

SANTIAGO AQUEDUCT COMMISSION
Irvine Ranch Water District
15600 Sand Canyon Avenue
Irvine, CA 92618
949-453-5300

September 17, 2015

The Honorable Glenda Sanders
Presiding Judge of the Superior Court of California
700 Civic Center Drive West
Santa Ana, CA 92701

RE: Response to Grand Jury Report, *“Joint Powers Authorities: Issues of Viability, Control, Transparency, and Solvency”*

Dear Presiding Judge Sanders:

On June 29, 2015, the Grand Jury released a report entitled *“Joint Powers Authorities: Issues of Viability, Control, Transparency, and Solvency.”* This report required a response to findings and recommendations from the Santiago Aqueduct Commission. Per the 2014-2015 Orange County Grand Jury’s request, and in accordance with Penal Code 933.05, below are the Commission’s responses to findings F.4 and F.5, and recommendation R.3.

Required Responses

Finding F4: *“Vertical Joint Powers Authorities with a single controlling entity, such as a city council, have the potential to use this organizational structure as a shell company to avoid other legal constraints on the controlling entity and to obfuscate taxpayer visibility.”*

Response: The Santiago Aqueduct Commission disagrees wholly with this finding as it relates to the Commission. The Santiago Aqueduct Commission is a multi-agency joint powers agency or a “horizontal” joint powers authority (JPA), similar to the diagram on page 10 of the report, and not a “vertical” joint powers authority controlled by a single entity. The Commission was formed to finance, construct and maintain the Baker Pipeline, which was designed to bring imported untreated water from the Metropolitan Water District of Southern California to South Orange County. Completed in 1962, the pipeline extended the MWD Santiago Lateral by 15 miles. Members of the Commission include the Irvine Ranch Water District, El Toro Water District, Santa Margarita Water District, Trabuco Canyon Water District, the Municipal Water District of Orange County and Moulton Niguel Water District. The JPA is equally controlled by all of its members and each member has representation on the Commission. In the report, the Grand Jury determined that “horizontal” JPAs appear to comply with the spirit of the law, which is consistent with this authority.

Finding F.5: *“Vertical Joint Powers Authorities in which the controlling entity transfers assets from itself to a Joint Powers Authority for the purpose of obtaining additional funding, or signs a long-term lease to a Joint Powers Authority to obtain assets, are avoiding transparency and are not acting in the best financial interest of the taxpayers.”*

Response: The Santiago Aqueduct Commission disagrees wholly with this finding as it relates to the Commission. As discussed above, the Santiago Aqueduct Commission is a multi-agency joint powers agency and not a “vertical” joint powers authority controlled by a single entity.

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Recommendation R.3: *“All Joint Powers Authorities should take the following actions to insure (sic) transparency to the taxpayers: (1) have an annual outside audit, (2) post the complete audit on their city website as a separate Joint Powers Authority entity, (3) send the audit to the County Controller and the State Auditor, and (4) ensure the required reports are filed annually to the County and the State. (F.4., F.5.)”*

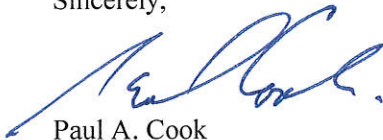
Response: The recommendation has been partially implemented. The portion not yet implemented will be implemented in part.

The Santiago Aqueduct Commission applauds the effort of the Grand Jury to ensure that joint powers authorities operate transparently, are accountable to the taxpayers, and comply with state law. The Commission is required to file a State Controller’s Report annually with the State of California. The Commission has reviewed its obligations under state law and its annual filings, and has complied with the requirements. The Commission last filed this report for 2013 on October 16, 2014, prior to the required deadline and plans to file the most recent 2014 year end information prior to its due date in October 2015.

The Commission has also considered the recommendation’s other transparency measures including having an annual outside audit conducted, posting the complete audit on its website, and sending the audit to the County Controller and the State Auditor. The Commission takes transparency and accountability to the taxpayers and our member’s ratepayers very seriously. Beginning with Fiscal Year 2014-2105, the Commission will, hire an independent firm to perform an annual audit and will send a copy of the audit to the Orange County Controller, pursuant to Government Code Section 6505. In addition, the Commission will post the audits on its website. The audit and its distribution will be completed within the period allowed for in the Government Code. As discussed above, the Commission files the required report with the State Controller and does not plan to file the annual audit with the State as the audit can be viewed by the public on the Commission website.

Thank you for the opportunity to respond to the June 29 report on joint powers authorities. I trust this letter will satisfy your request for a response. If you have any questions about the Commission or its response, please feel free to contact me at (949) 453-5590.

Sincerely,



Paul A. Cook
General Manager

cc: Orange County Grand Jury