

GRAND JURY  
SANTA CLARA COUNTY

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6/30- SAPINO (JL) w/a D Anderson w/a  
" " J Ferguson  
2/21/94 RRESA-W  
" " RRSM-B  
" " SANDERSON  
" " ALBENNETT  
June 24, 1994

Mr. Jim Lenihan, Chairperson  
Board of Directors  
Santa Clara Valley Water District  
5750 Almaden Expressway  
San Jose, CA 95118

Dear Mr. Lenihan:

Acting under Penal Code Section 925a, the 1993-1994 Santa Clara County Grand Jury is transmitting its final report on *Review of the Santa Clara County Valley Water District*, to you.

Penal Code Section 933 requires that the governing body of the public agency which has been the subject of a Grand Jury final report shall comment within 90 days to the presiding judge of the Superior Court on the findings and recommendations pertaining to matters under control of the governing body.

We believe that comment should be made in public session, allowing for public discussion. We do not interpret this as requiring a formal vote.

Your comments are due in the office of the Honorable Robert P. Ahern, Presiding Judge, Santa Clara County Superior Court, c/o Gloria Chacon, 191 North First Street, San Jose, CA 95113, 90 days from date of receipt of the report.

Your response to the Presiding Judge can either be a memo from the presiding elected officer or a copy of the minutes reporting the commentary.

Copies of all responses shall be placed on file with the clerk of the public agency and the Office of the County Clerk.

Sincerely,

Agustus B. Bruneman  
bvj

AGUSTIUS B. BRUNEMAN  
Foreman

ABB:bj  
Attachment

Final Report of the 1993-94 Santa Clara County Grand Jury  
REVIEW OF THE SANTA CLARA COUNTY VALLEY WATER DISTRICT

ABSTRACT

The Grand Jury recommends that the Water District reconsider plans for a central office building; that it use its financial reserve to reduce the large current debt that it currently plans to refinance; that it employ competitive bidding to finance future debt; that it reduce its reliance on engineering consultants; and that the Board of Supervisors revise its policy on the appointment of members to the Water District Board.

## Final Report of the 1993-94 Santa Clara County Grand Jury

### REVIEW OF THE SANTA CLARA COUNTY VALLEY WATER DISTRICT

#### INTRODUCTION

This review, stimulated by citizens' concerns and newspaper accounts, is based on inspection of Santa Clara County Valley Water District (SCVWD) property; interviews with the District Manager, staff officers, and members of the Board of Directors; and study of documents including correspondence, two 1993 Peat Marwick audit reports, and copies of Board minutes (the most significant of these documents are listed as References at the end of the report). Members of the Grand Jury attended one meeting of the Board.

#### THE SANTA CLARA VALLEY WATER DISTRICT

The SCVWD is a special district of the County with two defined responsibilities. One is to deliver water to public and private water systems in the County. The SCVWD finances this delivery by the sale of water to other distributors at wholesale prices and by direct tax assessments and levies of fees on individual wells. The second responsibility is that of maintaining flood control districts, which are funded from assessments levied on private property in the County.

The SCVWD oversees and maintains District reservoirs, contracts for the importation of water from State and Federal sources, and maintains the distribution system to retailers. Its 538 employees are distributed among several facilities: the administration building and maintenance headquarters at 5750 Almaden Expressway, San Jose; the Crest and Blossom Hill Annexes in residential buildings adjacent to the administration building; a Water Facilities Branch at 5684 Almaden Expressway; a warehouse on Winfield Boulevard in San Jose; other SCVWD offices in leased space on Camden Avenue, San Jose; and two water treatment plants in San Jose and Lost Gatos respectively.

The SCVWD is governed by a Board of Directors, five of whom are elected to four year terms from the County's five Supervisorial Districts and two of whom are appointed, also to four-year terms, by the Board of Supervisors. Although the power of appointment to these two seats rotates among the Supervisors as the terms expire, incumbents are commonly reappointed. The rotation of power of appointment among the Supervisors, therefore, has little practical effect. It does not lead to rotation of representation among the Supervisorial districts; under current practice it is possible to have three SCVWD Directors from the same Supervisorial District.

The SCVWD has an outstanding debt of \$108,000,000. Approximately \$37,000,000 is owed to the United States Bureau of Reclama-

tion, although some of this amount is in dispute. The SCVWD also has a reserve of \$107,000,000.

#### FINDINGS

1. **Construction Plans.** The SCVWD plans to construct a new 170,000 sq. ft. administration building at an estimated cost of \$40,500,000, in order to consolidate currently leased and scattered offices in one location. The Grand Jury was unable to ascertain what planning parameters had been used to estimate the need for such a building. Before deciding to construct a new building, the District also considered leasing or buying a former IBM office building on Guadalupe Mines Road. Given the glut of commercial office buildings in the County that can now be acquired at advantageous prices, the Grand Jury inquired why the SCVWD did not lease or buy one. The District's answer was that it wanted to consolidate its administrative functions on the Almaden Expressway property, but it was not forthright as to why a less costly existing building elsewhere would not serve its needs.

The SCVWD Board has since reconsidered the size of the planned new Almaden Expressway building and now has under study a facility of 85,000 sq. ft. at an estimated cost of \$18,500,000. A study of plans of this building shows that much of the space is solely for the use of the Board and the Clerk of the Board. After construction of the new building, SCVWD will vacate its Crest and the Blossom Hill Annexes, the latter of which is unused, and will rent both buildings to other tenants. It will also vacate the leased Camden Avenue site.

2. **Debt Refinancing.** On February 8, 1994, the SCVWD Board approved the refinancing of its \$108,000,000 debt. In doing so it followed a process too commonly used by other County and municipal agencies--that of negotiating with a single party rather than of submitting its refinancing to competitive bids. It did, however, adhere to State of California regulations and guidelines for a negotiated sale. The Grand Jury is concerned over the avoidance of competitive bidding.

After the Board approved Public Financial Management, Inc. to manage the refinancing of District indebtedness, it approved the request of SCVWD management to issue a Request for Proposals (RFP) for selection of the managing and co-managing underwriters. Bids were received, and the firm of Paine Webber was selected as managing underwriter and those of Smith Barney Shearson, Inc., and Merrill Lynch & Co. as co-managing underwriters. The Board also authorized the appointment of a minorities-owned enterprise, the Charles A. Bell Securities Corporation, as a co-manager.

The negotiated arrangement with Public Financial Management, Inc., may be a more efficient method of refinancing the SCVWD debt than competitive bidding would have been, but it may not have ob-

tained the best rate of interest and the lowest management fees for the SCVWD. In contrast, competitive bidding would have assured both the SCVWD Board and County taxpayers and rate payers that the refinancing is being conducted on the best possible terms.

Given the SCVWD's existing reserves and the size of its debt, moreover, it might have been of even greater benefit to taxpayers and rate payers if the Board had used funds from its \$107,000,000 reserve to reduce its debt, thus reducing the cost of debt service.

3. **Personnel.** Although SCVWD has a large number of engineers on its payroll, it relies heavily upon consulting contracts with outside engineering firms. The Grand Jury has not made an analysis of the work assignments of SCVWD staff engineers, but it is curious why SCVWD engineers cannot undertake the engineering studies performed by consultants. About 13 percent of the SCVWD annual budget --\$26,000,000--is earmarked for consultants.

#### RECOMMENDATIONS

The Grand Jury recommends to the Santa Clara County Board of Supervisors and the County Executive:

1. That the County limit the number of terms an appointed member of the District Board of Directors may serve, and that an appointee reside in the District of the Supervisor making an appointment.

The Grand Jury recommends to the Board of Directors and the Manager of the Santa Clara County Water District:

2. That they reevaluate plans for a central administration building, in view of their having currently unused space in the Crest and Blossom Hill annexes.

3. That they use competitive bidding in the awarding of contracts, including contracts related to the financing or refinancing of future debt.

4. That they use current financial reserves to reduce SCVWD debt, including the portion owed to the U.S. Bureau of Reclamation that is not in dispute.

5. That they review District use of outside consultants for engineering projects.

6. That, if they decide to build a new office building, they continue with plans for the down-sized 85,000 sq. ft. building.

REFERENCES

SCVWD Operations Consolidation Project, January 1994.

Facility Space Requirements Program for SCVWD, January 11, 1994.

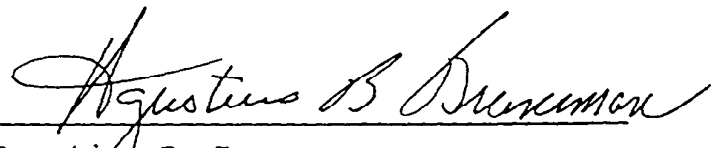
SCVWD Memorandum, May 5, 1993: Economic Evaluation of the Headquarters Expansion Project.

SCVWD Board of Directors Agenda of February 15, 1994: Item 4, Memorandum SCVWD Board of Directors.

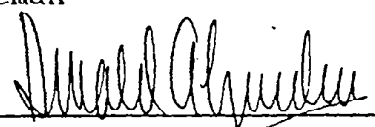
KPMG Peat Marwick Audit: Santa Clara Valley Water District: General Purpose Financial Statements, June 30, 1993.

KPMG Peat Marwick Audit: Water Utility Enterprise of the Santa Clara Valley Water District: Financial Statements with Supplementary Information, June 30, 1993.

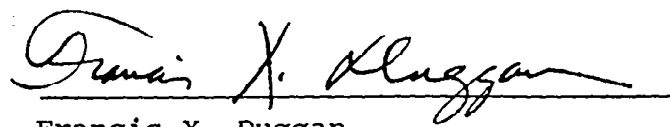
PASSED AND APPROVED by the Santa Clara County Grand Jury this second day of June, 1994.



Augustus B. Bruneman  
Foreman



Donald A. Linden  
Foreman Pro Tem



Francis X. Duggan  
Secretary