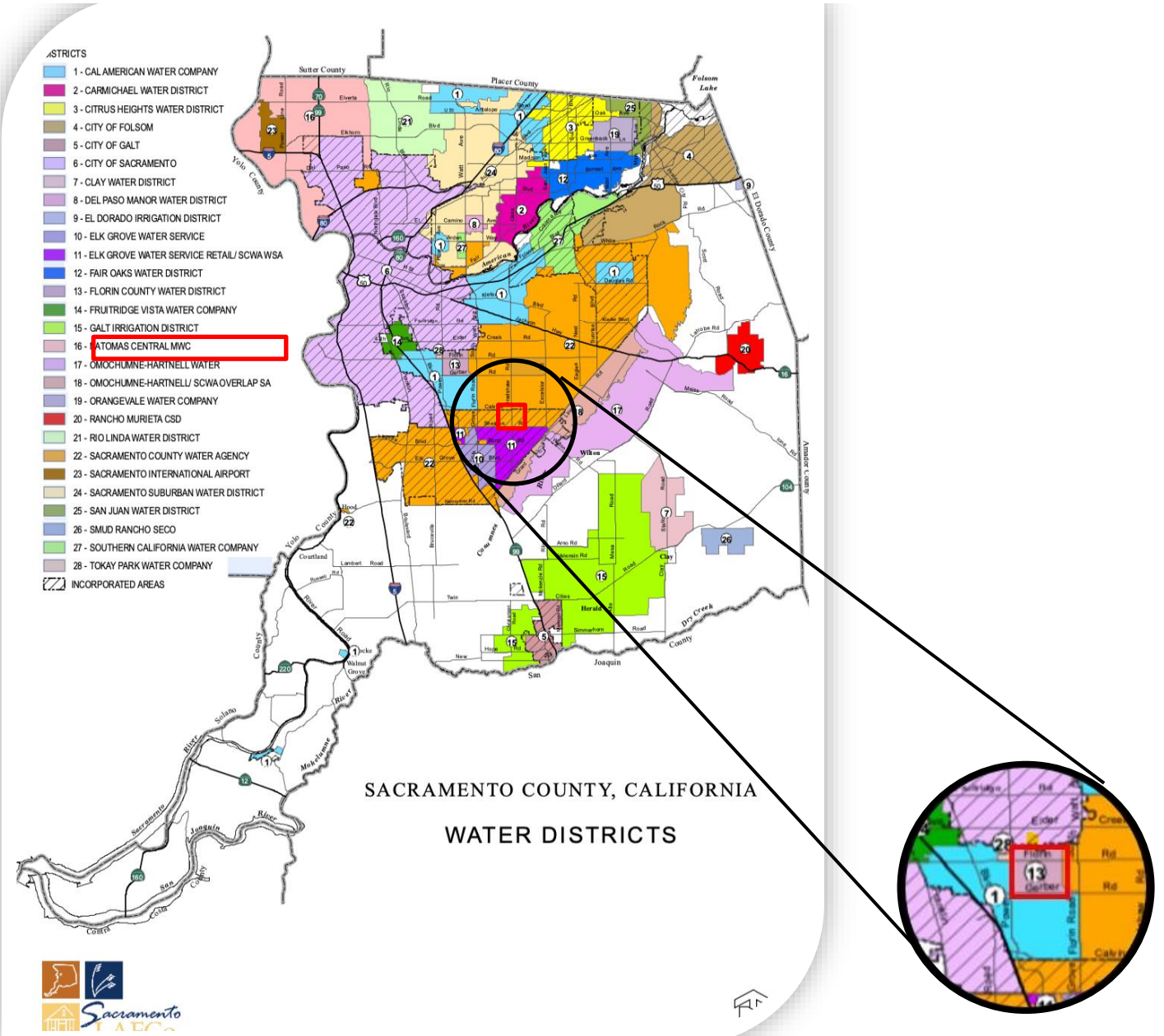
INVITED RESPONSES

Edmond Leggette, Interim General Manager
Florin County Water District
7090 McComber Street
Sacramento, CA 95828
(for all Findings and Recommendations)

Jose Henriquez, Executive Director
Sacramento County LAFCo
1112 I Street, Suite 100
Sacramento, CA 95814
(Including but not limited to Finding 9 and Recommendation 15)

Marcie Frost, Chief Executive Officer
California Public Employees Retirement System (CalPERS)
400 Q Street
Sacramento, CA 95811
(for Finding 6 and Recommendation 11)

APPENDIX A



Map of Sacramento County Water Districts, with Florin County Water District highlighted.

APPENDIX B

Websites to provide information about water regulation, special districts, and water agencies and associations.

California Water Code

<https://leginfo.legislature.ca.gov/faces/codesTOCSelected.xhtml?tocCode=WAT&tocTitle=+Water+Code+-+WAT>

California Rural Water Association (CRWA)

<https://calruralwater.org>

California Special Districts Association (CSDA)

<https://www.csda.net/home>

Del Paso Manor Water District

<https://www.delpasomanorwd.org/>

Environmental Protection Agency (EPA)

<https://www.epa.gov/laws-regulations/summary-safe-drinking-water-act>

Regional Water Authority (RWA)

<https://rwah2o.org/>

Sacramento Central Groundwater Authority (SCGA)

<https://sasbgroundwater.org>

Sacramento County Local Area Formation Commission (LAFCo)

<https://sacdafco.saccounty.gov/Pages/default.aspx>

Sacramento County Water Districts (map)

https://planning.saccounty.gov/Documents/Maps/Water%20Districts_0110.pdf

Websites associated with investigating or reporting suspected fraudulent activity.

Sacramento County District Attorney

<https://www.sacda.org/how-do-i/>

Sacramento County Sheriff

https://www.sacsheriff.com/pages/crime_report.php

Santa Clara County District Attorney Major Fraud Unit

<https://da.santaclaracounty.gov/prosecution/departments/major-fraud-unit>

State Controller's Government Compensation in California website

<https://gcc.sco.ca.gov/>

Transparent California

<https://transparentcalifornia.com/>

