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July 25, 2012

VIA CERTIFIED MAIL

The Honorable Thomas J. Borris
Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

**SUBJECT: TRABUCO CANYON WATER DISTRICT -- RESPONSE TO
2010-2011 GRAND JURY REPORT: "LET THERE BE LIGHT"
DRAGGING SPECIAL DISTRICTS FROM THE SHADOWS**

Dear Judge Borris:

The Board of Directors ("Board") of Trabuco Canyon Water District ("District") recognizes that the Grand Jury serves a valuable function in our county – they represent the citizens by investigating, evaluating and reporting on issues related to local government. The Board respects that their third party review is an important check and balance for the County of Orange ("County"), and has promoted greater transparency about local government functions, operations, and finances.

However, having undertaken to carefully review the Grand Jury Report entitled "Let There Be Light – Dragging Special Districts From the Shadows" ("Grand Jury Report" or "Report"), a number of questions and areas of concern arose both in terms of the content and analysis of the Grand Jury Report and the Findings and Recommendations included therein.

The District would offer some further thoughts for the consideration of the Grand Jury in regard to this area of review:

1. Objectivity and Bias Set Forth in the Report. As noted from the title of the Grand Jury Report, and the initial statements contained on pages 1 – 3, the Report appears to contain a specific anti-special district bias (what the California Special Districts Association categorized as a "lack of objectivity"). The Report proceeds from the basis of a biased position and the bias is evidenced throughout the text of

the Report. It does not appear that contravening information (ie. information favorable to the actions and existence of special districts) was largely considered.

The Report also proceeds from the basis that cities and counties would, inherently, be better able to provide the services or furnish the products that special districts provide, or would somehow be more accountable to the electorate than the local special districts. Given the recent bankruptcy filings by the cities of Stockton, Mammoth Lakes and San Bernardino, and the extremely precarious fiscal situation of many counties and cities in the State of California (“State”), and in fact the State itself, this inherent bias may not have a sound factual basis.

2. Characterization of “Reserves”. The Grand Jury Report uses the term “unrestricted” to refer to various financial reserves held by local special districts. The District notes that in at least some cases the reference to these “unrestricted” reserves may in fact include reserves that are specifically required under the provisions of bond issuance documents and in fact may be used only to cover delinquencies and debt service payments on bond issuances. There is at least some possibility that the Grand Jury, in preparation of the Report, did not adequately distinguish between reserves of funds that are “unrestricted” from those that are in fact contractually restricted to certain expenditures and cannot be used for general fund or other purposes. Most of the District’s reserves are in fact “restricted” -- specifically allocated and dedicated to specific financing transactions or capital projects, and cannot be used for general fund or general allocation purposes.

3. Existing System of Allocation of *Ad Valorem* Tax Revenues. One of the points that the Grand Jury Report makes is that local public agencies should not receive an allocated portion of *ad valorem* property tax revenues collected on local properties pursuant to the provisions of State law. There are several issues that arise with this overall presumption. The Grand Jury Report initially assumes that “enterprise” special districts would simply be able to make up the losses of property tax revenues by raising rates. This is nothing more than a cost-shifting effort in order to put additional revenues into the hands of cities and counties at the expense of special districts while forcing special districts to “wear the blame” for raising rates due to the loss of property tax revenues. This would put additional hardship on both special districts and on their base customers, who would be required to functionally subsidize additional city and county spending based upon the shift in property tax revenues.

It should also be noted that changes to the property tax allocation method would require fairly extensive revisions to the California Revenue and Taxation Code, which is beyond the sweep, scope and jurisdiction of both the Grand Jury and the

local Orange County special districts. To do so would require essentially a reallocation of the property tax allocation method adopted in the wake of the original Proposition 13 in 1976 throughout the State (since the District is skeptical that the Legislature could, or would, pass such a specific tax reallocation on a county-by-county basis). The Grand Jury apparently did not consider the overall Statewide consequences of such change.

Additionally, the shift of property tax revenues away for special districts to cities and counties may very well lead to a situation where local revenues (which currently remain local through expenditure by the special districts, would in fact be reallocated to other portions of the cities or counties concerned). For example, revenues currently collected within Dove Canyon, Trabuco Highlands, Robinson Ranch and Trabuco Canyon areas of the District and expended by the District, remain local in terms of their expenditure. If these property tax revenues were to be shifted to the County, they could easily be shifted to some other part of the County and, as such, local revenues would no longer remain local. The District believes that this point was entirely missed in the Grand Jury Report.

4. (Non) Involvement of Local Voters. One of the matters that the Grand Jury Report touches on only briefly is that many local special districts were formed at the decision, and with a vote of, the local electorate. For example, the District (originally formed as the “Santa Ana Mountains County Water District”) was formed pursuant to the applicable provisions of the County Water District Law (being Water Code Section 30000 and following) and an election at which voters within the geographic boundaries of the District (as it then existed) were asked whether or not the water district should be formed, and were also asked to approve the authorization of general obligation bonds in order to finance water facilities to provide service to areas within the District. The electorate voted in favor of the measure, and the District was originally formed pursuant to State law. The Grand Jury Report simply recommends that many of the special districts be dissolved without reference to the proceedings or decisions of the local electorate. It may be worthwhile to note that local voters within the boundaries of the relevant special districts may not in fact be in favor of dissolution of the local special agencies and the local governmental representation thereon. Simply put, the electorate was initially involved in the formation of many local special districts and, it appears, would not be involved in the actions for their dissolution that the Grand Jury recommends.
5. Authority of Orange County Local Agency Formation Commission (LAFCO). One of the seeming assumptions contained within the Grand Jury Report is that the Orange County Local Agency Formation Commission (LAFCO) is somehow ineffective in not having previously consolidated or eliminated the Special

Districts in question. The District is aware that Orange County LAFCO has undertaken to provide its own responses to the Grand Jury Report regarding its capabilities, review and qualifications to monitor, assess and to potentially make changes in organization to cities within Orange County and special districts within Orange County. The Grand Jury Report does not seem to fully grasp the operative effects of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, and does not seem to give adequate credit to the work or activities of Orange County LAFCO in regard to special districts.

6. Assumptions With Regard to Successor Agencies. One of the underlying assumptions relating to the Grand Jury's recommendation that local special districts be consolidated or dissolved is that the successor entity charged with providing "products" and services currently provided by local special district would, in some manner, be for efficient, more responsive to the local electorate and would use the tax revenues generated within the special districts for better or more worthwhile purposes. The District believes that these assumptions are not grounded in a factual or data-driven review by the Grand Jury.

It is certainly questionable whether local cities would be better able to provide the types of services which local agencies now provide either more efficiently or more responsibly. Certainly the financial scandal in the City of Bell, and the recent bankruptcies by the Cities of Stockton, Mammoth Lakes and San Bernardino call into question, at a minimum, the fiscal competency of some cities. Likewise, the recent political inquiries and criminal investigations in the City of Bell and the City of Cudahy make clear that city government, run by individuals or groups of individuals, is certainly no more qualified, or responsive to local electors and customers, than would be a special district. In fact, the reverse may specifically be true inasmuch as special districts exist for particular purposes, and as such, customer comments and questions are usually answered in a more direct, straightforward fashion dealing with those services and "products" which local special districts provide.

On page 2 of the Grand Jury Report, the Grand Jury Report assumes that community services could be in certain cases be operated by local homeowners' associations. This assumption is subject to numerous questions and potential challenges. In particular, many special districts represent significantly large geographic areas which cut across many types of communities, neighborhoods, cities and socially and demographically diverse areas that would not necessarily be well served by being represented by a single homeowners' association. Additionally, the assumption is also that homeowners' associations would overlay virtually all of the territory within the local agencies. In many cases, particularly in older areas of Orange County, homeowners' associations are non-existent and would require actions to establish them, leading to the creation of overlaying

management areas currently already served by the County, numerous cities and other special districts. This would only serve to create another layer of government, or quasi-governmental jurisdiction over such agencies and, in terms of efficiency of providing services to referenced customers, would be highly questionable.

7. Comments and Input from Members of the Public. On page 7 of the Grand Jury Report, there is reference to extremely limited numbers of public comments being submitted by members of the public to staff of governing boards of such local agencies. In providing this “analysis,” the Grand Jury Report identifies a few districts that have documented low public participation. The District would respectfully suggest that, rather than interpreting low public participation as an indication of ignorance of the part of customers, this situation be viewed as a matter of satisfaction by customers who clearly have, through their billing and other communication methods, information to reference their local agency service providers should they choose to do so.

8. Uncertain Standards for “Performance” Audits. On page 8 of the Grand Jury Report, the Grand Jury references “performance audits” as being done by some public agencies. While the Grand Jury does reference the required financial audits that are undertaken by the District and many other local public agencies pursuant to State law using outside independent and highly qualified auditing firms, what standards might be presented in terms of a “performance audit” are not set forth. While the Grand Jury report may seek to be referencing some vague efficiency standard, or reference to some other standard not referred to in the Grand Jury Report, the simple reference to a “performance audit” without objectively quantified standards, either for actions, efficiency or meeting statutory or legal duties, is not otherwise defined within the Grand Jury Report. The District would respectfully suggest that, absent some type of criteria or objective standards identifiable by the Grand Jury, members of the public and the local agencies involved, a simple reference to undertaking “performance audits” without establishing their criteria, referencing their benefit, weighing their cost (both in terms of financial commitments and staff resources) is, at the very least, not productive. The District has recently undertaken a management audit for its personnel needs and requirements, and opportunities for operational efficiencies and cost savings. In fact, the audit and review includes complimentary statements made to the District regarding its management capabilities, staffing levels and meeting its “business” goals and needs.

9. Facility Needs Analysis and Costs. One of the aspects that the Grand Jury Report does not adequately consider are the facility needs and costs in order to provide

the “products” and services that local public agencies provide to their constituents and customers. When reviewing facilities needs and costs, particularly in the context of future operational maintenance and facilities replacement, many outside observers tend to underestimate the costs and facilities replacement needs in order to provide services such as sewer and water service to customers located within a local agency boundary. There is also the assumption that facilities costs could somehow be “managed” better by other agencies or by privatizing such services. The end result and need is that in order to avoid escalating operational and maintenance costs (particularly in terms of fixing line breaks for older facilities) an ongoing system of operation, maintenance and periodic facilities replacement is necessary, particularly in the context of utility services. These actions, of necessity, drive costs for local agencies, and must be calculated as part of their overall budget. A significant amount of the District’s budget is devoted to “product” purchases, such as water purchases, operation, maintenance and ongoing capital replacement purchases, which cannot be simply ignored if a level of reliability and provision of services or “products” is to be maintained.

Additionally, the Grand Jury Report contains references to debt obligations of special districts. Public debt is incurred in order to build, construct, acquire and install the facilities through which services are actually provided, and that financing such facilities through tax-exempt governmental securities is far more efficient than utilization of non-tax exempt corporate or privately-backed debt issuances. The overall structure for incurring debt in order to provide public services is well enshrined in both history and State law through numerous means, including, but not limited to, ongoing financing through water rates, use of Mello-Roos Community Facilities District special tax bonds, use of assessment district bonds backed by land-based assessments, general obligation bonds secured by *ad valorem* property tax revenues and numerous other types of financing mechanisms. References contained within the Grand Jury Report to the California Debt and Investment Advisory Commission (“CDIAC”) are simply statements of outstanding debt and do not address issues such as local agency voter support for incurring such debt in order to provide local services and facilities, how the debt or obligations are repaid or otherwise secured (which are frequently linked to the usage by the consumers which have those facilities made available to them) or debt levels that would be necessary and incurred by any successor entity or agency that were to assume the obligations or provisions of such “products” and/or services currently provided by local special districts.

10. Grand Jury Report Source Material. The District notes that in our review of the Grand Jury Report, the report itself uses a very narrow selection of reference source material. One of the sources used is citation to prior grand jury reports, which in some cases are decades old and, to say the least, highly questionable or

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at least “dated” in their reference and source material. A specific grand jury report from 1982 (now thirty years’ old) is also cited to.

The Grand Jury Report also refers to the “Little Hoover Commission” Report that was generated in 2000 (more than twelve years ago). The Little Hoover Commission Report from 2000, which has been subjected to a wide variety of criticism for its city-centric view, has, in general, not been used as a template or model for assessments of governmental reorganization since it was generated. The Little Hoover Commission Report was also criticized by special district organizations on a specific reference basis.

The District is concerned that the lack of firsthand interviews or investigations with the local special agencies identified in the Report supports an argument that there was an inherent bias and lack of adequate research utilized by the Grand Jury and Grand Jury staff in preparing the Grand Jury Report.

Accompanying this letter are the responses by the District to both the Findings and Recommendations from the above referenced Report from the Grand Jury.

Thank you for the opportunity to comment on the above referenced Report.

Sincerely,



Ed Mandich
President
Trabuco Canyon Water District

TRABUCO CANYON WATER DISTRICT

RESPONSES REQUIRED TO GRAND JURY FINDINGS/CONCLUSIONS

The following represents Trabuco Canyon Water District's ("TCWD") response to the Orange County Grand Jury Report, "Let There be Light" Dragging Special Districts from the Shadows -- Findings and Recommendations. All responses are from the District's perspective.

- F1. Most Orange County special districts, with or without the assistance of the Local Agency Formation Commission (LAFCO), have been incapable or unwilling to consolidate, absorb, or eliminate these outmoded and/or redundant agencies. LAFCO typically addresses larger issues such as merging of cities and elimination of "islands" within the county. These special districts themselves have not worked seriously toward their consolidation or demise. In this regard, the enterprise special districts and the non-enterprise special districts require independent evaluation and handling.

Response: TCWD disagrees with this finding. TCWD's Board believes that the power to reorganize (i.e. consolidate, absorb, eliminate, etc.) special districts should always rest with the local citizens who established them and depend on their services. TCWD also notes that the State Legislature has established specific legislation (in the form of the Cortese-Knox-Hertzberg Local Government Reorganization Act), specifically constituted entities (Local Agency Formation Commissions) and the involvement of the local electorate in changes of organization for governmental entities, expressly including special districts. TCWD is aware of, at a minimum, nine voluntary Orange County Special District consolidations, dissolutions, mergers and/or acquisitions that were the direct result of collaborative studies conducted by Special Districts and LAFCO. Further, Special Districts and LAFCO have conducted numerous additional studies that concluded certain proposed reorganizations were not deemed appropriate or prudent to pursue.

- F2. Special Districts have made very little progress in complying with the recommendations made by various governmental agencies. To ensure recommendations are followed, more coordination and cooperation is needed from the city and county agencies.

Response: TCWD disagrees with this finding. TCWD disagrees with this finding in that it is unclear what recommendations this finding references. TCWD has worked with LAFCO on in multiple Municipal Service Reviews ("MSR's") and incorporated findings into short and long term strategies. TCWD believes it is essential to possess an in-depth knowledge of water and wastewater industry operations to make recommendations about presumed improvement(s) through change of delivery models. Due to all of the variables that can come into play, it is not possible to conclude that a single solution or approach can be applied to any given agency. TCWD has a long record of coordinating, cooperating, and proactively working together with other public agencies in the area, including regular communications on facilities, service to customers and other matters with the City of Rancho Santa Margarita and LAFCO, as well as other regional districts and governmental agencies.

F5. The sixteen enterprise districts typically started as local agricultural irrigation and sanitation providers for local communities. These special districts have transitioned into providers of potable water and sewerage disposal for the cities that blossomed around them after 1950. These districts grew until their boundaries met a neighboring special district that was also growing. Some of these local smaller providers have already been absorbed by larger districts under one management.

Response: TCWD agrees with this finding which shows that special districts provide a focused service to specific communities and those special districts have been consolidated when and where deemed appropriate.

F6. The sixteen enterprise special districts of Orange County founded between 1919 and 1964 have grown with the urbanization of the county. Thirteen of these special districts rely upon taxes collected by the county while three rely on fees and other sources for revenue. This suggests that all of these enterprise special districts could wean themselves from tax subsidies and rely on fees for their revenue. Severance from these tax subsidies would enable financial transparency and let the customers see the true cost of the services provided.

Response: TCWD disagrees with this finding. The majority of the property taxes received by TCWD (nearly 97%) are not a subsidy but instead are pledged to repay Revenue Bonds and Certificates of Participation obligations that TCWD incurred in the past to finance required infrastructure and facilities. The remaining property taxes received represent only approximately 3% of TCWD's annual operating expenses, and is spent directly within TCWD's service areas to repair and replace infrastructure and to secure reliable and safe drinking water, which is a direct benefit to the local taxpayers.

F7. The unrestricted reserves of the special districts are available to the governing boards to spend as they please. Local citizens are not openly informed of this wealth when agencies ask for fee increases, special assessments, or bond measures. Most of the special districts do not appear to have specific criteria for amassing these reserves nor do they have published long-range plans for their constructive use.

Response: TCWD disagrees with the Grand Jury's general statement that "The unrestricted reserves of special districts are available to the governing boards to spend as they please."

The vast majority of the reserves of the District are dedicated to infrastructure repair and replacement, committed to pay or secure debt service on outstanding securities, or are restricted by external entities or contractual obligations. These restrictions have specific criteria that are followed and are approved during the public budget process each fiscal year – a process that is open to public review and comment. Proposition 218 requires that special district's considering any rate increase must prepare a cost-of-service study that

clearly provides a nexus between revenues and expenditures taking into consideration available reserves and future reserve requirements. Further, Proposition 218 prescribes specific rate payer transparency as it relates to formal customer notification and protest procedures.

- F8. The twenty-seven special districts in Orange County have amassed unrestricted reserves of over \$866,000,000. That is enough money to fund all of the special districts for more than year without taxes, fees, interest, or other sources of revenue. The boards of directors have the sole discretion to spend these unrestricted reserves.

Response: TCWD is unable to confirm the validity of the Grand Jury's above referenced conclusions and thus makes no comment on this finding.

However, TCWD respectfully notes that, based on current reporting, the failure of the City of San Bernardino to manage and maintain its fiscal reserves has apparently been a significant contributing factor to that City's decision to file for bankruptcy.

- F9. The Orange County Auditor-Controller allocated nearly \$35,000,0000 to four enterprise special districts (Costa Mesa Sanitary District, South Coast Water District, Trabuco Canyon Water District, and Yorba Linda Water District) that did not show this revenue in their budgets provided to the Grand Jury. What happened to that money is not clearly recorded. Budgeting without the allocated taxes indicates that, along with the three other enterprise special districts that do not rely on tax revenue, these enterprise special districts could function without tax revenues.

Response: TCWD disagrees with this finding. TCWD shows a budgeted line item in the annual Operating Budget of "Secured/Unsecured Current Property Tax" in the Non-Operating Revenue section. TCWD also adopts budgets for its seven different Community Facilities Districts debt service and other costs, which is where most of the special tax revenues collected by the District is contractually pledged. TCWD cannot comment regarding Costa Mesa Sanitary District, South Coast Water District, or Yorba Linda Water District.

Furthermore, a one-size-fits-all, top-down approach of consolidating into regional special districts may not allow TCWD to deliver the needed local services. Deliberate study and planning at the local level, such as LAFCO's MSRs, are necessary to identify efficiencies and ensure consumers receive effective services. As has been amply demonstrated for many decades, larger government does not translate to more efficient government. TCWD and other independent special districts in Orange County provide valuable services to consumers; these districts do an excellent job of providing safe, reliable, affordable water and other services.

- F10. The Enterprise special districts could save millions of dollars in administration costs by consolidation into regional special districts. Five or six such enterprise special districts

within Orange County could save at least \$500,000 per year for each special district absorbed.

Response: TCWD is unaware of the evaluation methodology used by the Grand Jury to derive this conclusion, and is concerned that projected savings fails to recognize the potential for degradation of the current service models. Thus TCWD will not comment on and/or confirm, or disagree with, the validity of the Grand Jury's above-referenced conclusions.

- F14. The true cost of water and sanitary sewers in the enterprise special districts is hidden when both taxes and fees fund these districts. Only when the monthly service bills to the customers include all the costs for these services without the tax subsidy will the public understand the true cost of these services and achieve financial transparency.

Response: Please refer to responses to findings F6 and F9.

- F15. Only one of the special districts, the South Coast Water District, has had recent performance audits. The lack of performance audits for the remaining special districts leaves the potential for inefficiencies, poor practices, outmoded operations, etc. hidden from the governing boards and the communities they serve. The lack of published performance audits has contributed to the public's ignorance of these districts.

Response: TCWD concurs that internal and/or independent performance audits should be performed routinely and as circumstances dictate. TCWD believes that multiple audits based upon specific industry disciplines can be beneficial and provide a focus on a particular discipline's Best Practices. TCWD utilizes independent resources to audit financial and internal control practices. TCWD recently completed an independent evaluation of its Organizational Structure which included recommendations where appropriate to incorporate Best Practices. TCWD utilizes independent resources to assess efficiency and reliability characteristics of system wide water, sewer and recycled water infrastructure and operations today and into the future. TCWD participates actively in the LAFCO Municipal Service Review process and incorporates LAFCO findings and recommendations into near and long term strategic planning. TCWD cannot validate the Grand Jury's reference to only "one of the special districts" completed a performance audit.

RESPONSES REQUIRED TO GRAND JURY RECOMMENDATIONS

TCWD references at this point the comments set out in TCWD's cover letter (from TCWD's Board President) and TCWD's responses to finding submitted herewith. Those comments are incorporated into these responses by reference.

- R1. All special districts (except Vector Control District and the County Cemetery District) should be eliminated from the county tax rolls and should rely solely on fees or the services of surrounding governments (See TCWD's Response to Findings F2, F3, F4, F5, & F6).

Response: TCWD will not support any action to implement this recommendation because it is not reasonable for all of the reasons that were previously stated under the "Findings" section (see responses to Findings F2 and F6) and for the reasons described in TCWD's cover letter to the Superior Court. Taking away any portion of the allocated property tax revenues that TCWD receives would impose a significant hardship on our ratepayers, it would effectively, shift our property tax revenue away and require a successor agency to absorb the lost revenue which would result in either a degradation of service or increased rates to TCWD customers.

- R4. Water and sewer districts should be consolidated into no more than six regional districts. Consideration should be given to including the city water agencies in the consolidation. LAFCO should meet with the water and sewer districts before October 31, 2012 to develop plans and schedules for consolidation. (See TCWD's Response to Findings F5, F6, & F9).

Response: The recommendation will not be implemented because it is not reasonable. It is unclear what, if any, criteria were used in reaching this recommendation. TCWD notes that it is not the number of special districts that is relevant, but the ability of each district – such as TCWD – to deliver core local services effectively and responsibly. Furthermore, LAFCO has stated its disagreement with this recommendation in that it has made no analysis, as required by the Government Code, of such a proposal. As it is charged to do by statute, LAFCO does continue to meet regularly with water and sewer district as well as with cities, in order to assess the quality of services and recommend improvements where appropriate, using reasoned and legally mandated assessments and criteria and applying such on a case-by-case basis. Please also see TCWD's Response to Finding F10.

- R5. Water and sewer districts should be removed from the tax rolls and operate solely on fees and other revenues for their services. Consideration should be given to forming non-profit agencies with ownership shared by the constituents. These districts should meet with county officials before October 31, 2012 to prepare plans and schedules to remove themselves from the county tax rolls. (See TCWD's Response to Findings F2, F5, & F6).

Response: TCWD will not support implementation of this recommendation because the Grand Jury has failed to present any factual evidence that it is warranted or that there is any reasonable basis for the number of regional districts referenced. Please see TCWD's Response to Finding F10

- R6. Special districts should adopt "board of director's practices" for all their reserves, restricted and unrestricted. All reserves should be classified in their 2013-2014 budgets according to GASB standard No. 54. LAFCO should work with the special districts to prepare standard criteria for accumulating reserves according to the new classifications by December 15, 2012. These standards should be used in preparing the 2013-2014 budgets. (See TCWD's Response to Findings F7 & F9).

Response: The recommendation will not be implemented because it is not warranted. TCWD will continue its practice of incorporating and publishing its restricted and designated reserves as part of its annual budgeting process. It is TCWD's understanding that GASB Standard No. 54 does not apply to enterprise special districts. Please refer to the response to TCWD's Response to Finding F7

- R7. Excessive unrestricted reserves should be used to reduce existing debts. Future revenues should be reduced to avoid the accumulation of unallocated revenue that does not meet the adopted new standards. (See TCWD's Response to Findings F7 & F8).

Response: The recommendation will not be implemented because it is not warranted. It is unclear what "excessive unrestricted reserves" is considered to be, and it is unclear what the adopted new standards will be. It is important to note that there are myriad variables that the TCWD Board considers in budgeting and long-term planning. Furthermore, TCWD's Board is successfully executing its fiduciary responsibilities to TCWD's constituents. Please also see TCWD's Response to Findings F6 and F7.

- R8. Each special district should have an independent performance audit at least every three years. The executive summary of the performance audit should be distributed to all the taxpayers of each special district. Each of the special districts that has not had a performance audit within the last five years should contact with an independent outside consultant to conduct such an audit during 2012. These audits should be repeated at least every three years. (See TCWD's Response to Finding F15).

Response: The recommendation will not be implemented because it is not warranted and will entail an unnecessary cost to TCWD ratepayers (please refer to TCWD's response to Finding F15 above). TCWD annually undergoes a financial audit by a credible third-party accounting firm. TCWD's budget documents, general fund budget, capital facilities budget and debt financing budgets are all available for public review upon request and are approved of by action(s) of the TCWD Board taken in open session in full compliance with State laws. TCWD's audit reports are also presented to, and accepted by, TCWD's Board in open public session and re also available for public inspection

upon request. Additionally, TCWD's MSR by LAFCO, which takes place every five years, has found no significant issues with the District (TCWD's most recent MSR is posted online as www.oclafco.org).

- R9. Each special district should contribute 1% of its unrestricted reserve fund to LAFCO to help finance preparing and directing the consolidation, absorption, or elimination, and the setting of standards for reserves for the special districts. These funds should be included in LAFCO's future programs and budgets until the consolidation, absorption or elimination of each special district is achieved. With these additional funds, LAFCO should begin meeting with each special district before 2012 fiscal year is budgeted for consolidation, absorption, and/or elimination of these districts. (See TCWD's Response to Findings F1, F2, F3, F4, F5, & F6).

Response: The recommendation will not be implemented because it is not reasonable. It is unclear to TCWD as to how the 1% contribution was derived and what, if any, criteria were used in quantifying how much revenue is needed by LAFCO.

As prescribed by law, TCWD provides LAFCO with its proportionate "Special District" LAFCO budget share based upon a definitive LAFCO budget which encompasses routine LAFCO staff and commission administrative activities and identified special efforts. The LAFCO budget is funded in equal parts by the Special Districts, by the Cities and by the County.

In practice, specific reorganization considerations/studies are typically funded by the agencies collaboratively seeking LAFCO involvement.

The TCWD Board believes it is, and would be, inappropriate and fiscally irresponsible to arbitrarily shift funds safeguarded for affordable rates, emergency preparation, infrastructure maintenance and long-range capital improvements without a compelling basis or reason to do so. Shifting money from special districts' reserves will not reduce the need for prudent reserves funding. Rather, as evidenced by past funding shifts from the State, this will: a) increase cost pressures on ratepayers and taxpayers to fund core services; b) increase fiscal uncertainties; and c) place pressure on some local agencies in the County to increase reserve funding.