

M E M O

TO: Board of Directors

FROM: District Manager

SUBJECT: Amendment of Ordinance 8, Article 16, Regarding
Account Security Deposits

DATE: September 1, 2006

RECOMMENDATION:

It is recommended that the Board of Directors review this memo, conduct a Public Hearing regarding the subject matter and approve the attached ordinance which amends the District's policies regarding the accrual of interest on water account security deposits.

BACKGROUND:

District Ordinance No. 8 adopted July 13, 1970, established charge, rules and regulations for the sale, use and distribution of water. District Ordinance No. 8 is generally known and cited as the San Lorenzo Valley Water District Rules and Regulations. Article 16.405(a) required all applicants for water service to provide a non-refundable account establishment deposit in the sum of \$75.00. Account deposits are held until the property is transferred, at which time the deposit is applied to the closing bill. Deposits held by the District bear interest at the rate of 5 1/2% per annum.

District Ordinance No. 86, adopted June 25, 1992 amended the District's policies regarding customer deposits. See Attachment 1. Ordinance No. 86 provided for a waiver of the required deposit through establishment of credit worthiness of an applicant. Ordinance No. 86 still provided for the accrual of interest at the rate of 5 1/2% per annum on deposits held by the District.

Currently, the District is holding approximately 3,100 customer deposits. The aggregate sum of deposits held by the District is approximately \$210,000.00. This sum does not include accrued interest. The District has no designated reserves associated with the liabilities for accrued interest on customer account deposits. The District has deposits on file which date back to 1980.

The Financial Committee (Directors Prather, Rapoza and Vierra) discussed the subject of customer account deposits on June 21, 2006 and July 11, 2006. The Finance Committee recommended that the District consider amendments to its policies regarding customer account deposits. The Finance Committee directed staff to draft amendments to District policies which would implement the following revisions:

- 1) Terminate the accrual of interest on all customer deposits held by the District. This revision to include both deposits currently on file with the District and all new deposits received by the District.
- 2) Provide for the automatic refund of customer deposits after one (1) year of service, providing water service has not been turned off or disconnected for non-payment or violations of District rules and regulations.
- 3) Provide for the refund of customer deposits by application of the deposit to the customer's account.

District staff has drafted amendments to Ordinance No. 8 which would implement the Finance Committee's recommended revisions to the District's policies regarding customer deposits. All other provisions of Ordinance No. 8 would remain in effect. On August 23, 2006 the District published a Notice of Public Hearing regarding this matter. See Attachment 2.

It is recommended that the Board of Directors review this memo, conduct a Public Hearing regarding the subject matter and approve the attached ordinance which amends the District's policies regarding the accrual of interest on water account security deposits.

James A. Mueller
District Manager

JAM/bsb
Attachments