2024-25 GRAND JURY REPORT

EL DORADO COUNTY

APRIL 30, 2025 - CASE #25-09

EL DORADO IRRIGATION DISTRICT: BRIDGE OVER TROUBLED WATER

Accounting irregularities and certain financial decisions lead to questions about the financial oversight provided by the EID Board of Directors.

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Cover Caption: Drone photo of EID wastewater treatment facilities near Blackstone in El Dorado Hills. Taken February 26, 2025, by G. Kinghorn

SUMMARY

Summary

"Thousands have lived without love. Not one without water."

- W. H. Auden

HIGHLIGHTS

El Dorado Irrigation District (EID or District) is the largest water district and one of the largest commercial entities in El Dorado County. A number of financial concerns have surfaced in recent years that warranted a Grand Jury investigation. Recent significant rate increases have raised questions. There was significant turnover in the finance department which delayed and complicated the 2022 and 2023 audits. The auditor in those years identified what it termed as "significant deficiencies" in internal controls.

Review of the Basic Financial Statements in the 2023 Annual Comprehensive Financial Report (ACFR) revealed unusual amounts of dollars moving between enterprise accounts, unlike those seen over the previous 5-year period. These include payments between water and wastewater lines of business, as well as an inexplicable period where payments to wastewater employees were a net positive to EID. Questions were also raised about the management of pension obligations and decisions to defer maintenance, which played a factor in the recent rate increases.

The Grand Jury found no malfeasance, but did see a troubling trend of questionable accounting practices that serve to reduce trust and transparency and could ultimately conceal more overt problems. Furthermore, very little oversight was provided by the EID Board of Directors to ensure clear and transparent financial reporting by staff and engage fully on key financial decisions.

RECOMMENDATIONS SUMMARY

The Grand Jury recommendations include: (1) forming a finance committee to take a more active role overseeing accounting policies and decisions, (2) creating a separate Facilities Capital Charges report, and (3) ensuring that "significant deficiencies" noted by the auditor are addressed. We leave it to the County Board of Supervisors to determine whether the Grand Jury should receive additional funding to oversee a forensic audit in light of the concerns highlighted.

BACKGROUND

Background

El Dorado Irrigation District (EID or District) was organized in October 1925 under the California Irrigation District Law (California Water Code §20500 et seq.). It provides water for over 130,000 people for industrial, municipal, and irrigation needs, as well as wastewater treatment and recycled water services. It operates a small hydroelectric facility (licensed by the Federal Energy Commission) and recreational facilities which are open to the public. Assets and Deferred Outflows of Resources totaled just under $1 billion each year in 2022 and 2023, and the District maintains over half a billion dollars of infrastructure.

EID operates under a five-person board of directors (Board), which has ultimate fiduciary responsibility over all operations. The General Manager, appointed by the Board, manages operations and implements the policies of the Board. The Finance Director reports to the General Manager.

According to the EID annual financial report, the Board's intention is to operate EID as a business, ensuring revenues align with the costs of providing services. The District operates on an accrual basis of accounting and uses a system of internal controls to protect assets and ensure transactions are recorded according to District policies and sound accounting principles.

In December 2023, the Board adopted the results of a Proposition 218 Cost-of-Service Analysis (COSA) rate study update, which included a 12% maximum annual increase in water rates from 2024-2028. Recycled and wastewater rates were to increase 3% annually over the same period.

Concerns were raised to the Grand Jury about recent significant rate increase proposals, as well as the need for pension obligation bonds that were issued in 2022. Other related complaints to the Grand Jury caused us to initiate an investigation into the financial health and financial policies at EID. Our initial analysis identified several areas that warranted further clarification. We noted entries that lacked sufficient explanation or appeared inconsistent, making it challenging to fully understand the underlying financial activity. Our subsequent investigation focused on a lack of transparency to the public and the limited oversight of the EID Board into financial decisions and policies.

Our complete analysis and recommendations follow.

METHODOLOGY

Methodology

INTERVIEWS

- EID staff
- EID Board members
- Outside financial experts

DOCUMENTS REVIEWED

Financial Reports, Plans and Policies

- Annual Comprehensive Financial Reports (ACFRs) | El Dorado Irrigation District 2015-2023
- EID Board policies and administrative regulations (last updated September 15, 2024)
- Supplement to Preliminary Official Statement, El Dorado Irrigation District, Revenue Certificates of Participation, Series 2024a
- Memorandum on Internal Control, Maze and Associates, August 14, 2024
- EID's Senior Deputy General Counsel Elizabeth Leeper report, Fox40, Oct 3, 2023
- 2023 Cost of Services Analysis and Proposition 218 Notice
- Proposition 218 and Cost-of-Service Study Results and Proposed 2024-2028 Rate Changes
- EID Board Approves 2024–2028 Capital Improvement Plan, Authorizes Issuance of Proposition 218 Notice Regarding Rates, El Dorado Irrigation District ID (Website) News
- 2024 FCCs Adopted November 12, 2024
- Capital Improvement Plans, 2017-2024
- Moody's latest financial rating report for EID: https://digital.fidelity.com/ftgw/digital/firesearch/api/issuerreport?cusip=283062CE5
- Investopedia, definition of Debt Service Coverage Ratio: https://www.investopedia.com/terms/d/dscr.asp
- Seeking Alpha, definition of Debt Service Coverage Ratio: https://seekingalpha.com/article/4450369-debt-service-coverage-ratio-dscr

METHODOLOGY

Bond Prospectuses

- 2020 Bonds (Certificate of Participation, Refunding Revenue): https://emma.msrb.org/SS1387127-SS1079617-SS1487314.pdf
- 2022 Pension Obligation Bond: https://emma.msrb.org/P11594849-P11230573-P11652772.pdf
- 2024 Bond Prospectus: https://emma.msrb.org/FileHandler.ashx?issueId=P1429643

Facilities Capacity Charges

- California Government Code Section 66013: https://california.public.law/codes/ca_gov%27t_code_section_66013
- Monterey One Water: https://www.montereyonewater.org/ArchiveCenter/ViewFile/Item/210
- Napa Sanitation District: https://www.napasan.com/DocumentCenter/View/1250/FY-22-23-Capacity-Charges-Report-PDF
- Placer County Water District: https://docs.pcwa.net/wcc-annual-report-2023-lower-zone-6.pdf

Pension Obligation Bonds

- Wulff Hansen & Co., white paper on Pension Obligation Bonds (https://www.wulffhansen.com/wp-content/uploads/2018/11/POB_whitepaper.pdf)
- Government Finance Officers Association (GFOA) website on Pension Obligation Bonds (https://www.gfoa.org/materials/pension-obligation-bonds)
- CalPERS UAL Annual Valuation Reports for EID, 2021-2023
  https://www.calpers.ca.gov/sites/default/files/spf/docs/actuarial-reports/2021/el-dorado-irrigation-district-miscellaneous-2021.pdf
  https://www.calpers.ca.gov/sites/default/files/spf/docs/actuarial-reports/2022/el-dorado-irrigation-district-miscellaneous-2022.pdf
  https://www.calpers.ca.gov/sites/default/files/spf/docs/actuarial-reports/2023/el-dorado-irrigation-district-miscellaneous-2023.pdf

DISCUSSION

Discussion

EID experienced high turnover among accounting staff during 2021-2023 which included retirement and involuntary departures. An independent auditor's internal control review for both the 2022 and 2023 financial audits raised this concern. The auditor also identified the late preparation and missed delivery of financial documents and missing bank reconciliations that had to be reconciled later. Although these issues were not deemed material in the auditor's report, the Grand Jury believes they created risks to the financial integrity and operational efficiency of the organization. The most senior financial staff members lacked the experience to identify the problems or put policies in place to avoid such issues due to the staff turnover.

Finding: Significant turnover in the EID finance department from 2022-2023 contributed to staff's inability to maintain financial policies and transparency.

A detailed inspection of EID financial documents showed frequent and inappropriate movement of funds between various enterprises (particularly between water and wastewater), as well as instances where funds were placed in the wrong account. The auditor noted the forced reversal of some previous accounting entries. EID staff were advised to take other actions to correct and properly reflect financial information and statements since some of the unusual fund transactions were not documented.

These issues point to systemic weaknesses in internal financial controls along with a lack of training among staff, highlighting the necessity for more detailed accounting procedures and documented processes. Although reduced staff turnover could potentially improve financial reporting in the future, the Grand Jury found no evidence that staff had fully implemented the recommended accounting controls and policies recommended by the auditor. Similarly, it was troubling that the Board did not show more interest and urgency during this period or provide the necessary oversight of some other questionable transactions. During our discussions with one Board member, there were several instances where they could not articulate the strategy or reasoning behind some financial decisions. Another Board member did not know when the District's fiscal year started.

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The auditor, MAZE & Associates, issued a “Memorandum of Internal Control” to the Board in August 2024. They noted three “Significant Deficiencies” in internal controls “which would not allow management or employees, in the normal course of performing assigned functions, to prevent, detect and correct misstatements on a timely basis.” The missing internal controls contributed to problems we outline in more detail in the following sections. The audit summarized the following conditions to the Board regarding the 2023 financials:

- A substantial number of post-closing entries were made after the audit had started. The audit team and staff suggested several significant post-closing journal entries to rectify issues.
- Staff issued the September 2023 Treasurer’s report to the Board late and outside legal parameters, it was missing required verbiage, and there was no investment policy reported to the Board.
- There were no signoffs for the preparer or reviewer of the December 2023 bank reconciliations and a reconciliation was not performed within 30-45 days of month end.

The following sections detail the accounting anomalies that were identified in the audit report as well as others uncovered by the Grand Jury in EID’s ACFR.

ACCOUNTING IRREGULARITIES BETWEEN ENTERPRISES

Insurance Reimbursements

The 2021 Caldor Fire had a significant impact on the District’s infrastructure. Preliminary repairs and losses were estimated at $32.9 million and lost revenue of $4.59 million from hydroelectric power generation. As of December 31, 2023, the District had recovered approximately $17.6 million through insurance claims for damages and $4.5 million to recover business income interruption loss from hydroelectric power generation sales.

In an example of reporting inconsistency, EID indicated that it initiated cost reimbursement through the Federal Emergency Management Agency (FEMA) in the 2023 ACFR. EID staff stated in an interview with KCRA in October 2023 that payments totaling $655,000 were received before the end of the fiscal year, as was reported in a September 25, 2023, Board meeting. This was inconsistent with comments in the audited ACFR.

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Multiple insurance reimbursements were received by the District. Some of these were improperly held as restricted funds in a Facility Capacity Charge (FCC) account and had to later be reclassified as unrestricted funds and moved to other accounts. Given the seriousness of the Caldor Fire and impact to District infrastructure and revenue, more Board-level oversight would have been expected regarding the handling of insurance reimbursements and funds from FEMA.

Cash Movement Between Water and Wastewater Enterprises

EID only began separating basic financial statements for water and wastewater in 2017. Financials for 2016 were restated with this separation in the 2017 ACFR. The District defines these two major enterprise funds in the 2023 ACFR, page 36:

- *The Water Fund accounts for all revenues collected by the District for the purpose of financing the construction, operation and maintenance of the District's water storage and distribution systems. Revenues are derived from water service charges, water sales, hydroelectric sales and various installation charges.*
- *The Wastewater Fund accounts for all revenues collected by the District for the purpose of financing the construction, operation and maintenance of the District's wastewater treatment, disposal and reclamation system. Revenues include, but are not limited to, wastewater service charges and fees.*

Testimony from staff and the Board confirmed this policy to maintain separate enterprises and not commingle funds. This separation is intended to ensure transparency and accountability in how funds are managed and allocated. There may also be legal obligations when soliciting public investment (more on that later). EID has the capability to manage revenues and expenses specific to each service, assuring that funds collected for water services are used for water-related expenses and similarly for wastewater services, without cross-subsidizing of one with the other. Supporting evidence for the widely accepted best practice of separation of water service accounts include:

- Proposition 218 (1996) Article XIII D, Section 6 requires that property-related fees and charges like water or wastewater service fees must not be used for any purpose other than that for which the fee was imposed. This essentially mandates fund segregation to ensure wastewater revenue is not used to subsidize drinking water services, or vice versa.

- The California State Controller's Office and the Governmental Accounting Standards Board (GASB) require enterprise fund-based accounting for activities for which a fee is charged to external users for goods or services. In practice, this means water districts must maintain separate enterprise funds for different services.

Following these policies helps ensure that the funds are managed responsibly and in the best interest of the community. The following examples indicate these policies were not followed.

The amount of cash flow between these two main enterprises grew significantly over the past three years. The table below shows "Cash Receipts (Payments) to Other Funds" in the Statements of Cash Flows *[ACFR, pages 30 and 32, for 2023 and 2022, respectively]*. Tens of millions of dollars have shifted back and forth between the water and wastewater enterprises in recent years.

Year	Water	Wastewater
2023	$46,816,169	$(46,816,169)
2022	$(21,820,801)	$21,820,801
2021	$2,448,191	$(2,448,191)
2020	$70,104	$(70,104)
2019	$336,811	$(336,811)
2018	$119,092	$(119,092)
2017	$(642,786)	$642,786

Table 1: Cash Receipts Moving Between Water and Wastewater by Year

These transactions between the what-should-be-separate accounts are inexplicable. No attempt was made in the ACFR to explain the reasons for the transactions that appear to violate a fundamental policy. These transfers of funds make it virtually impossible to understand the financial health of the individual enterprise operations, or to understand any justification for future rate increases or future bond offerings.

A look at the values of the water and wastewater cash and cash equivalents accounts show other anomalies in recent years. Year-end account balances are reported for water and

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wastewater as $26.6 million and $0 for water in 2023, and $0 for water and $15.3 million for wastewater in 2022 *[ACFR 2023, pages 24; 26 and shown below in Table 2]*. Zero dollars for both enterprises in alternating years has not been seen in any previous years since EID began reporting water and wastewater separately. Why did these accounts need to be drained to exactly $0? It appears that funds are just taken from either account as needed rather than treating them as separate businesses.

	2023		
	Water	Wastewater	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 26,620,369	$ -	$ 26,620,369

	2022		
	Water	Wastewater	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ -	$ 15,265,301	$ 15,265,301

	2021		
	Water	Wastewater	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 45,386,567	$ 2,177,663	$ 47,564,230

Table 2: Year-ending account balances for water and wastewater 2021-2023 from yearly ACFRs

In 2022, the same year the District reported $0 Cash and Cash Equivalents for water, it recorded an $18.68 million cash overdraft in Current Liabilities *[ACFR 2023, page 27]*. In 2021, Cash and Cash Equivalents for water were $45.4 million *[ACFR 2022, page 22]*. Rather than the cash account really being $0, there was a significant overdraft in that account that necessitated the creation of another account, at the auditor's suggestion. EID moved the overdraft to a new liability account, called "Cash overdraft" (see Table 3, next page), making it more difficult to see the true financial status of the business.

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	2022		
	Water	Wastewater	Total
LIABILITIES			
Current Liabilities			
Accounts payable	$ 5,413,105	$ 1,716,320	$ 7,129,425
Cash overdraft	18,680,032	-	18,680,032

Table 3: New cash overdraft account created as a liability in 2022 to represent a negative asset balance

EID's explanation to the Grand Jury, when questioned, suggested that the insurance compensation and other large expenses required unusual fund movements. This explanation was essentially presented in a November 7, 2024, supplement to the Preliminary Official Statement to bondholders:

> *In Fiscal Year 2022, the District accounted for certain costs to reconstruct assets damaged by the Caldor Fire from unrestricted funds in the Water Fund. However, certain amounts received as reimbursements for such costs, including insurance proceeds, were accounted for as restricted cash and cash equivalents. Since such costs and other amounts accounted for from unrestricted funds exceeded the balance thereof, the District's statement of net position for Fiscal Year 2022 showed a zero balance of unrestricted cash and cash equivalents and a "cash overdraft" as a current liability in the amount of $18,680,032. The District's total Water Enterprise balance as of December 31, 2022 was $11,923,232, consisting of $14,969,920 of restricted cash and cash equivalents and $15,633,344 in unrestricted invested funds, less $18,680,032 of the cash overdraft.*
>
> *In the District's Fiscal Year 2023 audited financial statements, with respect to the Water Enterprise, the District reclassified $33,517,283 from restricted cash and cash equivalents to unrestricted funds. The reclassification had no impact to the ending net position of the District for FY 2022 and had no impact on the debt service coverage calculations for FY 2022 and 2023 as set forth in the Official Statement. The District's total Water Enterprise balance as of December 31, 2023, was $24,574,099, consisting of $26,620,369 of unrestricted cash and cash equivalents, $10,715,789 in unrestricted invested funds, less $12,762,059 of negative balance of restricted cash and cash*

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> *equivalents. The amount of $12,762,059 is shown in the District's statement of net position in the Fiscal Year 2023 audited financial statements as a negative balance as a result of the District having committed such amount to capital projects…*

Our conclusion is that EID was able to rationalize some of these transactions when required with a significant bond offering at stake but underscores the problems with accounting procedures and policies that did not disclose the situation clearly. Without the bond supplement, many of these fund movements would have never been explained. More importantly, accounting practices like this open the possibility for misconduct with an inability to accurately track and understand fund flows and balances, as the auditor stated.

Finding: EID lacked or ignored accounting policies regarding commingling funds and transfers between water and wastewater enterprises. Even very large transactions of this type were not discussed or approved at the Board level.

Another questionable anomaly arose in the cash paid to employees for services in 2023. The following excerpt showed $44.3 million in cash paid to employees for the water enterprise, but a net positive flow to EID from employees of $9.2 million (shown below, highlighted, in Table 4). It's very unusual and unexpected to receive cash from employees without explanation or an offsetting adjustment.

	2023		
	Water	**Wastewater**	**Total**
Cash Flows from Operating Activities:			
Cash receipts from customers	$ 46,677,045	$ 25,844,367	$ 72,521,412
Cash paid to suppliers for goods and services	(16,217,889)	(8,204,479)	(24,422,368)
Cash paid to employees for services	(44,314,653)	9,209,941	(35,104,712)

Table 4: Uncharacteristically, cash paid to employees was net positive for wastewater business in 2023

Shortly before we published this report, EID provided an explanation for the unusual net positive payments from employees, which we incorporate below:

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> *The $9.2 million in net positive cash flow reported for wastewater employees in 2023 (shown on page 30 of the Annual Comprehensive Financial Report (ACFR)) was the* ***result of incorrectly allocating*** *(emphasis added) the District's net pension liability between water and wastewater. The total pension liability of $9,167,188 (shown on page 25 of the ACFR) should have been allocated 60% to water and 40% to wastewater.*

This explanation highlights another troubling misallocation of funds to the wrong enterprise account that had to be corrected in a subsequent year. Moreover, no attempt was made to footnote or explain the completely nonsensical entry shown in Table 4 from the District's official ACFR. A credible accounting organization would be expected to provide more clarity for the sake of transparency and to the benefit of those providing oversight.

The Audit Requires Significant Post-Closing Journal Entries

Based on the Memorandum of Internal Control from the auditor, after the 2023 audit began, both EID staff and the audit staff proposed a significant number of post-closing journal entries to address material inconsistencies in the financial statements. One example was the creation of the "cash overdraft" account as a liability to offset a roughly $18 million overdraft in the water enterprise account. It is not customary for an auditor to propose a significant number of such accounting entries to balance financial statements, or to improve the appearance of individual funds. The role of an audit is to present the state of the financials as presented, not to "clean up" inconsistencies they identify in order to release a qualified audit. The audit report should have included findings presented as "deficiencies" rather than approving the audit.

The need for post-closing journal entries was identified as a finding in the 2022 audit as well. Journal entries detail how transactions affect accounts and balances. In short, in multiple years, all accounts weren't sufficiently analyzed before an audit began and closing entries were not complete for the general ledger prior to the audit.

The District acknowledged several issues brought forward by the auditor in the Schedule of Significant Deficiency (as noted in the first bullet on page 8) and concurred with the auditor's observations and recommendations. Management's response to the auditor's Memorandum of Internal Controls was:

> *The department has filled vacated positions and cross-trained other staff. The new hires have brought about a change in the department's structure, creating an open and collaborative environment that encourages communication, knowledge sharing, and mutual support through informal and formal cross training of responsibilities. In the event of staff transitions, the current backup support would enable continuous operations until positions are filled. The staff has implemented monthly and quarterly processes that replicate year-end closing processes. These processes facilitate early identification and resolution of discrepancies, provide current financial information, streamline information compilation at year-end, and organize financial data for easier identification and isolation during audits.*

Bank Reconciliations

Reconciliations are one of the most important internal controls. Bank reconciliation is not complete until it is reviewed and approved. This is typically completed within 30-45 days of each month's end. Review of EID's December 2023 bank reconciliations found there were no signoffs for preparer or reviewer as required, and they were not completed within the 30–45-day period. Lack of timely completion and review of bank reconciliations can result in accounting errors, misstatements, or unauthorized activities that may not be identified or corrected. The lack of signoffs also demonstrates a lack of oversight and internal control.

In an indication of other financial issues flagged by the auditor (and as we noted in the bullets on page 8), the Treasurer's Report must be presented within 45 days of the end date of the quarter according to the California Government Code §53646. The September 2023 report took 70 days to present, and the December report was not presented until May 2024.

Management further responded to these concerns in the auditor's Memorandum of Internal Controls:

> *We have established specific procedures and task checklists to guarantee that bank reconciliations are prepared and reviewed in a timely manner throughout the fiscal year. Any discrepancies that arise will be promptly addressed and we will ensure that the completion of the reconciliation is formally documented. During the 2023 audit process, the finance department staff had a unique opportunity to meticulously examine and*

identify gaps, tasks, and operational needs within the organization's financial workflows. In response, the staff diligently documented comprehensive processes and procedures, strategically utilizing the reporting and functional capabilities inherent in the financial software to effectively address the identified areas for improvement.

Response from EID to the second condition regarding timing of release of Treasurer Reports:

We have added language to the investment reports to ensure compliance with the California Government Code. Moving forward, investment reports will be presented to the Board within 30 days of the end date of the quarter. Additionally, staff will annually present the investment policy to the Board for review as part of the regular budget approval process.

These concerns and more point to the need for greater oversight that the Board does not appear interested in or qualified to provide, as one would expect. In such cases, other governing boards have opted to create a Finance Committee to help oversee and manage the financial strategy, policies, and activities of the organization. More on this topic later.

TRANSPARENCY AROUND FACILITIES CAPACITY CHARGES

EID maintains accounts for Facilities Capacity Charges (FCC) for water and wastewater. Water and sanitation districts are required to maintain these separate accounts specifically for fees associated with expanding an agency's capacity for new or existing customers, usually new connections and infrastructure for new developments. These are restricted funds that can only be used for capacity expansion, rather than maintenance or other operational costs.

All water districts are required to report to the public related capacity expenses and charges. As outlined in California Government Code §66013 and summarized below, the public reporting must be done within 180 days after the last day of each fiscal year and must include the following information:

- **Deposit Information**: A description of the capacity charges deposited into the fund.
- **Fund Activity**: The beginning/ending balance of the fund and the interest from investment of monies in the fund.

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- **Collections**: The amount of capacity charges collected in that fiscal year.
- **How Funds Were Used**: An identification of the following:
  - Each public improvement on which charges were expended and the amount of the expenditures for each improvement, including the percentage of the total cost of the public improvement that was funded with those capacity charges if more than one source of funding was used.
  - Each public improvement on which charges were expended which was completed during that fiscal year.
  - Each public improvement that is anticipated to be undertaken in the following fiscal year.

Government Code Section §66013.5(e) states that: *The information required pursuant to subdivision (d)* [i.e., the items summarized above] *may be included in the local agency's annual financial report*.

While many water districts choose to issue a separate annual capacity charge report, EID does not. Rather it follows the minimal requirement to include the required information in the District's ACFR. EID staff told the Grand Jury that not producing a separate report for FCC did make it harder to track those funds from developers and the direct expenses from capacity charges. The Grand Jury believes a dedicated FCC report would increase transparency to the public and reduce accounting efforts to ensure compliance.

Examples of separate FCC reports from other counties:

- Monterey One Water: https://www.montereyonewater.org/ArchiveCenter/ViewFile/Item/210
- Napa Sanitation District: https://www.napasan.com/DocumentCenter/View/1250/FY-22-23-Capacity-Charges-Report-PDF
- Placer County Water District: https://docs.pcwa.net/wcc-annual-report-2023-lower-zone-6.pdf

Note that FCC funds are collected from developers similar to developer impact fees for road improvements, parks, and fire districts. Roads, parks and fire districts, separate from water and sanitation infrastructure, are covered under a separate reporting requirement governed by California Government Code Section 66000, et. seq. (the Mitigation Fee Act or MFA). The lack of meeting the five-year reporting requirement in the MFA for developer impact fees led to a pending litigation against the County, as well as El Dorado Hills Community Services District (EDH CSD) and El Dorado Hills Fire for refund of the fees (Austin litigation). There is no such liability for EID missing the MFA reporting requirements under Government Code Section §66013. The recommendation for preparing a separate report for FCC funds is purely for transparency purposes and compliance tracking.

Transparency reporting is important because EID made a significant error in handling FCC funds recently, as noted above. The Caldor Fire in 2021 had a significant impact on EID, causing extensive damage to the District's infrastructure. Repairs and losses were estimated at ~$32.9 million with additional lost revenue of $4.59 million from hydroelectric power generation. EID received $22.1 million in insurance payments and $655,000 from FEMA.

Proceeds from insurance were received as several payments and incorrectly placed in the FCC account. Although the insurance funds were primarily earmarked for regaining necessary capacity and redeveloping infrastructure, they are not related to new users and development. Insurance funds should properly be placed in the unrestricted general fund. This mistake was attributed to the turnover in the EID finance department and some confusion about fund policies by staff at the time. Reallocation of the insurance proceeds to unrestricted funds appears to be legitimate but was a source of confusion to the Grand Jury initially. Transactions from the FCC account were not properly documented.

Finding – Statutory requirements for reporting Facility Capacity Charges (FCC) are being met primarily through the Annual Comprehensive Financial Report (ACFR). The lack of a dedicated compliance report reduces transparency and traceability, making it challenging for the EID Board and public to provide effective oversight.

DISCUSSION

THE QUESTION OF A PENSION OBLIGATION BOND

A key EID financial decision was the issuance of a Pension Obligation Bond (POB) in May 2022 in the amount of $71.5 million. The proceeds were deposited with the California Public Employees' Retirement System (CalPERS) to reduce an unfunded pension liability. Our interviews with some of the board members at that time led the Grand Jury to conclude that the Board provided virtually no oversight or analysis of this decision that involved considerable financial trade-offs to the organization.

For a balanced look at POBs, we relied on a description from a white paper by Wulff, Hansen & Company, a California public finance and investment management firm, which we provide here as education for the public, as well as the current and future EID boards:

> *Issuance of a Pension Obligation Bond (POB) can be a powerful tool for managing an employer's unfunded pension liabilities when the POB is properly understood and correctly deployed. At the same time, as with many other tools, using a POB inappropriately or in the wrong situation can create more problems than it solves…*
>
> *In California, public agencies have the option to participate in a large and sophisticated pooled retirement system, the California Public Employees Retirement System (CalPERS) which ranks as the largest public retirement system in the United States. As with any financial or investment program, CalPERS participation carries risks as well as benefits. There can be many advantages to participating in a large retirement pool such as CalPERS…*
>
> *When a local agency funds its employee retirement benefits through the consolidated investment pool managed by CalPERS, the present value of the agency's future obligation is calculated by looking at the future dollar outflows and discounting those outflows by the percentage rate of return that CalPERS assumes its investments will generate each year into the future…*
>
> *When CalPERS' investment performance does not meet the realized and assumed rate of return needed for an employer to fund its long-term actuarial requirements to pay retirees in its program, or if the employer does not make sufficient contributions to its CalPERS fund,*

that shortfall is calculated and allocated to the employer in the form of its Unfunded Accrued Liability (Unfunded Liability or UAL). Over time, the UAL of many employer participants has grown to significant levels and, with increasing benefits to be funded in the future... The UAL is, in effect, an obligation of a local agency and accrues an annual charge on the unfunded balance in the amount of the CalPERS expected rate of return...

CalPERS gives each participating employer an amortization schedule to pay down its UAL obligation to CalPERS over a period of years… This system means that an agency's current UAL is an obligation like any other long-term liability on its balance sheet. It is effectively a debt, with the annual cost calculated at CalPERS's assumed rate of return on the unpaid balance plus the amount necessary to amortize the principal over time.

Pension obligation bonds (POBs) are taxable bonds that some public employers have used as part of an overall strategy to fund the unfunded accrued liability associated with their pension obligations.

In California, many local agencies have funded their CalPERS UAL by issuing pension obligation bonds to pay down or pay off their current UAL obligation. Such an issuance is simply substituting one debt (the POB) for another (the existing UAL). These agencies have recognized that replacing an obligation to CalPERS which is incurring an annualized cost of 7% or more with a lower cost obligation (the POB) often makes economic sense. This substitution of one debt for another does not create an increased liability for the agency or impact its debt capacity and can reduce its annual budgetary burden with lower debt service payments…

On June 30, 2021, EID faced a pension liability UAL of $58,424,786 according to CalPERS Actuarial Valuation Reports (note: the UAL amount is shown slightly differently in the EID ACFR based on the different fiscal year ends between CalPERS and EID). EID was sitting at a 70% funding level, with nearly $138 million of accrued assets of a $200 million then-current liability. This was an improved situation from the year before when they were at a 61% funding level and UAL of nearly $73 million. Above average market returns, and normal contributions improved their outlook. Yet, EID issued a $71 million POB in early 2022 to raise their funding level to 95.5%, reducing their UAL to $9,337,520. Due to below expected market returns during the

Covid pandemic and other factors, despite the issuance of a $71 million bond, EID only reduced their UAL from $58.4 million to $9.3 million (a difference of $49.1 million) between June 30, 2021 and 2022.

EID staff recounted that the decision to issue the POB was a “no-brainer,” that they were exchanging larger future UAL catch-up payments with a lower bond interest rate repayment with limited additional liability. Nobody on the EID Board we spoke with recalled any details of the POB decision, and they relied completely on the GM and the District’s financial advisors, including the firm generating significant fees from the issuance of the bond.

The Grand Jury, in its further research, found that issuing a POB was not an obvious decision and should have warranted much more scrutiny. We found the Government Finance Officers Association (GFOA) to be a credible source of information on POB risks because they don’t make money when their government clients issue a POB. GFOA, founded in 1906, represents public finance officials throughout the United States and Canada. The association's more than 20,000 members are federal, state, and local finance officials involved in planning, financing, and implementing thousands of government operations.

GFOA’s analysis of POBs, presented below, differs markedly from EID’s and the Wulff Hansen white paper:

> *The use of POBs rests on the assumption that the bond proceeds, when invested with pension assets in higher-yielding asset classes, will be able to achieve a rate of return that is greater than the interest rate owed over the term of the bonds. However, POBs involve* ***considerable investment risk*** *(emphasis added), making this goal very speculative. Failing to achieve the targeted rate of return burdens the issuer with both the debt service requirements of the taxable bonds and the unfunded pension liabilities that remain unmet because the investment portfolio did not perform as anticipated. In recent years, local jurisdictions across the country have faced increased financial stress as a result of their reliance on POBs, demonstrating the significant risks associated with these instruments for both small and large governments.*

DISCUSSION

*The Government Finance Officers Association (GFOA) recommends that state and local governments **do not issue POBs** (emphasis added) for the following reasons:*

1. *The invested POB proceeds might fail to earn more than the interest rate owed over the term of the bonds, leading to increased overall liabilities for the government.*

2. *POBs are complex instruments that carry considerable risk. POB structures may incorporate the use of guaranteed investment contracts, swaps, or derivatives, which must be intensively scrutinized as these embedded products can introduce counterparty risk, credit risk, and interest rate risk.*

3. *Issuing taxable debt to fund the pension liability increases the jurisdiction's bonded debt burden and potentially uses up debt capacity that could be used for other purposes. In addition, taxable debt is typically issued without call options or with "make-whole" calls, which can make it more difficult and costly to refund or restructure than traditional tax-exempt debt.*

4. *POBs are frequently structured in a manner that defers the principal payments or extends repayment over a period longer than the actuarial amortization period, thereby increasing the sponsor's overall costs.*

5. *Rating agencies may not view the proposed issuance of POBs as credit positive, particularly if the issuance is not part of a more comprehensive plan to address pension funding shortfalls.*

Finding – The issuance of a Pension Obligation Bond in 2022 carried financial risk that was not adequately communicated. The Board provided only minimal oversight of the decision, deferring completely to the General Manager and financial advisors, rather than providing sound governance.

Other financial experts within the County corroborated these concerns when asked about the risks associated with the issuance of a POB. The Grand Jury is explicitly not weighing in on whether this will, in hindsight, prove to be a financially good decision or lead to further long-term costs. At this point, the risks and outcomes are unknown. The key point is that there are significant long-term risks that were not presented to the EID Board, and the EID Board chose to provide minimal financial oversight or sound governance for this decision. This was a dereliction of duty on the part of the EID Board.

FINANCIAL OVERSIGHT NEEDED

In identifying the lack of proper financial oversight and accountability by the Board, it became apparent to the Grand Jury that additional financial expertise is vital to the effective oversight of EID. As noted earlier, a treasury/financial subcommittee or outside advisory committee could help provide this necessary expertise and additional oversight. For example, a water board elsewhere within the County, the Georgetown Divide Public Utilities District (GDPUD), which provides water service to parts of the Northern County, identified the importance of assistance with overseeing financial operations. Their desire to enhance transparency and improve reporting processes led them to develop policies that allow for a financial oversight committee. Their policies provide for an independent body when the board of directors lacks the financial experience to manage the organization's finances effectively by being solely focused on financial matters.

> **Finding** – The EID Board collectively has lacked sufficient financial expertise and engagement in recent years to provide adequate oversight in the absence of a financially focused subcommittee or neutral outside expertise.

DECISIONS AROUND WATER RATE INCREASES

Variations in the Capital Improvement Plan

A Capital Improvement Plan (CIP) is a strategic planning and fiscal management tool that statutes require EID to use to determine both the projected annual expenditures for funded and planned projects, as well as a comprehensive five-year financial forecast for these initiatives. Large projects often include constructing new facilities, upgrading systems, and replacing aging infrastructure. It identifies the scope, timeline, and estimated costs of each project while also detailing potential funding sources, such as bonds, grants, or user fees and rates. It is updated annually by EID staff to reflect changing priorities, community needs, and financial conditions.

DISCUSSION

One of the key elements of a CIP is the identification of projects to be funded within the ensuing five years. The Board of Directors reviews and approves the plan annually, providing a clear overview of the organization's short-term and medium-term capital investment strategy and costs. It is critical that the CIP contains the best projected cost estimates possible because dollar totals for future projects (within five years) are vital to an accurate Cost of Service Analysis (COSA) report, which impacts rate requirements.

The CIP and COSA studies, and subsequent reports, are components used by the Board to develop an ongoing five-year financial plan. EID Board Policy AR 3012 sets guidelines and rules for the Board regarding the financial plan and how it serves as a comprehensive roadmap for the District's fiscal management. Its primary purpose is to determine the funding requirements for operational and maintenance activities, capital expenditures, and debt servicing. This plan aligns financial strategies with the District's core mission of delivering high-quality water, wastewater treatment, recycled water services, hydropower generation, and recreational facilities in an environmentally and fiscally responsible manner. A primary goal of policy AR 3012 is to maintain adequate CIP funding levels, prioritizing the replacement of high-priority capital assets before they reach the end of their life cycle.

A CIP includes an annual breakdown of the total dollar estimate allocated for projects that are either currently funded or slated for funding and a cumulative five-year total for these projects. The chart below (Table 5) shows EID cumulative totals for five-year periods starting with the 2018-2022 CIP to the current 2025-2029 CIP.

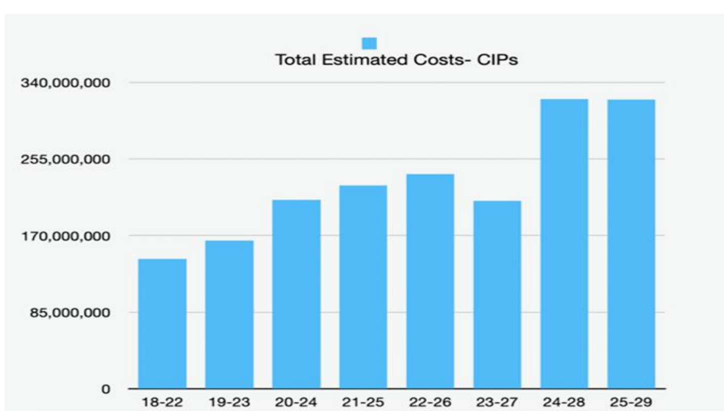

Table 5: EID Capital Improvement Plans – Projected Five-Year Costs (2018 – 2022 to 2025-2029)

DISCUSSION

There is a steady increase in cumulative totals until the 2023-2027 CIP which shows a significant drop and then a large increase with the subsequent CIPs. The reduced CIP totals in 2023 were addressed in the 2023–2024 Operating Budget and 2023–2027 Financial Plan packet of the December 12, 2022, board meeting:

> *Projections for CIP expenditures originally reflected the proposed spending presented during the October 12, 2022 CIP workshop. However, staff faced a number of challenges in preparing the financial plan with the above-described assumptions, which resulted in a projection of low debt service coverage and low cash reserves beginning in 2025* ***. Based on these assumptions and the adopted rate increases, forecasted rate revenue is not high enough to fund the CIP and maintain adequate cash reserves compounded further with lower projections of FCC revenue. In an effort to collectively combat this issue, staff made cuts and deferrals to the operating budget, and reduced planned CIP expenditures by $23 million over the five years*** *(emphasis added).*

EID staff forecasted their anticipated revenue did not meet operating expenses and debt ratio requirements, so there was need to defer maintenance projects into the future, among other cost cutting measures. This came at a time when District finances would be scrutinized in anticipation of a bond offering and a desire by the Board to keep rates low. During the following year rates were increased, a bond was issued, and anticipated expenses in the CIP were raised significantly.

Also indicated in the packet were the District's Debt Service Coverage Ratio requirements:

> *The installment purchase agreements associated with the District's debt issuances require the District, to the fullest extent permitted by law, to fix, prescribe, and collect rates and charges so that* ***the ratio of revenues to operating expenditures, including debt payments*** *(emphasis added), is at least 1.25. The District may make adjustments from time to time in its rates and charges but cannot reduce those rates and charges unless the District's net revenues from reduced rates and charges will at all times be sufficient to meet the debt service coverage ratio of 1.25.*

DISCUSSION

Note that this description of the debt service coverage policy is confusing. According to Investopedia, and Seeking Alpha, the definition of a debt service coverage ratio is the net operating income (revenue ***minus*** operating expenditures, not including debt payments, taxes and interest) divided by the total cost of debt service. This means that you have significant extra revenue to completely cover what you owe in debt, in this case a 25% margin. It is not a "ratio of revenues to operating expenditures, including debt payments," as defined in the packet. The District, fortunately, correctly calculated the debt service ratio in its ACFR reports and only misstated the calculation formula in the board packet.

CIP Individual Project Estimates are Initially Misleading

Within each CIP report are individual project pages that provide funding detail for each project. A particular project typically remains in a CIP for a minimum five-year period. While certain funding details, such as study, planning and design costs, are included in each year of the five-year CIP project lifespan, estimated construction costs are not shown initially and added later. This will give the public and other interested parties a completely incorrect view of even near-term projected expenses and costs.

Project Financial Summary:			
Funded to Date:	**$ 125,648**	**Expenditures through end of year:**	**$ 32,517**
Spent to Date:	**$ 17,517**	**2022 - 2026 Planned Expenditures:**	**$ 2,150,000**
Cash flow through end of year:	**$ 15,000**	**Total Project Estimate:**	**$ 2,182,517**
Project Balance	**$ 93,131**	**Additional Funding Required**	**$ 2,056,869**

Description of Work	**Estimated Annual Expenditures**					
	2022	**2023**	**2024**	**2025**	**2026**	**Total**
Study/Planning	**$50,000**	**$100,000**	**$ 300,000**	**$ 50,000**	**$ 50,000**	**$ 550,000**
Design	**$300,000**	**$ 300,000**	**$ 300,000**	**$ 300,000**	**$ 400,000**	**$ 1,600,000**
Construction						**$ -**
TOTAL	**$ 350,000**	**$ 400,000**	**$ 600,000**	**$ 350,000**	**$ 450,000**	**$ 2,150,000**

Estimated Funding Sources	**Percentage**	**2022**	**Amount**
Water FCCs	100%		$256,869
			$0
Total	**100%**		**$256,869**

Funding Comments: Preliminary construction cost estimate not included in 5 year planning horizon. Construction is assumed to take place beyond 5-years due to design, environmental and regulatory approval processes.

Table 6: Project Sheet Details for Project (#19031) – Silver Lake Dam Replacement Project

DISCUSSION

For example, the CIP project projection for Silver Lake Dam Replacement is shown as roughly $2.2 million (Table 6, previous page), when a conservative project estimate turned out to be over $50 million within that five-year period (Table 7 below). This allowed EID to keep rates lower for a couple more years, but effectively pushed the rate increases out into the future. As a means of clarifying that construction costs are not added to the total project estimate during specific years, “Funding Comments” are included in CIP project pages (Table 6, previous page).

The Silver Lake Dam Replacement Project (#19031) is a major project listed in each of the CIPs from 2020-2024 to 2025-2029. Atypically, this particular project has a six-year CIP lifespan. The project’s total estimates jump precipitously when the construction costs are added in years five and six. The project description page (Total Project Estimate) in each of the last five CIP years from 2021-2025 are shown in Table 7.

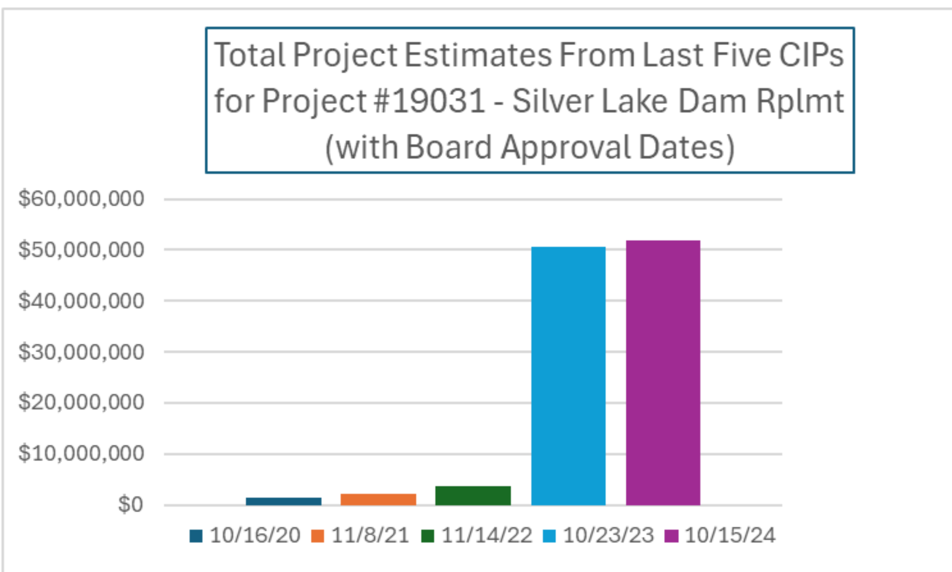

Table 7: Five Year CIP 2022-2026 Project #19031 Silver Lake Dam Replacement project page (pg. 139)

The project’s construction costs are not reflected in the 2020-2024, 2021-2025, 2022-2026, or 2023-2027 CIPs. The funding comment from the 2020-2024 CIP was:

> *Preliminary construction cost estimate not included in the 5 year planning horizon. Construction is assumed to take place beyond 5-years but may be accelerated on further analysis and regulatory feedback.*

DISCUSSION

Subsequent years had funding comments as well when the project page of the CIPs for the project did not include construction costs. The estimated costs associated with construction were added for the first time in the 2024-2028 CIP causing a large increase in the overall cost estimate as is shown in Table 7. The additional cost estimates for construction in the Silver Lake Dam Replacement project and the Sly Park Intertie project, are largely responsible for the overall dollar increase shown in the earlier Table 5.

For major projects, EID uses a phased approach, initially presenting lower total project cost estimates which focus on planning and design in the early stages of project CIP cycles. As the five-year cycle progresses, a more accurate total project cost estimate is reflected. While not unethical or dishonest, the phraseology "total project cost" in this phased context is misleading and inaccurate in as much as the word “total” is used. Adding “funding comments” are not a fix to these issues.

Finding: Leaving construction cost projections out of Capital Improvement Plan (CIP) reports for several years gives a misleading picture of financial requirements and may serve to delay rate increases but may make future rate increases even higher.

By listing a major project in a CIP with lower initial estimates, ratepayers may experience short-term rate stability, but this approach can result in larger, more abrupt rate increases later when the full cost is revealed. While major projects are generally bond funded, providing a more accurate, full-cost estimate from the outset—while maintaining transparency in phased spending—ensures gradual, predictable rate adjustments, minimizing financial shocks and fostering public trust.

The Cost of Service Analysis and Rate Increases

Cost of Service Analysis (COSA) studies, required by Proposition 218, evaluate the financial landscape of water districts, assessing potential impacts on future revenues and costs. These comprehensive reports, which can be conducted by either independent consulting firms or district staff, scrutinize rate structures, projected operational expenses, and capital improvement plans. The COSA report is a determination of the legally permissible maximum annual rate increases for the upcoming five-year period to cover projected costs offering a reliable benchmark for the rate changes necessary to align anticipated expenses with rate revenue. The accuracy of these recommendations stems from the district-provided data used in the analysis.

While there are no legal restrictions limiting COSA studies to specialist companies, engaging an independent consulting firm for studies and reports presents several advantages over using internal staff. Consultants bring an impartial, external perspective, minimizing the influence of internal biases or oversight. They also offer specialized expertise, often utilizing proprietary tools and methodologies, along with extensive experience that may not be available in-house. The involvement of an external firm enhances the credibility of the study, as their findings are generally perceived as unbiased and professional.

Since 2010, staff has completed many of the COSA studies and recommended rates for water, wastewater, and recycled water with the expectations that revenues will exceed expenses (an outside specialty firm was consulted during the 2020 study) to meet the debt service coverage ratio. During the Board meeting on December 12, 2022, staff informed the Board of plans to conduct another COSA study in 2023 because higher than anticipated rate increases were necessary to meet higher than anticipated expenses. This subsequent study was approved by the Board. The COSA study contract was awarded to and completed by NBS Government Finance Group (dba NBS) in 2023.

Rate Increases and How They Are Determined

During annual budget deliberations, which include discussions on rate adjustments, the Board reviews the most recent COSA report, other financial documents, and staff recommendations for rate increases, capital expenditure funding, and other budget concerns. On an annual basis, the Board ultimately decides on the actual rate adjustment to be implemented for the upcoming fiscal year.

If the Board opts for rate increases that are lower than those proposed by staff based upon the COSA study, several consequences may arise. Most notably, there is a significant risk that the resulting revenue may be insufficient to fully cover the financial needs of the District. This shortfall could potentially impact the water district's ability to sustain long-term financial health.

DISCUSSION

In the Board meeting packets from November 12th and December 19th, 2019, staff lamented that the Board accepted the COSA studies, but did not accept the corresponding rate increases. Staff comments within the December packet included the following:

> *Unfortunately,* ***the Board, through the years, has reduced or entirely eliminated planned rate increases via the budget process*** *(emphasis added). The results of not implementing planned rate increases combined with an increased need for capital replacement to maintain our infrastructure have created increased pressure on cash positions in future years.*

The 2023 COSA study by NBS identified the need for and recommended 12% annual revenue increases for drinking water through each year of the five-year period from 2024-2028 (cumulatively >75%), and 3% increases each year for wastewater and recycled water. Based on the data and calculation methodology provided by EID, the proposed rate increases would enable the organization's revenue to align with its operational expenses which include project funding as identified in the CIP.

In the Board packet for December 11, 2023, EID staff recommended adherence to the COSA study recommendations with the following warning:

> ***Delaying or reducing the implementation of these rate changes will delay major necessary capital replacement projects by several years*** *(emphasis added)****.*** *Most of these projects are required for public health, safety, and reliability and should not be delayed or postponed. Postponement of these projects can risk the safe, reliable delivery of quality water and services to our customers.* ***Staff does not recommend any delay or postponement of the proposed projects (****emphasis added).*
>
> *Based on feedback from the Board and members of the public during the November workshops and meetings, staff requested our consultant to model 9% annual increases versus the 12% currently included in the Proposition 218 Notice and how such a change would affect the District's finances, including CIP funding within the five-year financial plan. The consequences of only implementing a 9% increase in water rates while maintaining similar debt service coverage would require an additional 50% deferral in the*

expected water CIP expenditures, decreasing available funding from $233 million to $115 million for 2024-2028 – an amount significantly inadequate to meet the District's health and safety obligation to its customers.

In summary, the Board directed staff to explore a 9% increase in water rates scenario even though 12% was recommended. A warning was issued that reducing the proposed increase would likely result in inadequate funds to fulfill financial commitments, adhere to established policies, and support essential infrastructure projects.

With the information and justifications presented by staff for accepting the COSA-recommended increases in rates a motion was made during the December 2023 Board meeting to adopt a resolution approving the recommended rate increases of 12% in water and 3% in wastewater. There was opposition among the Board, but the motion passed on a divided 3-2 vote.

It is the policy of the EID Board (Board Policy AR 3012) to "Avoid 'rate shock' – small annual rate adjustments are better than years of zero." In water rate adjustments for the recent past, we found no years in which rate adjustments were zero.

Finding: Boards in the past decided to implement smaller rate increases than what was recommended by staff, but recent history has shown that larger rate increases, including double-digit increases, are being considered and have been accepted. The double-digit rate increases are partially due to deferring maintenance projects to keep rates low in the short term.

CONCLUDING REMARKS

EID has faced challenges over the last several years, including accounting staff turnover and overseeing recovery from the Caldor fire. Our complete findings and recommendations which follow focus on a seemingly systemic lack of oversight by the Board through these challenges. The Board's very limited involvement in key financial decisions along with limited ability and understanding to set long-term financial strategy, arguably their most important role, is a key underlying concern that could erode public trust in the long-term.

FINDINGS

Findings

Finding 1: Significant turnover in the EID finance department from 2022-2023 contributed to staff's inability to maintain financial policies and transparency.

Finding 2: EID lacked or ignored accounting policies regarding commingling funds and transfers between water and wastewater enterprises. Even very large transactions of this type were not discussed or approved at the Board level.

Finding 3: Statutory requirements for reporting Facility Capacity Charges (FCC) are being met primarily through the Annual Comprehensive Financial Report (ACFR). The lack of a dedicated compliance report reduces transparency and traceability, making it challenging for the EID Board and public to provide effective oversight.

Finding 4: The issuance of a Pension Obligation Bond in 2022 carried financial risk that was not adequately communicated. The Board provided only minimal oversight of the decision, deferring completely to the General Manager and financial advisors, rather than providing sound governance.

Finding 5: The EID Board collectively has lacked sufficient financial expertise and engagement in recent years to provide adequate oversight in the absence of a financially focused subcommittee or neutral outside expertise.

Finding 6: Leaving construction cost projections out of Capital Improvement Plan (CIP) reports for several years gives a misleading picture of financial requirements and may serve to delay rate increases but may make future rate increases even higher.

Finding 7: Boards in the past decided to implement smaller rate increases than what was recommended by staff, but recent history has shown that larger rate increases, including double-digit increases, are being considered and have been accepted. The double-digit rate increases are partially due to deferring maintenance projects to keep rates low in the short term.

RESPONSES

Recommendations

The Grand Jury recommends the El Dorado Irrigation District Board of Directors:

Recommendation 1 – Direct the Auditor of the 2024 ACFR to verify by September 30, 2025, and publicly report that all significant deficiencies noted in the 2023 Auditor's Memorandum of Internal Control have been rectified and not repeated through actions documented and taken in Management's Response to the Auditor's Recommendations.

Recommendation 2 – Direct staff to create and make publicly available a separate report on the District's Facility Capacity Charge (FCC) account within 180 days of each fiscal year end, which includes all the information in California Government Code Section 66013(d), and as generally shown in the example reports provided from other water districts herein.

Recommendation 3 – Direct staff to create policies by September 30, 2025, that establish a finance committee with the responsibility to act as a crucial resource to the Board, providing analyses and recommendations critical to the organization's financial decision-making process.

Recommendation 4 – Direct staff to implement a revised Capital Improvement Plan (CIP) project tracking page that offers a more realistic total cost estimate, including construction cost estimates, for each project throughout its duration in the CIP by August 31, 2025.

Recommendation 5 – Direct staff to extend its Capital Improvement Plan (CIP) from a 5-year to a 10-year planning horizon by September 30, 2025, which will provide more flexibility in managing budgets and allow for more stable rate adjustments over time.

RESPONSES

Request for Responses

A Civil Grand Jury report details a single investigation. Each report lists FINDINGS and RECOMMENDATIONS. The responsible organization is notified and is required to respond to the report.

The California Penal Code § 933(c) specifies response times.

- PUBLIC AGENCIES. The governing body of any public agency (also referring to a department) must respond within 90 days from the release of the report to the public.
- ELECTED OFFICERS OR AGENCY HEADS. All elected officers or heads of agencies/departments are required to respond within 60 days of the release of the report to the public.
- FAILURE TO RESPOND. Failure to respond to a Grand Jury report violates California Penal Code Section 933.05 and is subject to further action that may include additional investigation on the subject matter of the report by the Jury.

The following responses are required pursuant to Penal Code § 933 and § 933.05:

From the following governing board:

- EID Board of Directors
    - All Findings and Recommendations 1 - 5

For more information refer to *How to Respond to an El Dorado County Grand Jury Report* available on the El Dorado County Grand Jury webpage