



EL DORADO COUNTY GRAND JURY 2022-2023



How Will Grizzly Flats Water District Survive? Case #22-23 GJ04

June 30, 2023

GLOSSARY

BOS	El Dorado County Board of Supervisors
CalOES	California Office of Emergency Services
FEMA	Federal Emergency Management Agency
GFCSD	Grizzly Flats Community Services District
Grand Jury	2022-2023 El Dorado County Civil Grand Jury
LAFCO	Local Agency Formation Commission
MSR/SOI	"Municipal Service Review and Sphere of Influence Update," September 28, 2022 (LAFCO)

DEFINITIONS

Proposition 218	Proposition 218 gave taxpayers the right to vote on all local taxes and requires taxpayer approval of property related assessments and fees.
Ordinance 88-1	Grizzly Flats Community Services District "CONDITIONS FOR WATER SERVICE ORDINANCE No. 88-1"
Standby Assessment	"Standby Assessment" is a monthly charge per parcel that is placed in the same ledger as the Capital Connection Fee and dedicated to capital improvements, since those improvements also improve system reliability for all users.
Volumetric Rate	\$1.20 per hundred cubic feet (748 gallons). [http://grizzlyflatscsd.com/wp-content/uploads/2011/12/New_Customer_Information_GFCSD_July_20201.pdf]
Water Service Rate	Following Proposition 218 requirements (California Constitution Articles XIII C and XIII D); the Board of Directors shall establish residential and commercial water rates. Those rates will be determined by a Cost of Services Study. The water service rate will include both a base rate and a volumetric rate. The base rate is charged to all customers who have a service connection and is determined by the GFCSD's fixed costs (currently \$68.97 monthly). The volumetric rate is the charge for the actual amount of water used and is determined by the GFCSD's variable costs.



Photo by Andrew Nixon / CapRa

How Will Grizzly Flats Water District Survive?

El Dorado County 2022-2023 Grand Jury

Case #22-23 GJ04



SUMMARY

A catastrophic fire in August 2021 devastated Grizzly Flats in El Dorado County (EDC). Homes, businesses, and vital services were destroyed. Infrastructure was seriously damaged and the limited financial resources available to help rebuild are difficult to secure. The cost to remove dead and dying trees along with rebuilding will run into millions of dollars. Outside funding will be necessary to rebuild Grizzly Flats.

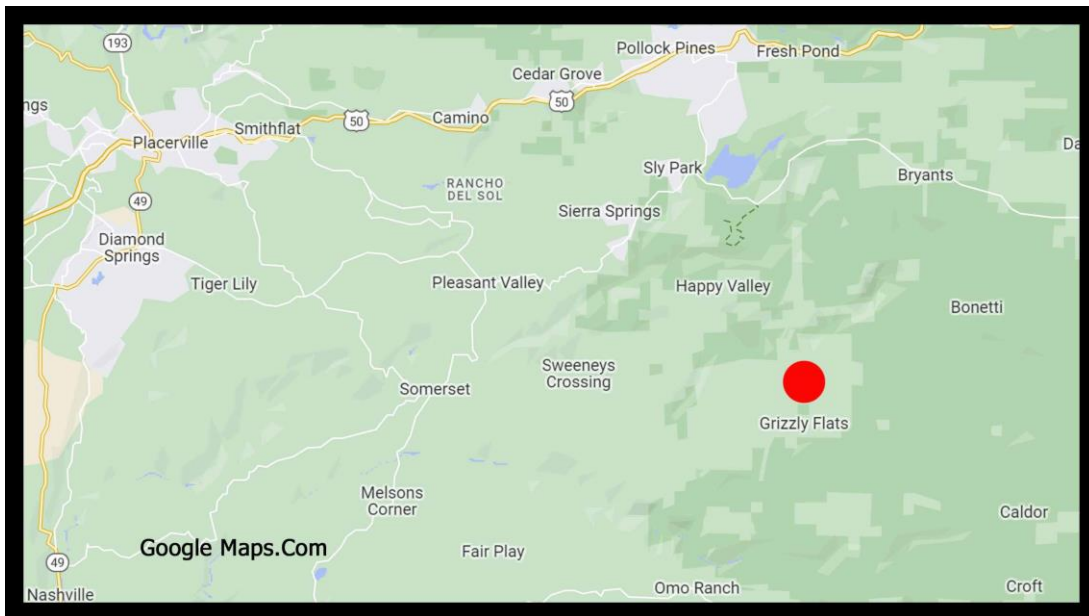
The lack of a contingency plan after the Caldor Fire emergency impacted the communications between GFCSD and EDC, State, and Federal agencies.

The EDC Civil Grand Jury (Grand Jury) investigated the Grizzly Flats Community Services District (GFCSD) due to complaints made to the Grand Jury and articles published in the local newspaper. Residents, whose homes were destroyed by fire and no longer residing on their respective parcels, were still receiving monthly water service bills per their terms of service.

The Grand Jury found that Grizzly Flats water, volumetric, and service rates are guided by Ordinance No. 88-1, known as "Conditions for Water Service" adopted by the GFCSD in September of 1988. Additionally, rates are governed under California law by Proposition 218, which makes it illegal for GFCSD to alter the terms of service without approval of the parcel owners.

The GFCSD is currently losing \$11,000 monthly due to a loss of overall revenue from customers and will need to increase water rates to support continued operations and to remain solvent.

BACKGROUND

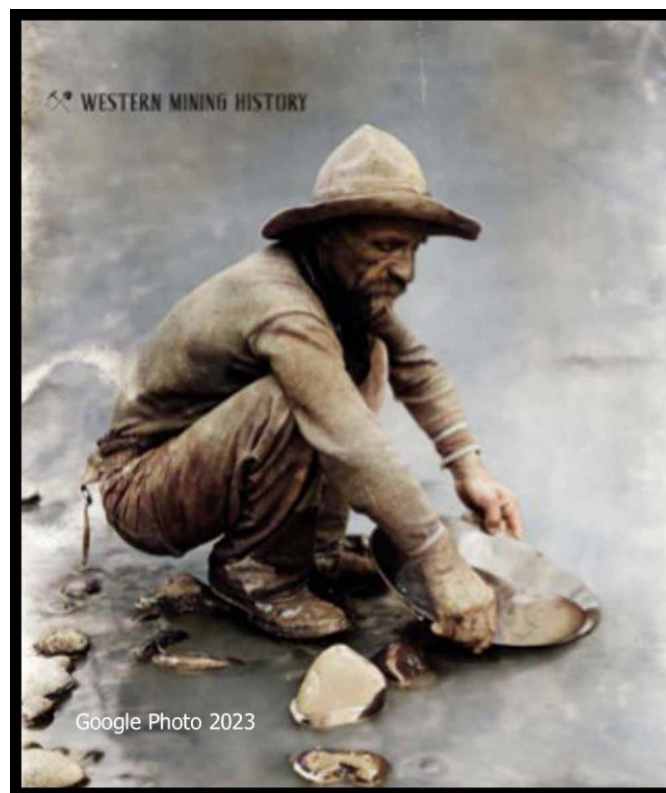


History

Grizzly Flats is located 27 miles southeast of Placerville, between the North and Middle Forks of the Cosumnes River. Positioned in rough and wooded terrain at an elevation of nearly 4,000 feet, Grizzly Flats grew due to the quartz and hydraulic gold mining along the Cosumnes River.

Grizzly Flats has a long history. The name Grizzly Flats came about when L. L. “Buck” Ramsey arrived in 1850 to prospect for gold. While eating the evening meal, Buck and his fellow prospectors were surprised by the arrival of a grizzly bear. After this encounter, the men named their camp Grizzly Flats.

The Grizzly Flats streams were mined during the California Gold Rush. There was substantial activity using both lode and placer mining techniques for well over 100 years. Lode mining is accomplished by tunneling and placer mining uses the panning system. Mining activities increased during the 1930s.



Due to the discovery of gold, the area grew quickly, and the first post office opened on August 31, 1855. While many men came for gold, they stayed for the logging. Grizzly Flats was central to a prosperous logging industry also known as “green gold”. By 1857, there were two sawmills in operation. Mountain School was built in 1858 and by 1880, there was a population of 837. The water system in Grizzly Flats is one of the earliest established water services in the State of California.

Grizzly Flats Water Services

The water system was at one time a privately-owned company, Grizzly Park Water Company. The district obtains its water supply by the diversion of stream flows from North Canyon and Big Canyon Creeks, tributaries to the North Fork Cosumnes River. Surface water flows are diverted through the Eagle Ditch pipeline and are pursuant to water rights dating back to the 1850s. In 1987, ownership of the Grizzly Park Water Company was transferred to the newly formed GFCSD, which became responsible for operations.

Present

Prior to the Caldor Fire, the 2010 United States Census reported that Grizzly Flats had a population of 1,066. The population density was 160.8 inhabitants per square mile, defining this as a sparsely populated area.



On Saturday, August 14, 2021, the Caldor Fire started east of Omo Ranch and south of Grizzly Flats. The fire was not fully contained until Thursday, October 21, 2021. Ultimately, the Caldor Fire burned 221,835 acres in the El Dorado National Forest and other areas of the Sierra Nevada in El Dorado County. In total, the fire destroyed 1,003 structures and damaged 81 more along the US Highway 50 corridor. Two-thirds of the GFCSD structures on developed parcels were destroyed by the fire including the local post office, elementary school, library, fire department, and community church.



The Caldor Fire inflicted extensive damage to the GFCSD water collection, processing, and delivery infrastructure. The GFCSD officials and employees reacted quickly to this disaster, despite the extremely dangerous conditions, and were able to persevere and continue to deliver water services to Grizzly Flats. The treatment plant was saved, potable water was being produced, and water to fight the fire remained available.

While several GFCSD employees were dealing with the loss of their own homes and property, the dedicated people of GFCSD continued to manage water operations to the best of their abilities. Repairs began immediately and continue as of the date of this report.

METHODOLOGY

Interviews

- Interviewed elected EDC officials;
- Interviewed an official of the El Dorado County Water Agency;
- Interviewed employees and officials of GFCSD; and
- Attended GFCSD Board meetings remotely.

Documents Reviewed

- Historical data on Grizzly Park Water Company;
- Background on formation of GFCSD water services;
- GFCSD financial data for the past five years;
- The September 2022 “Municipal Service Review and Sphere of Influence Update” (MSR/SOI);
- District Emergency Procedures (GFCSD), updated 1/9/20;
- GFCSD “Conditions for Water Service Ordinance No. 88-1” ([Ordinance 88-1 Updated May 12 20221.pdf \(grizzlyflatscsd.com\)](#)); and
- GFCSD Board Minutes and Agendas (10/2021-3/2023).

Location Inspections

- Conducted site visit of Grizzly Flats water facilities and surroundings (April 2023).

DISCUSSION

GFCSD contains 1,220 total parcels, 598 of which are undeveloped. Prior to the Caldor Fire, 622 developed parcels were paying for water service.

During the period of the Grand Jury’s investigation, 465 of the 622 developed parcels continued paying for water service. Of the remaining 157 parcels lost during the fire, 98 parcels are being billed for water service, but the parcel owners are not paying. Fifty-nine (59) parcels are not being billed due to lost water connections (i.e., burned, broken, or buried water meters). These damaged connections are scheduled to be repaired by October 2023, at which time, billing will be reinstated.

During our investigation, the grand jury learned that many of the 98 parcel owners with an active water connection complained about receiving bills for a water service that is not being used at a burned-out property. In many cases, with no plans to rebuild, the parcel owners may never use water services again.

Water Rates

Terms for water service are fixed by local ordinance “Conditions for Water Service Ordinance No. 88-1” adopted by the GFCSD parcel owners in September of 1988. Upon purchase of a parcel, the title holder on a property within the district “...is directly liable for satisfying all obligations to the district as established by Ordinance 88-1.” Once a water connection is established for a parcel, the GFCSD policy does not allow the parcel owner to disconnect from water services. Changing Ordinance 88-1 will require a new Proposition 218. It is important to note that water bills are attached to the individual parcels, not the owners. Ultimately, past-due bills continue to accrue on a tax lien filed against the property for future collection.

There is a GFCSD policy to transfer service liens to the County tax roll every July 1. According to GFCSD, penalties are charged prior to a tax lien being filed. Water billing statements are dated on the last day of each month and shall be due on the 15th of the following month. A five-day grace period is allowed. Bills are considered past due on the 21st. If an account balance exceeds \$5.00 on the 21st of the following month, a 10% late charge is assessed for that account. If there are more than two months of unpaid charges on the customer’s account, they receive a second-tier late charge for the 10% of the current balance and 1% of the past due balance. Upon parcel transfer of ownership, the tax lien can be satisfied, and any outstanding fees owed to GFCSD will be collected at that time if included in the purchase and sale escrow. GFCSD should make arrangements with the Assessor’s office to be notified when a parcel changes ownership so the new address can be updated. Currently the GFCSD is notified of an ownership change every six (6) months.

Water Fees

GFCSD has the singular responsibility to provide water services to Grizzly Flats parcel owners. Parcel water fees are governed by the State under the “Community Services District Law (Government Code Section 61000 – 61850).” Rates may be neither lowered nor raised without a new ordinance as required by Proposition 218. Presently, there are 598 undeveloped parcels.

There are three ways the GFCSD produces revenues: water standby/availability fees, monthly connection fees and a volumetric rate based on water usage.

Under the California Government Code, GFCSD has set the water standby or availability fee not to exceed \$48 per year or four dollars (\$4) per month. This fee is levied on all 1,220 parcels whether developed or undeveloped. These fees are not unusual and provide the base revenue for capital improvement water projects and cannot be changed because of the above government code section.

Prior to the Caldor Fire, 622 developed parcels of the total 1,220 parcels in the community were paying the minimum connection rate of \$68.97 monthly and an additional volumetric rate based on water usage.

From the September 2022 MSR/SOI, the total rate and fee income for FY 2019 water services generated approximately \$550,000 annually, which supported water district operations. The GFCSD staff consisted of six employees: an office facilitator; an Assistant General Manager; a General Manager and three field technicians. The GFCSD was structured to break even (MSR/SOI, page 43-44). Now, after the fire, the finances of the district are in peril due to fewer billable parcels. The GFCSD is currently losing about \$11,000 per month, which represents approximately 24% of their annual revenue. Information from the Board indicates that the GFCSD will face insolvency by August 2027.

To avoid insolvency, the rates must be increased by following the process outlined in Proposition 218. The GFCSD initiated the process by hiring a consultant in March 2023. The requirements to successfully complete the proposition process are expensive, time-consuming, and will take well into 2024 to be completed, and approved by rate payers.

Water Infrastructure

The fire destroyed approximately 646 residences in Grizzly Flats (ABC 10 News, November 4, 2021). The GFCSD infrastructure was damaged by

heat and falling trees. The local utility company created a Community Wildfire Safety Program in September 2021, which includes burying power lines underground. GFCSD had a dated map of the underground water delivery infrastructure. As a result of burying the power lines, the local utility company inadvertently cut or damaged some existing water lines and pipes to properties. This has become an additional burden on GFCSD to repair the damage.



Any rebuilding in Grizzly Flats must meet State requirements for new construction. Residential sprinkler systems are one of the newer requirements. This will require larger diameter pipes from the GFCSD main water line to the residences (typically ½” increasing to 1”), without decreasing water pressure, and adding expense to the parcel. Additionally, there is a requirement for solar panels on every new or rebuilt structure. These new requirements further impact the cost of rebuilding burned out structures. The County has asked the State to waive these requirements, but no decision was reached before this report was published.

Communications

Prior to the Caldor Fire, the GFCSD employees followed the District Emergency Procedure Policy. The Grand Jury discovered gaps in this plan. It does not address a disaster such as the Caldor Fire. The Grand Jury found that there was no contingency plan implemented which resulted in a disconnect in communication. This negatively impacted effective communication and coordination between GFCSD and the EDC Board of Supervisors, the El Dorado Water Agency, FEMA, and CalOES. This gap further resulted in the delay of receiving critical disaster funding until the El Dorado Water Agency stepped in to assist in the process.

Outside Funding Resources

The Grand Jury discovered that the GFCSD lacked the resources to pursue available funding sources, such as State and federal grants, community charities, disaster relief funds, and any future opportunities. At the time of this report's publication, the Grand Jury is aware that GFCSD is likely to be receiving funding from outside sources within the coming fiscal year. Although future funding may be obtained by the GFCSD, this does not alter any of the Grand Jury's recommendations.

Conclusion

The Caldor Fire has fundamentally changed the Grizzly Flats community. GFCSD is likely to have fewer customers going forward for years and may never return to the level of operations that existed before the fire. The GFCSD based its revenue on the assumption that 622 parcels would be paying the monthly base rate plus volumetric usage. The loss of volumetric revenue results in approximately \$11,000 less revenue each month and the GFCSD is headed toward insolvency. The GFCSD must take into consideration the loss of two thirds of developed parcels that are no longer using water and must reconfigure rates in accordance with the requirements of Proposition 218 to survive. How GFCSD will upgrade the water service infrastructure to meet current residential and commercial building requirements for new structures' sprinkler system remains an open issue.

FINDINGS

- F1 The absence of a contingency plan resulted in delays in communication between the GFCSD and EDC, State, and Federal agencies which delayed emergency funding.
- F2 GFCSD is notified of a change in ownership of a parcel by the Assessor's Office every six (6) months.
- F3 A tax lien is placed on the parcel if the water service bill goes unpaid.
- F4 Every parcel with a water connection, as defined within the GFCSD Ordinance 88-1, will be billed for water service.
- F5 With the loss of two thirds of GFCSD structures, the existing water service rate is inadequate to meet the current revenue needs for the GFCSD.
- F6 Without an increase in revenue, the GFCSD will face insolvency by August 2027.
- F7 Damage to water lines by the local utility company while undergrounding electrical lines could have been minimized if an up-to-date subdivision parcel map of the water infrastructure existed.
- F8 The GFCSD lacked the resources to pursue available funding sources.
- F9 There is no published contingency plan in the event that the GFCSD becomes insolvent.

RECOMMENDATIONS

- R1 The GFCSD Board should develop a post Caldor Fire contingency plan to facilitate coordination and communication with the EDC Board of Supervisors, the El Dorado Water Agency, FEMA, CalOES and other agencies, as needed. This should be accomplished by December 31, 2023.

- R2 GFCSD Board should request the Assessor's office provide an update on sales of Grizzly Flats parcels to GFCSD quarterly. This should be accomplished by December 31, 2023.
- R3 In order to avoid insolvency, the GFCSD should pursue a new rate structure and approve it pursuant to the Proposition 218 process. This should be accomplished by June 30, 2024.
- R4 Once the Proposition 218 process is complete and a new rate structure is in place, the GFCSD should hire a licensed civil engineering firm to create an accurate water service infrastructure map. This should be accomplished by June 30, 2024.
- R5 The EDC Board of Supervisors should assign a dedicated resource for a six-month period to seek out and apply for grants from local, State and Federal sources, in assistance to the GFCSD. This should be accomplished by June 30, 2024.
- R6 The EDC BOS should develop, in conjunction with the GFCSD, a contingency plan should the GFCSD become insolvent. This should be accomplished by December 31, 2023.

REQUEST FOR RESPONSES

The following responses are required pursuant to Penal Code §933 and §933.05:

From the following individuals:

- GFCSD Board Chairperson
 - Findings: F1, F2, F3, F4, F5, F6, F7, F8, F9
 - Recommendations: R1, R2, R3, R4

From the following governing body:

- El Dorado County Board of Supervisors
 - Findings: F9
 - Recommendations: R5, R6