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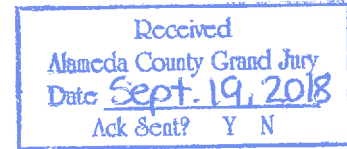
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September 13, 2018

Presiding Judge Wynne Carvill  
Alameda County Superior Court  
1225 Fallon Street, Department One  
Oakland, CA 94612



Dear Judge Carvill:

Subject: Alameda County Water District Response to the 2017-2018 Alameda County Civil Grand Jury Final Report

Pursuant to California Penal Code section 933.05, the Alameda County Water District (ACWD) Board of Directors is required to formally respond to the Alameda County Civil Grand Jury findings and recommendations.

We are pleased the Alameda County Civil Grand Jury (Grand Jury) took the time to understand the complex business of supplying water and the economics behind it. The Grand Jury invested significant time and focus on issues that are important to our community and our customers. As a county water district, we continually strive to provide the best service that we can to our customers and to do so transparently. We welcome the grand jury's findings and recommendations and appreciate its perspective on how we can improve.

This response by the Alameda County Water District was approved by the Board of Directors at its Regular Board Meeting on September 13, 2018, and in accordance with this statutory directive, I am submitting ACWD's responses to each of the Findings and Recommendations contained in the 2017-2018 Grand Jury Final Report before the September 26, 2018 deadline.

The Grand Jury's three Findings and four Recommendations are restated below, followed by ACWD's responses:

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*Finding 18-35: The Alameda County Water District is not sufficiently transparent with its customers about the costs of current employee compensation and retiree benefits, and how these impact rate increases.*

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The Alameda County Water District disagrees with this finding.

ACWD continually strives to provide the best service we can to our customers and to do so transparently. We believe the Grand Jury's own report highlights the extensive work ACWD performs to fulfill this obligation.

The Grand Jury noted that ACWD had significantly increased its public outreach prior to the Board adopting rate increases in February 2017: "In 2016, ACWD hosted a series of seven well-publicized public workshops to discuss ACWD finances, along with their mailing of Proposition 218 notices to the public, their Aqueduct newsletter and general information included with standard water bills." The Grand Jury also recognized that "a concerted effort by ACWD was made to engage the public in the financial and operational status of the water district." ACWD also maintains a list of email addresses of individuals who have submitted requests to be informed of Special Board Meetings and provided advance notice of each Financial Workshop to these interested parties. At these workshops, all of which were special Board meetings conducted in full compliance with the Brown Act and were well-publicized and open to the public, the Board discussed employee compensation and retiree benefits on several occasions.

In keeping with the requirements of Proposition 218, staff prepared and mailed notices to all property owners and customers of record 45 days in advance of the Board meeting, when the District held a public hearing to consider adopting the proposed increases to the water rates. In this notice, ACWD specifically listed a number of general reasons for the proposed increases to the existing water rates, including the needs to "address the significant revenue loss as a result of the drought" and "fund retiree benefit obligations." Cumulatively, these financial issues constituted a much larger need for the proposed rate increase than the 3 percent cost-of-living increase and associated employee benefits employees were slated to receive in 2017.

To accommodate district customers, ACWD chose to include in the protest process an option for customers and property owners to file a protest electronically, by filling out a form located on ACWD's website. The Grand Jury commended ACWD for "allowing customers to protest electronically" and noted that "this option is not required by law but ACWD acknowledged that the online process was more convenient for its customers."

After distributing the Proposition 218 Notice, in an effort to further engage with customers, on January 23, 2017 the ACWD Board and staff held a community informational meeting at the Fremont Main Library, and ACWD staff and Board Members made public presentations to city councils, a senior citizen commission, and several community organizations. In preparation for the February 9, 2017 public hearing on the proposed rate increase, ACWD again issued a press release, posted the information on social media channels, and included information about the proposed rate increase in its newsletter and bill messages.

At the well-attended public hearing, ACWD presented a chart to indicate the percentage of the rate increase revenues attributable to employee compensation and retiree benefits, and to address customer questions on this topic.

Additionally, ACWD provides comprehensive financial documents and transparency information on its website, [www.acwd.org](http://www.acwd.org). All these documents and information were publicly available prior to the February 9, 2017 public hearing, and/or were referred to in several of the financial workshops.

- The District's budget shows expenditures by Cost Center or organizational unit (such as 'Source of Supply' or 'Water Treatment,' as two examples) and by cost element (Labor, Purchased Water, Operating Expenses, etc.) The budget charts that show expenditures by organizational unit include all expenditures for that unit – salaries and benefits for the District staff who work in that area, cost of supplies, etc. This is done to show the true, total cost of these organizational units. It is important that the Board and public understand these true costs of each key element of our operations, and including labor in those calculations is essential. For example, the labor that goes into operating the groundwater basin, managing water supply contracts, and planning for water supply needs is an intrinsic component of providing a source of water supply to the community. We also recognize the need for members of the public to easily understand the impact of overall labor-related costs on their own, which is why we present the information in two different ways.
- Labor costs and projected inflation factors also are included in ACWD's published cost-of-service and rates studies.
- ACWD's labor agreements with its two unions are available on the website, as are the compensation schedules for management, confidential and professional unrepresented employees.

The ACWD Board is pleased that the Grand Jury recognized one of the financial measures that ACWD took that other California entities have been unable to do: "The Grand Jury acknowledges that, unlike most governmental bodies in California, ACWD has budgeted for advanced funding of pension and retiree healthcare liabilities in an effort to fund these over the next 20 years. Making these payments over a 20-year period instead of 30 will save ACWD's ratepayers approximately \$58 million in total payments." The Grand Jury also noted that "funding these liabilities should reduce pressure on water rates in the long run." ACWD was very transparent with its customers about both the costs, and the long-term savings, involved with the advanced funding of pension and retiree healthcare liabilities.

In summary, ACWD believes that it has been transparent with customers about the costs of current employee compensation and retiree benefits, and about how these and other factors impact rate increases. Nevertheless, ACWD always strives to improve and will implement the Grand Jury's recommendation that future discussions of rate issues include a clearer explanation of the role played by labor and pension costs. As explained in ACWD's response to Recommendation 18-33, ACWD has already made some changes to how we track and explain

these expenses, and we will strive to explain even more comprehensively, yet concisely, where ratepayers' dollars are spent in the future.

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*Finding 18-36: Droughts can significantly reduce the revenue of the Alameda County Water District, while the fixed costs of providing quality water remain high.*

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The Alameda County Water District agrees with the finding.

ACWD estimates that overall revenue was negatively impacted by about \$60 million during the drought. And, although ACWD worked to cut costs by reducing staffing levels, deferring capital projects, and cutting operational costs, the Grand Jury is correct in noting "fixed costs (plant, equipment, labor, debt) are about 70-80% of the ACWD budget."

The ACWD Board determined that a significant rate increase was necessary to preserve the sustainability of ACWD's finances and its corresponding ability to continue to provide a reliable supply of high-quality drinking water to the cities of Fremont, Newark, and Union City. The Grand Jury noted "that when consumption is reduced significantly, as it was during the drought, ACWD still has to pay significant fixed costs, while receiving substantially reduced revenue from customers. Therefore, the per-unit cost of water has to go up to balance the budget."

Water districts everywhere face this same economic reality. Significant rate increases were a nearly universal phenomenon for California water agencies in 2017 as revenues dropped significantly as a result of the drought. ACWD was not exempt from this industry-wide phenomenon. Making clean water available at all times involves significant costs regardless of whether that water is used. When less water is used, the district's expenses fall by a relatively small amount, while its revenue falls significantly. We are pleased that the grand jury recognized this important feature of the water industry.

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*Finding 18-37: The Alameda County Water District has provided overly generous salaries and benefits to its employees over the years, even in times of economic downturns.*

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The Alameda County Water District disagrees with this finding.

ACWD does not agree that its salaries and benefits provided to employees have been "overly generous." ACWD considers it vital to attract and retain highly qualified employees for jobs in the challenging Bay Area labor market that are central to protecting public health and the environment. And, although ACWD's average compensation is higher than other water districts in the State, the cost-of-living in ACWD's service area is among the highest in the state as well. The Grand Jury acknowledged that "ACWD employees are entitled to competitive salaries and

benefits,” and ACWD notes that the quality work of its employees help keep ACWD’s rates in the lowest third of the 30 water major utilities in the Bay Area region.

ACWD does agree that its employees received increases in salaries and benefits during the last economic downturn. Just prior to the 2008/09 recession, ACWD entered into a long-term contract with the union with annual cost-of-living adjustments of 4 percent. However, since the expiration of that contract in 2012, ACWD employees have received annual cost-of-living adjustments ranging from 2 to 3 percent from 2013 to 2017, which are within Consumer Price Index increases during that time.

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*Recommendation 18-33: In all future rate increases, the Alameda County Water District must clearly indicate the percentage of the rate increase revenues attributable to labor and benefit expenses.*

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The recommendation has been implemented.

As noted in Finding 18-35, the recommendation was implemented when ACWD provided a chart showing the comprehensive breakdown of percentages of the rate increase attributable to major expense categories, including the portion attributable to labor and benefit expenses during the public hearing when the Board of Directors considered a rate increase in February 2017.

In future proposed rate increases, ACWD will provide similar information as part of its overall outreach prior to the public hearing.

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*Recommendation 18-34: The Alameda County Water District must educate the public about the impact of droughts on ACWD revenues and the agency’s ability to provide quality water and service.*

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This recommendation has been implemented.

The Grand Jury acknowledged that ACWD has significantly increased its public outreach and noted, “A concerted effort by ACWD was made to engage the public in the financial and operational status of the water district.” ACWD has increased staffing levels associated with public outreach and has significantly increased the number of presentations to community groups in the service area. The community remains interested in water rates and ACWD staff regularly educates the public about the impact of droughts on ACWD revenues and the ACWD’s ability to provide quality water and service.

ACWD began posting videos of Financial Workshop meetings on its website in December 2017. During 2018, ACWD has and will continue to convene several Financial Workshops that are open to the public, and video recordings will be available on ACWD's website. One topic of discussion during the workshops will be how droughts and emergency conservation negatively impact water revenues. ACWD also will be holding at least one community information meeting during the upcoming rates process to provide an additional forum for customer engagement and discussion about water rates, how droughts impact revenues, and what it takes to provide quality water and service.

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*Recommendation 18-35: The Alameda County Water District must educate the public on the true nature of the fixed and variable costs, the impact of water conservation on rates, and the components of the water bill received by each household.*

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The recommendation is currently being implemented.

Reference is made to ACWD's responses to Finding 18-35 and Recommendation 18-34. ACWD is providing more detailed information in the current series of rates workshops. Additionally, ACWD will continue to provide information in its Aqueduct newsletter, specific information on Proposition 218 notices and increased community presentations to educate the public over the next year. This creates an opportunity to educate the public on the true nature of the fixed and variable costs, the impact of water conservation on rates, and the components of the water bill received by each household.

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*Recommendation 18-36: When negotiating future compensation for employees, the Alameda County Water District must justify its negotiating position based on salary and benefit data from other Bay Area government agencies, including cities and counties, and should not look exclusively to compensation paid by other water districts.*

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The recommendation will be implemented concurrent with the next round of labor negotiations as described below.

ACWD will begin requesting and compiling benchmarking information for other Bay Area government agencies, including cities and counties, for non-union employees and will meet and confer with labor unions on this issue the next time we begin labor negotiations with represented employees. (ACWD currently is well into the process of negotiations with its two unions, so the timing of future negotiations will not be known until the current process is completed.)


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Again, we at ACWD appreciate the Grand Jury's thorough investigation of these issues, and we share the overall objective of making sure our customers are as well-informed and served as possible. To that end, we will be working on implementing the recommendations that the report outlines and remain committed to providing full transparency and outstanding service for the communities we serve.

Sincerely,



Paul Sethy, President

Alameda County Water District Board of Directors

cc: **Cassie Barner**  
c/o Alameda County Grand Jury  
1401 Lakeside Drive, Suite 1104  
Oakland, CA 94612