

CENTERVILLE COMMUNITY SERVICES DISTRICT
Better than most!

Centerville Community Service District
8930 Placer Road
Redding, CA 96001-9719
Phone: (530) 246-0680

REASON FOR INQUIRY:

Section 933.5 of the California Penal Code provides that the Grand Jury may investigate and report on the operations of any special-purpose assessing or taxing district located wholly or partly within the county. The 2005/2006 Grand Jury investigated the Centerville Community Service District (CCSD) to evaluate its operations and safety procedures. No citizen complaints had been received regarding CCSD.

BACKGROUND:

Special districts, such as CCSD, are formed to provide a limited range of public functions rather than to provide the full range of government services. Community services districts are governed by the Community Service District Law starting at section 61000 of the California Government Code.

CCSD was formed in 1959 for the sole purpose of providing a domestic water supply to approximately 8,000 acres of unincorporated territory, immediately west of the City of Redding. Since that time, some of this area has been annexed to the City of Redding. Fire protection for the remainder of the District is provided by Shasta County Fire Department and the Centerville Volunteer Fire Company.

The initial water system improvements were financed through a Davis-Grunsky Act loan from the State Department of Water Resources. Additional mains, storage and booster pumping facilities were constructed by CCSD in 1982 and 1983, utilizing a combination of a Farm Home Administration grant and loan funding. Through the years, the water

distribution system has been expanded due to private development, particularly the Olney Park, Ranchland, Montgomery Ranch, Monte De Las Flores, Westside Estates and Placer Pines subdivisions. CCSD currently serves approximately 1200 water connections.

The District obtains water from the Muletown Conduit, which is a facility of the Federal Central Valley Project's (CVP) Whiskeytown Reservoir. The Muletown Conduit conveys water along Clear Creek to both the CCSD and the adjacent Clear Creek Community Services District. Both community services districts contract directly with the U.S. Bureau of Reclamation for municipal, industrial and agricultural water. The Clear Creek CSD is responsible for maintenance of the Muletown Conduit and operates the water filtration and chlorination facility near the base of Whiskeytown Dam. Centerville CSD pays 25% of the cost for the original and expanded treatment facilities. CCSD has an effective capacity of six million gallons per day or 9.3 cubic feet per second.

In August of 2000, CCSD entered into a Water Exchange Contract with the U.S. Bureau of Reclamation whereby CCSD obtained 900 acre-feet of CVP water in exchange for the District's pre-1914 water rights on Clear Creek. In April 2001, the U.S. Bureau of Reclamation and the Shasta County Water Agency assigned all right, title, and interest to an additional 2,900 acre-feet of the CVP water to CCSD. Therefore, CCSD's current total water entitlement under contract is 3,800 acre-feet per year.

The CCSD is governed by a five-member Board of Directors and has a paid staff which includes:

- A General Manager
- A Secretary
- Two Water Service Workers

METHOD OF INQUIRY:

1. The Grand Jury toured the following facilities:
 - Centerville Main Office, Pump Station, and Storage Reservoir
 - Clear Creek Treatment Facility
2. The Grand Jury interviewed:
 - The President of the CCSD Board of Directors
 - A private developer who worked with CCSD on a subdivision project
 - The General Manager of CCSD
3. The Grand Jury attended one regularly scheduled CCSD Board of Directors Meeting
4. The Grand Jury reviewed the following documents:
 - The CCSD 2004 Master Water Plan
 - The CCSD Policy and Procedures Manual (including the Injury and Illness Prevention Plan, and Code of Safe Practices)
 - A Board Packet for the November 19, 2005, CCSD Board of Directors meeting including the 1915 Act Assessment District 2005-06 Annual Report
 - A Board Packet for the December 21, 2005, CCSD Board of Directors meeting including the CCSD Preliminary Financial Statement for the year ending June 30, 2005
 - A Board Packet for the January 25, 2006, CCSD Board of Directors meeting, including the Audited Financial Statement for the year ending June 30, 2005
 - Resolution No. 97-13, a Resolution of the Board of Directors of Centerville Community Services District, Adopting a Policy for Use of Credit Cards
 - Credit card statements for a period of six months
 - An Insurance Service Office (ISO) report dated November 8, 2005, for CCSD. (The ISO is an organization used by the insurance industry to evaluate fire risks.)

FINDINGS:

1. ISO ratings range from 1 (Best) to 10 (Worst) and are mainly based on hydrant location, water supply pressure, and whether the fire department is paid or volunteer. CCSD's most recent rating is 5.

2. Financial highlights taken from the Audited Financial Statement for the year ending June 30, 2005, include:

- The net assets in fiscal year 2004/2005 increased by \$198,198 from \$5,784,459 to \$5,982,657 over fiscal year 2003/2004; an increase of 3.4%. This increase is lower than usual because of water distribution improvements on Placer Road.
- Operating revenues were \$597,370.
- Non-operating revenues were \$345,636 compared to \$326,732 for fiscal year 2003/2004. This included a one-time Bureau of Reclamation Deficit settlement of \$110,281.
- Water revenues were lower due to a minor decrease in the District's water sales.
- Interest revenue was slightly greater than expected due to increased interest rates.
- Tax revenues were lower than expected due to a budget adjustment at the State level.
- During fiscal year 2004/2005, the District contracted for the construction of the Zone A1 Standby Generator Project. This capital improvement project is funded by revenue from new water service connections.
- Included in the CCSD Operations and Maintenance Budget for 2004/2005 was a Cost of Living Adjustment (COLA) of 3.1% for the employees and the implementation of a Pay for Performance Program with possible merit adjustments ranging from plus to minus 3%.

- The Operations and Maintenance Budget did not include depreciation of facility capital assets such as pipelines, pump stations, buildings, etc. CCSD has not created a mechanism to depreciate capital assets. Therefore, the district's auditors made a positive capital asset adjustment of \$183,651 in the budget.
 - The District's investment in capital assets as of June 30, 2005, totaled \$4,892,952 following an adjustment for depreciation of \$183,651.
 - At year-end, CCSD had \$2.85 million in bond and loan obligations outstanding. Total long-term debt decreased by \$131,168 during the year ending June 30, 2005, due to regularly scheduled debt service payments.
 - CCSD will continue its policy of increasing fees to fund capital projects outlined in the Master Water Plan.
 - Water rates are reviewed annually. The direction CCSD has taken is to keep the annual rate adjustments in the \pm 1% to 3% range. Adjustments are based on a review of the overall financial picture and are not automatic.
3. In 2006, CCSD plans to install an additional 1000 feet of 24" pipe on the Placer Road mainline. The estimated \$50,000 cost will be financed from reserve funds.
 4. CCSD will modify the distribution system on the Muletown Conduit to increase its delivery capacity from 3.9 to 4.2 million gallons per day. The estimated cost of the project, according to the District's Master Plan, is \$151,000, which is to be funded by existing reserves.
 5. A review of the District's credit card usage revealed:
 - Not all vehicle fuel purchases are thoroughly documented on receipts.
 - Not all expenditures are thoroughly documented on receipts.

6. CCSD has adopted a Code of Safe Practices and an Injury/Illness Prevention Program and appears to adhere to all of its requirements.

RECOMMENDATIONS:

1. Depreciation and amortization must be factored into the budgeting and financial reporting of the District.
2. Credit card usage should be documented thoroughly. The Grand Jury recommends that when an employee purchases fuel, he or she should note the vehicle license number on the receipt; when fueling a personal vehicle, the reason for the purchase must also be noted. Claims for reimbursement of expenses for meetings should include a list of the employees attending, and state the reason for the meeting.
3. All miscellaneous expenditures should be documented, noting the purpose of each expenditure. Copies of receipts should be included with the claim.

RESPONSES REQUIRED:

The CCSD Board of Directors must respond to Findings 1 through 6 and Recommendations 1 through 3

COMMENDATIONS:

The Grand Jury commends the General Manager and members of the Board of Directors of CCSD for doing an exceptional job of managing the operation of the District. They provide and maintain outstanding water delivery service to their customers. The Grand Jury was impressed with the cooperation between the CCSD staff, the Board of Directors, and the District's consumers.



COMMUNITY SERVICES DISTRICT

October 2, 2006

The Honorable William Gallagher
Presiding Judge of the Superior Court
1500 Court Street
Redding, CA 96002

Dear Judge Gallagher,

The Board of Directors appreciates the opportunity to have the 2005/2006 Grand Jury investigate and evaluate the operations and safety procedures of our District. We feel that these types of independent reviews provide the District with invaluable information to make sure that our adopted policies and procedures are consistent with current laws and regulations. We have reviewed the Findings and Recommendations of the report and offer the following comments:

Findings

1. ISO ratings range from 1 (Best) to 10 (Worst) and are mainly based on hydrant location, water supply pressure, and whether the fire department is paid or volunteer. CCSD'S most recent rating is 5.

Response: ISO Ratings are mainly based on two items, the Water Distribution System and the Fire Department. The Water Distribution System is rated on fire flows, number- spacing- and type of fire hydrants, and the inspection and condition of the fire hydrants. The Fire Department is rated on the number and type of engines and equipment, personnel, and training.

2. Financial highlights taken from the Audited Financial Statement for the year ending June 20, 2005, include:
 - The net assets in fiscal year 2004/2005 increased by \$198,198 from \$5,784,459 to \$5,982,657 over fiscal year 2003/2004; an increase of 3.4%. This increase is lower than usual because of water distribution improvements on Placer Road.
 - Operating revenues were \$597,370.

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- Non-operating revenues were \$345,636 compared to \$326,732 for fiscal year 2003/2004. This included a one-time Bureau of Reclamation Deficit settlement of \$110,281.
- Water revenues were lower due to a minor decrease in the District's water sales.
- Interest revenue was slightly greater than expected due to increased interest rates.
- Tax revenues were lower than expected due to a budget adjustment at the State level.
- During fiscal year 2004/2005, the District contracted for the construction of the Zone A1 Standby Generator Project. This capital improvement project is funded by revenue from new water service connections.
- Included in the CCSD Operations and Maintenance Budget for 2004/2005 was a Cost of Living Adjustment (COLA) of 3.1% for the employees and the implementation of a Pay for Performance Program with possible merit adjustments ranging from plus to minus 3%.
- The Operations and Maintenance Budget did not include depreciation of facility capital assets such as pipelines, pump stations, buildings, etc. CCSD has not created a mechanism to depreciate capital assets. Therefore, the District's auditors made a positive capital asset adjustment of \$183,651.
- At year-end, CCSD had \$2.85 million in bond and loan obligations outstanding. Total long-term debt decreased by \$131,168 during the year ending June 30, 2005, due to regularly scheduled debt service payments.
- CCSD will continue its policy of increasing fees to fund capital projects outlined in the Master Water Plan.
- Water rates are reviewed annually. The direction CCSD has taken is to keep the annual rate adjustments in the \pm 1% to 3% range. Adjustments are based on a review of the overall financial picture and are not automatic.

Response: We concur with the finding, except for the first bullet; which according to the Audit report should read: "The majority of the increase is attributable to the construction of distribution system improvements on Placer Road."

3. In 2006, CCSD plans to install an additional 1000 feet of 24" pipe on the Placer Road mainline. The estimated \$50,000 cost will be financed from reserve funds.

Response: We concur. Reserve funds were set aside for these types of projects.

4. CCSD will modify the distribution system on the Muletown Conduit to increase its delivery capacity from 3.9 to 4.2 million gallons per day. The estimated cost of the project, according to the District's Master Plan, is \$151,000, which is to be funded by existing reserves.

Response: We concur, except CCSD is not modifying the Muletown Conduit, but rather modifying our facilities, which begin at the Muletown Conduit.

5. A review of the District's credit card usage revealed:

- Not all vehicle fuel purchases are thoroughly documented on receipts.
- Not all expenditures are thoroughly documented on receipts.

Response: We concur with this finding; except that all vehicle fuel purchases are documented with the Vehicle ID number (i.e. 501, 502, 503, etc.).

6. CCSD has adopted a Code of Safe Practices and an Injury/Illness Prevention Program and appears to adhere to all of its requirements.

Response: We concur.

Recommendations

1. Depreciation and amortization must be factored into the budgeting and financial reporting of the District.

Response: We concur.

2. Credit card usage should be documented thoroughly. The Grand Jury recommends that when an employee purchases fuel, he or she should note the vehicle license number on the receipt; when fueling a personal vehicle, the reason for the purchase must also be noted. Claims for reimbursement of expenses for meetings should include a list of the employees attending, and state the reason for the meeting.

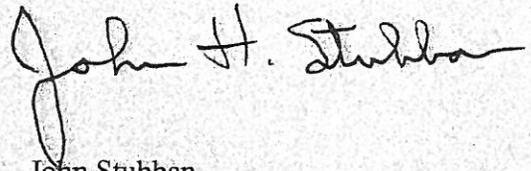
Response: The Board of Directors will review the District's policies and procedures in these areas and make any necessary adjustments.

3. All miscellaneous expenditures should be documented, noting the purpose of each expenditure. Copies of receipts should be included with the claim.

Response: The Board of Directors will review the District's policies and procedures in these areas and make any necessary adjustments.

Please thank the members of the Grand Jury for their devotion to the Shasta County Communities and their continued efforts to ensure that agencies comply with the State of California's laws and regulations in providing service to their constituents.

Sincerely,

A handwritten signature in cursive script that reads "John H. Stubban". The signature is written in black ink and is positioned above the printed name and title.

John Stubban
Board President