

Mailed:  
9/9/96

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation into the Commission's own  
 motion into whether the Greenbelt Water  
 Company, Inc., is unable or unwilling to  
 serve its ratepayers, is incapable of  
 financial management, or is  
 unresponsive to the rules, orders, and  
 decisions of the Commission. Order to  
 Show Cause why Greenbelt Water Company,  
 and its officers and directors,  
 John S. Cavanaugh and Evelyn  
 Cavanaugh, should not be fined  
 for failure to comply with Commission  
 rules, orders, and decisions. Order to  
 Show Cause why the Commission should  
 not request the Superior Court to  
 appoint a receiver to operate Greenbelt  
 Water Company, Inc. in order to  
 preserve and maintain the water system  
 and meet its financial obligations.

ORIGINAL

F I L E D  
 PUBLIC UTILITIES COMMISSION  
 SEPTEMBER 4, 1996  
 SAN FRANCISCO OFFICE  
 I.96-09-002

ORDER INSTITUTING INVESTIGATION AND  
ORDER TO SHOW CAUSE

INTRODUCTION

The California Public Utilities Commission (Commission) regulates water companies pursuant to the California Constitution, Article XII, Public Utilities Code Sections 701 and 2701 et seq., and General Order (G.O.) 103. Statutory law and Commission orders require water companies under the jurisdiction of the Commission to use good public utility practices, and to encourage efficiency and economy in the operation of waterworks facilities.

Regulatory History Of Greenbelt Water Company, Inc.

By Decision (D.) 77059 issued April 7, 1970 in Case (C.) 8967, the Commission found Mr. and Mrs. John Cavanaugh to be operating a public utility. D.91980 recognized the formation of

Greenbelt Water Company, Inc. (Greenbelt) by the Cavanaugh's. John S. Cavanaugh is the president of Greenbelt, and its registered agent for service of process. Evelyn Cavanaugh is the secretary and treasurer of the corporation. Greenbelt's office is at 200 Madrone Avenue, Ben Lomand, CA 95005. Greenbelt provides water service in an area east of Aptos, California in Santa Cruz County.

Greenbelt's service and financial dealings were at issue even before its incorporation. (See In the Matter of the Application of John S. Cavanaugh and Evelyn Cavanaugh dba Hillview #6 Water Co., (1972) 74 CPUC 650, D.80999; Becky Steinbruner et a. v. Greenbelt Water Company (1994) 54 CPUC 2d 438; D.94-05-023.)

Concerns about Greenbelt's current operations and financial dealings have prompted this OII.

#### Safe Drinking Water Bond Act Loan

In 1980, Greenbelt served approximately 73 customers from an aged, decaying water system. At that time, the Cavanaugh's requested and were granted a Safe Drinking Water Bond Act (SDWBA) loan from the California Department of Water Resources (DWR). By D. 82-07-113, the Commission approved a 35-year loan to Greenbelt Water Company, Inc. of \$128,440 and a commensurate surcharge on all water customers' bills.

In July of 1994, DWR alerted the Commission that Greenbelt was delinquent in the repayment of the SDWBA loan. At that time, Greenbelt had missed three semi-annual loan payments for a total delinquency of \$18,052.96. In addition, utility customers began to inquire about payment of the surcharge to Greenbelt and Greenbelt's repayment of the loan to DWR.

#### The Investigation

Staff Auditors from the Commission Advisory and Compliance Division made a preliminary investigation into the DWR allegations and issued letters to Greenbelt on January 31, April

11 and April 26, 1996 outlining their conclusions. Staff concluded that Greenbelt was delinquent by \$54,358 in payments to its SDWBA reserve account. Staff also encountered numerous violations of Commission orders and procedures, including failure to maintain an account with the fiscal agent for deposit of surcharge revenues (until Commission staff helped establish such an account in April of 1996) and failure to keep accounts in accordance with the Uniform System of Accounts. (See Declaration of Sue Wong and attachments.)

In its letter of April 26, 1996 to John Cavanaugh, Commission Staff described Greenbelt's response to these allegations. Greenbelt made commitments to forward bank statements, file delinquent annual reports, sell certain real property to customers and others and begin to keep records of its revenues and expenditures. As of the date of this Order, Commission Staff is unaware of any action by Greenbelt to meet these agreements.

The attached declaration of Sue Wong demonstrates that through March 1996, there is a \$54,358 deficiency in the SDWBA account funds; furthermore, Greenbelt may have underreported its surcharge collections by 11.77% in its cash receipt books for 1992 and 1993 and currently maintains no accounting system. DWR has a lien for \$128,440 on Greenbelt property. The lien was recorded December 21, 1982. Finally, Ms. Wong declares that the Cavanaugh's have physical disabilities, as Mr. Cavanaugh is blind and Mrs. Cavanaugh can only answer yes-no questions as a result of a stroke.

On June 20, 1996, Staff Engineer Tom Smegal made a field investigation of Greenbelt's facilities and met with its designated operator, Mr. Mike Mills, a customer of the utility who has voluntarily been maintaining the system for several years. Staff noted that one of the two main storage tanks is rusted and sagging. Staff believes this to be an imminent danger to the drinking water supply and to fire flow. Mr. Mills further indicated that while he volunteers his time, Greenbelt owes him

approximately \$3,500 for materials and supplies and makes almost no money available for system maintenance.

Staff also met on June 20, 1996 with Opal McAllister, who now does the billing of Greenbelt's customers for the Cavanaugh's. She indicated some customers have not paid bills in several years because they have lost trust in the water system owners; some customers were withholding the Safe Drinking Water Surcharge and have attempted to send the surcharge payments directly to DWR. Ms. McAllister has since informed Staff that Mr. Cavanaugh has only recently permitted her to deposit surcharge revenue directly with the fiscal agent. Mr. Mills and Ms. McAllister confirm that both owners of the system have physical disabilities.

#### Discussion

The Commission has broad powers to supervise and regulate every public utility in the state, and may do all things "necessary and convenient" in the exercise of its power and jurisdiction. (Public Utilities Code Sec. 701.) Included among its powers is the power to impose fines of up to \$20,000 per offense for violations of Commission rules, orders or directions. (Public Utilities Code Sec. 2107.) Where the violations are ongoing, each day they continue is a separate and distinct offense. (Public Utilities Code Sec. 2108.)

In the case of water utilities, the Commission also has the power to petition the superior court of the county in which a water system has its place of business for the appointment of a receiver. (Public Utilities Code Sec. 855.) The Commission may seek receivership if it determines that a water system or corporation "is unable or unwilling to adequately serve its ratepayers, or has been actually or effectively abandoned by its owners or is unresponsive to the rules or orders of the Commission." (Id.) From the allegations contained in the declarations of the staff, it appears that Greenbelt Water Co., Inc. and its owners may be unable to provide adequate service to

its ratepayers, may have, through neglect, effectively abandoned the system, and are unresponsive to Commission orders.

The declarations of the staff allege repeated violations of the Commission's 1982 order to "establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue." (See In the Matter of the Application of the Greenbelt Water Company (1982) D.82-07-113, mimeo p. 18, Ordering Paragraph 3.) Until recently, Greenbelt also appears to have ignored Commission orders to establish and maintain an account with a fiscal agent for deposit of the surcharge collected to repay the SDWBA loan. (Id. at p. 18, Ordering Paragraph 6.)

Greenbelt's operation does not appear to "promote good public utility practices, [or] encourage efficiency and economy" in that there seems to be no money made available for maintenance of the system. (See G.O. 103, p.5.) In particular, the allegation that one of Greenbelt's two storage tanks is rusted and sagging suggests that the drinking water supply and fire flow are in imminent danger of failure. Little or nothing has been done by the corporation or its officers to maintain the system or hire others to do so.

Greenbelt does not seem able to meet even the minimum of financial reporting requirements either. Greenbelt has not filed annual reports with the Commission for the years 1993, 1994 or 1995; Greenbelt did not pay its Public Utilities Commission fees in 1994 and 1995; and despite a specific order from the Commission in 1994, Greenbelt apparently still does not maintain its books of account in compliance with the Uniform System of Accounts.

For all these reasons we find there is good cause to believe that this utility is operating in a way that violates Commission rules, orders and decisions and which threatens essential services. In view of the allegations in the Staff's declarations, this Commission institutes this investigation to determine whether Greenbelt Water Company, Inc. is unable or

unwilling to serve its ratepayers, is incapable of financial management, or is unresponsive to Commission rules, orders and decisions. We also issue an order to Greenbelt to show cause why it should not be fined for failure to comply with Commission rules, orders and decisions, and why the Commission should not request the Superior Court to appoint a receiver to operate the Greenbelt Water Company, Inc. to preserve and maintain the water system and meet its financial obligations.

IT IS ORDERED that:

1. An investigation on the Commission's own motion is instituted into the operations and practices of the respondent, Greenbelt Water Company, Inc. to determine whether:
  - a. Respondent water company, its officers or directors, or any individual with an ownership interest or anyone in its paid employ is competent to operate a water system or conduct normal maintenance of a water system,
  - b. the funds collected by Respondents in rates are being used for maintenance of the system,
  - c. Respondents are making necessary and prudent repairs to the water system.
  - d. Respondents are in violation of Commission orders to maintain its books of account in compliance with the Uniform System of Accounts, collect and deposit with a fiscal agent surcharges from customers for the repayment of the Safe Drinking Water Bond Act Loan and to maintain a balancing account tracking payments and interest earned upon those deposits, and
  - e. Respondents have failed to remit surcharge revenues of \$54,358 to repay the Safe Drinking Water Bond Act loan.
  - f. Respondents are in violation of provisions of the Public Utilities Code and Commission rules and orders by failing to file Annual Financial Reports in 1993, 1994, and 1995, failing to remit PUC surcharges in 1994 and 1995, and misstating income in its books of account for 1992 and 1993.
2. Pending further order of the Commission, and within five business days of service of this order on Greenbelt Water

Company, Inc., Respondents are hereby ordered to remit any and all Safe Drinking Water Bond Act loan surcharge payments to the fiscal agent within 30 days following receipt from the customer.

3. Respondents are put on notice that, unless they show cause to the contrary, Greenbelt Water Company; its officers and directors may be ordered to repay the surcharge revenues of \$54,358 to the fiscal agent.

4. Respondents are put on notice that, unless they show cause to the contrary, Greenbelt Water Company, Inc. and its officers and directors may be fined to the full extent permitted by the Public Utilities Code.

5. Respondents are put on notice that, unless they show cause to the contrary, and in addition to the fines permitted by the Public Utilities Code, the Commission may petition the Superior Court to appoint a receiver to operate Greenbelt Water Company, Inc. to preserve and maintain the water system and meet its financial obligations.

6. An evidentiary hearing shall be held to allow Respondents an opportunity to appear and show cause why the order entered today in paragraph 2 should not be permanent, why Greenbelt and its officers and directors should not be, pursuant to Public Utilities Code Sections 701, 2107, and 2108 fined for their failure to comply with Commission rules and orders, why Greenbelt and its officers and directors should not make whole the Safe Drinking Water Bond Act Surcharge account, and why the Commission should not proceed to petition the Santa Cruz County Superior Court under the authority granted by Public Utilities Code Code Section 855 to appoint a receiver to take possession of the company and to operate the company to assure water service to Greenbelt's customers and to assure funds generated by water service revenues are used in direct benefit of the water system.

7. A pre-hearing conference shall be held prior to the evidentiary hearing for the purpose of determining if staff has additional evidence to advance, setting a schedule for the

exchange of written testimony, and to address any discovery issues.

The Executive Director shall cause a certified copy of this order to be personally served upon Respondent's agent for service of process, John S. Cavanaugh, 200 Madrone Avenue, Ben Lomand, CA 95005.

This order is effective today.

Dated September 4, 1996, at San Francisco, California.

DANIEL Wm. FESSLER  
JESSIE J. KNIGHT, JR.  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
Commissioners

President P. Gregory Conlon,  
being necessarily absent  
did not participate.



## 1 CALIFORNIA PUBLIC UTILITIES COMMISSION

2  
3 Water Division

4 505 Van Ness Ave

5 San Francisco, CA 94102

6  
7 DECLARATION OF TOM SMEGAL8 Investigation of Greenbelt Water Company, Inc.

9  
10 I, Tom Smegal, declare that I am a Registered Civil Engineer employed as an  
11 Assistant Utilities Engineer by the California Public Utilities Commission (CPUC),  
12 Water Division. I am assigned to the Small Water Utilities Branch. I further declare that  
13 I have personal knowledge of the facts contained herein and if called as a witness could  
14 competently testify thereto regarding the following:

15  
16  
17 Introduction

18 In June 1995, Art Jarrett, Senior Utilities Engineer, Small Water Utilities Branch,  
19 assigned me to follow up the work of Sue Wong in the Auditing Branch by conducting an  
20 operational investigation of Greenbelt. We had received information as part of the audit  
21 that Mr. and Mrs. John Cavanaugh had lost the ability to run a water system because of  
22 failing health. I made a preliminary investigation of Greenbelt's operation by examining  
23 records held at the Commission, reviewing customer correspondence, and making a field  
24 investigation of the system.

25  
26 Historical Background

27 a) I was the lead analyst in C. 91-09-057 and at that time investigated the sales of  
28 property, accounting records, and operations of Greenbelt. I observed that Greenbelt did  
29 not maintain adequate records, had violated Commission Orders to set up and contribute  
30 to a custodial account for plant improvement, and had no accounting system.

1           b) In that Case, my report recommended Greenbelt be ordered to keep adequate  
2 records and maintain its books of account in accordance with the uniform system of  
3 accounts.

4  
5  
6   Records Search

7           In my current investigation at the Commission, I concluded that

- 8   a) Greenbelt had not filed its Annual Reports with the Commission for the years 1993,  
9   1994, and 1995, and  
10 b) Greenbelt had not paid its Public Utilities Commission Fee in 1994 and 1995.

11  
12  
13   Field Investigation

14           I visited the Greenbelt service area on June 20, 1996. I met Mike Mills, a  
15 customer of the water system, at his office in Aptos. Mr. Mills is a general contractor  
16 who has, from time to time, operated the water system. I also met Opal McAllister, Mr.  
17 Mills office manager, who had recently taken over the bill collection duties of the water  
18 system.

19           Mr. Mills conducted a tour of the water system, which lies in a hilly area east of  
20 Aptos. I observed facilities that Mr. Mills repaired, including main leaks and the well  
21 pump electrical system. I also observed the two system storage tanks and noted that the  
22 tank installed prior to the Safe Drinking Water Bond Act loan was rusted and sagging.  
23 Several leaks were evident. In my opinion, the tank is in danger of bursting in the near  
24 future due to stress. Mr. Mills explained that failure of this tank would have a serious  
25 effect on the system fire flows and would reduce operating pressures for many customers  
26 below the standard set in General Order 103.

27           Mr. Mills also indicated to me that while he volunteers his time, Greenbelt owes  
28 him approximately \$3,500 for materials and supplies. He said Greenbelt had recently  
29 paid \$500, but that was the first reimbursement he had received in some time. He said no

1 other money had gone into system maintenance, and that much noncritical maintenance  
2 had been delayed or ignored entirely.

3 In addition, I had a conversation that day with Mr. Mills and Ms. McAllister about  
4 Mr. and Mrs. John Cavanaugh, owners of Greenbelt. Both Mr. Mills and Ms. McAllister  
5 reiterated that the Cavanaugh's are physically unable to perform water company related  
6 duties. Ms. McAllister, who had taken over billing duties that month, claimed that many  
7 customers had not been billed for extended periods, and that meters were not read.

8 She further indicated that some customers no longer trusted the Cavanaugh's with  
9 their bill payments, and had attempted to pay the SDWBA loan surcharge directly to  
10 DWR. Others, she said, withheld payment entirely.

11 Ms. McAllister also described her interaction with John Cavanaugh after  
12 collection of the first bills. She had collected both the water bill and the surcharge and  
13 was prepared to deposit the surcharge in the fiscal account. John Cavanaugh, however,  
14 told her to send all the money to him. She said she asked if she could send an accounting  
15 of the surcharge money with the deposit, but he refused. However, she indicated to me  
16 that she retained a record of the surcharge collected.

17 In a further conversation with Ms. McAllister on August 13, 1996, she explained  
18 that Mr. Cavanaugh had, within the past week, agreed to add her signature to the  
19 Greenbelt Account so she could write the monthly check to the loan repayment account.

20

21 I hereby declare under penalty of perjury that the foregoing is true and correct.

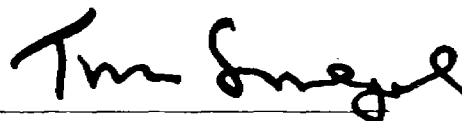
22

23 Dated this 14th day of August, 1996 at San Francisco, California

24

25

26



Tom Smegal

## CALIFORNIA PUBLIC UTILITIES COMMISSION

Commission Advisory and Compliance Division  
505 Van Ness Avenue  
San Francisco, CA 94102  
(415) 703-1543

## DECLARATION OF SUE WONG

Audit of Greenbelt Water Company  
as related to the  
Safe Drinking Water Bond Act Surcharges

I, Sue Wong, declare that I am a Financial Examiner employed by the California Public Utilities Commission. I am assigned to the Accounting and Auditing Branch of the Commission Advisory and Compliance Division. I further declare that I have personal knowledge of the facts contained herein and if called as a witness could competently testify thereto regarding the following:

History

In October 1982, the Department of Water Resources (DWR) and Greenbelt Water Company (GWC) entered into a contract to assist GWC in financing the construction of a project which would enable GWC to meet safe drinking water standards (State of California Contract No. E51-038 is included as Attachment A).

In July of 1994 (Attachment B), DWR alerted the Commission Advisory and Compliance Division (CACD) of the California Public Utilities Commission (Commission) regarding GWC's delinquency in the repayment of a Safe Drinking Water Bond Act (SDWBA) loan of \$128,441 provided by DWR to GWC. At the time, GWC had missed three semi-annual loan

payments (due July 1993, January 1994 and July 1994) for a total delinquency of \$18,052.96. DWR also informed the Commission that it was planning on restructuring the loan to accommodate Mr. John Cavanaugh's, president of GWC, statement that he could start paying \$1,000 a month toward the SDWBA loan. In addition, the loan was being restructured because DWR was in the process of adjusting all 1976 SDWBA loans retroactively to 8.1% from 8.5%. With the restructured loan, the new principal balance as of January 1, 1995 was \$132,436.87. This consisted of the outstanding principal amount of \$112,934.40 (after the retroactive interest rate decrease) plus \$17,923.43 in interest at 8.1% accrued from January 1, 1993 through January 1, 1995 plus \$1,579.04 in delinquent penalties.

DWR contacted the Commission in July of 1994 to inform the Commission of GWC's delinquency because GWC, as a condition of the loan, had received Commission approval to collect monthly SDWBA surcharges from its customers to be used only for repayment of the SDWBA loan.

Therefore, the Accounting and Auditing Branch of CACD audited GWC to determine:

- 1) surcharge collections,
- 2) amounts paid to DWR, and
- 3) whether SDWBA financed plant was separated from utility financed plant.

### Findings

I audited the records of GWC as it related to the Safe Drinking Water Bond Act (SDWBA) surcharges collected by GWC. For the period 1982 through June 1995, the audit adjustment was \$45,677 (see page 5 for

calculation). It was later updated to \$54,358 (see page 7 for calculation) to include an estimate for July 1995 through March 1996.

In a conversation between myself and Mr. Cavanaugh and in a letter dated June 5, 1995 (Attachment C), I asked GWC to provide certain documents for the years 1982 to 1995. Mr. Cavanaugh was asked to inform me by June 8 as to when the records would be available so an audit could be scheduled. Mr. Cavanaugh never called to schedule the audit. I was able to reach Mr. Cavanaugh on June 20, 1995 and he was uncertain as to whether he ever received the letter dated June 5. I sent another letter (Attachment D) on June 22 and scheduled the audit to start on July 10.

GWC provided limited documentation in three boxes. In addition, GWC directed me to two file cabinets which "may contain additional information related to the SDWBA surcharge" as indicated by Mr. and Mrs. Cavanaugh (president and secretary/treasurer respectively of GWC according to the 1992 annual report, GWC's last filed annual report). It should also be noted that Mr. Cavanaugh is blind and Mrs. Cavanaugh had a stroke so is basically unable to speak except to indicate "yes" or "no". They indicated that there may be bank account information in the file cabinets. I never found any bank statements. I never found a general ledger detailing rate based plant as opposed to SDWBA financed plant. There was no audit trail.

Essentially, records had to be reconstructed based on the limited information found in the boxes and file cabinets. There were ledger books and spreadsheets labelled differently for different years. For certain periods of time, no documentation was found. For 1992 and

1993, I found some customer remittance slips indicating payment on the part of the customers, but could not find them accounted for in the Cash Receipts Journal. Therefore, I sampled four months by tracing the customer remittance slips for those four months to the Cash Receipts Journal. Based on the sample, I estimated that 11.77% of the customer payments were not recorded in the Cash Receipts Journal. I applied that percentage on amounts found in the Cash Receipts Journal for 1992 and 1993.

Since there was no audit trail and since my calculation of the surcharge collected was based on the combination of limited documentation and estimates, I performed an analysis to determine the reasonableness of the audited amount. My analysis consisted of estimating the surcharge that should have been billed using actual/estimated customer counts.

For 1982 to 1993, no copies of the ledger books, spreadsheets, or customer remittance slips are available due to the lack of a copy machine at the home of the Cavanaugh's/office of GWC. Summarized below is the information in the ledger books and spreadsheets found at GWC and estimates used in calculating the SDWBA surcharge collected:

1982	\$ 5,631.50	
1983	11,138.78	
1984	11,002.42	
1985	12,170.34	
1986	12,119.52	(a)
1987	12,119.52	(a)
1988	12,119.52	(a)
1989	12,068.69	
1990	13,130.07	(b)
1991	13,109.80	(a)
1992	14,630.30	(c) & (d)
1993	13,124.01	(d) & (e) & (f)
1994	11,610.00	
1995	<u>5,487.82</u>	(g)
TOTAL	\$159,462.29	
	=====	

- (a) Estimated because no records were found for that period of time
- (b) Records were found for January through June, however July through December had to be estimated due to lack of records
- (c) Records were found for all months in 1992, however spreadsheets for February through April were identical and there were two June spreadsheets with different numbers
- (d) 11.77% was added on top of recorded numbers due to unaccounted receipts as described on page 2
- (e) Records were found for January through August, however October through December had to be estimated due to lack of records
- (f) Recorded numbers for July 1993 were increased by 4.31% because the July spreadsheet indicated the SDWBA surcharge as \$13.90 when it should have been \$14.50
- (g) January through June only

The audit adjustment was calculated as follows:

Surcharge Collected (1982 to June 1995)	\$159,462.29
Remittance to DWR	<114,283.40>*
Penalties for Delinquent Payments	<u>498.51</u> *
Audit Adjustment	\$ 45,677.40
	=====

\* Per account ledger provided by Cynthia Thomas of DWR



In a letter dated January 31, 1996 (Attachment B), CACD informed GWC of the results of the audit. In addition, CACD instructed GWC to:

- 1) open a fiscal account (as required by DWR),
- 2) pay the original audit adjustment or suggest a payment plan, and
- 3) remit all currently collected surcharges into the fiscal account once the account was set up.

#### Post Audit Actions

As of March 18, 1996, GWC still had not yet opened a fiscal account.

Carolyn Wong, a supervising financial examiner in the Accounting and Auditing Branch, and I set up a meeting with Mr. Cavanaugh for March 28 (Attachment F) in Ben Lomond to discuss the letter of January 31. We arrived in Ben Lomond and Mr. Cavanaugh was unavailable due to his wife being in the hospital. Mr. Cavanaugh had never called to alert us that he was unable to meet with us.

On April 5, I sent a letter (Attachment G) to Mr. Cavanaugh to arrange another meeting in Ben Lomond for April 16. Prior to the meeting, I sent another letter (Attachment H) to GWC to update the original audit adjustment of \$45,677 to include the period of July 1995 through March 1996 since only two payments of \$1000

each had been made to DWR after GWC was notified of the original audit adjustment. To estimate the surcharge collected in July 1995 through March 1996, the following was assumed:

- 1) 79 customers paying \$14.50 per month, and
- 2) 5% rate for uncollectibles.

Therefore, the audited number for 1982 through June 1995 and the estimated number for July 1995 through March 1996 was calculated as follows:

Original Audit Adjustment (1982 through June 1995):	\$45,677
Additional Surcharge (July 1995 through March 1996)	
9 months x 79 customers x 14.50 x 95%:	9,794
Less Additional Payments to DWR (per DWR):	<2,000>
Plus Delinquent Interest (per DWR) :	887
Estimated Audit Adjustment	<u>\$54,358</u>
	=====

The attendees at the meeting on April 16 were Carolyn Wong and myself from the Commission and Mr. Cavanaugh, Mrs. Cavanaugh, and Mary Cavanaugh, daughter of Mr. and Mrs. Cavanaugh, of GWC. At the meeting, I assisted Mr. Cavanaugh in filling out a form to set up the fiscal account. I later contacted Blossom Dunning of Bank of America, the fiscal agent, to confirm that the account had been set up.

Since GWC should be currently billing approximately \$1,145 in SDWBA surcharges per month, Mr. Cavanaugh agreed to deposit actual surcharge collected or \$1000 (whichever was higher) in the fiscal account by the 15th of every month. This fiscal account is set up in such a way that the funds can only be used to repay

DWR. He also agreed to send copies of the bank statements when received by GWC. As of July 19, 1996, no bank statement copies had been received from GWC. Therefore on the 19th, I confirmed with Marilyn Goodrich of Bank of America that GWC has deposited \$1000 per month for May, June and July. Marilyn also indicated that a bank statement had been sent to GWC at the end of June.

During the meeting, Mr. Cavanaugh indicated disagreement with the original audit amount and the revised estimated amount. I advised him to provide written explanation and documentation to support his numbers by May 31, 1996. GWC never provided any additional documentation to dispute the audit numbers.

Mr. Cavanaugh also stated that he can only repay the audit adjustment if he sells some vacant lots he personally owns in the GWC service area (Attachment I). He indicated that he will offer them for sale in May 1996. He agreed to send documents showing the offer for sale. Since Mr. Cavanaugh is unable to repay the entire \$54,358 in one payment, I informed Mr. Cavanaugh that an interest rate of 5% (13 weeks T-Bills rate) will be assessed on any remaining delinquent balance until it is fully repaid, starting May 1.

Mr. Cavanaugh had mentioned the possibility of requesting a rate increase as GWC's last rate increase was in June of 1985, therefore Carolyn Wong did a cursory review of the documents provided by GWC to substantiate a possible rate increase. No

invoices were provided, therefore it could not be indicated whether GWC's expenses justified a rate increase.

After the meeting, CACD sent a letter (Attachment J) to GWC summarizing the meeting. On May 13, I spoke with Mr. Cavanaugh. He said that he did not have clear title to the vacant lots, but was working with a title company. He indicated that this would be cleared up by the end of the week. He agreed that he would send a copy of the offer for sale and a copy of the bank statement. On June 6, I spoke with Mr Cavanaugh again and asked about the the offers for sale and about a copy of the bank statement. He indicated that he hadn't offered the lots for sale because he is still working with the title company to clear the attachments. He also stated that he hasn't received a bank statement. In another conversation with Mr. Cavanaugh on July 31, he said title on the lots are now clear, he plans to send notification of the offer for sale in the next two to three days, and he will send me a copy of the offer for sale.

As of today, GWC never sent a copy of the bank statement ending June 30. In addition, GWC never sent any documents showing the offers for sale.

On July 25, 1996, I confirmed with Cynthia Thomas of DWR that DWR has a lien of \$128,440 (dated 10/15/82 and recorded 12/21/82) placed on GWC. However, DWR is currently not planning any legal action.

I hereby declare under penalty of perjury that the foregoing is true and correct.

Dated this 8<sup>th</sup> day of August, 1996 at San Francisco, California.

Sue Wong  
Sue Wong

*Folder*

CONTRACT NO. E51 038

STATE OF CALIFORNIA  
THE RESOURCES AGENCY  
DEPARTMENT OF WATER RESOURCES

*647.13*

CONTRACT BETWEEN THE STATE OF CALIFORNIA  
DEPARTMENT OF WATER RESOURCES  
AND

GREENBELT WATER COMPANY, INC.

AN INVESTOR-OWNED UTILITY

FOR A LOAN UNDER THE  
CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1976

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**EXHIBIT A**

**LOAN CONTRACT STANDARD CONDITIONS**

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STATE OF CALIFORNIA  
 THE RESOURCES AGENCY  
 DEPARTMENT OF WATER RESOURCES  
 CONTRACT BETWEEN STATE OF CALIFORNIA  
 DEPARTMENT OF WATER RESOURCES AND  
 Greenbelt Water Company, Inc.  
 UNDER THE CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1976

THIS CONTRACT, entered into by and between the State of California, acting by and through its department of Water Resources, herein referred to as the "State" and the

Greenbelt Water Company, Inc.

an investor-owned utility in the County of Santa Cruz

State of California duly organized, existing, and acting pursuant to the laws thereof, herein referred to as the "Supplier", which parties do hereby agree as follows:

### CONTRACT SPECIAL PROVISIONS

#### SECTION 1. PURPOSE OF LOAN

This loan is made by the State to the Supplier to assist in financing construction of a project which will enable the Supplier to meet safe drinking water standards established pursuant to Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code. Loan funds may be used only for such Eligible Project Costs as described below:

Pump removal, bailing and disinfection of well No. 1, replacement of undersized transmission lines, provision of additional storage, and replacement of booster tank and submersible pump. New well and pumping system

Loan funds may be used only for such Eligible Project Costs as defined in the final plans and specifications, approved by the State Department of Health Services, and any revisions thereof, and in Article A-1 of the Loan Contract Standard Conditions.



## SECTION 8. WATER CONSERVATION

For a period of 35 years, which is a reasonable life expectancy of the Project, the Supplier shall require that all new plumbing fixtures installed be of a type designed for low-water flow. The Supplier shall furnish, free of initial charge, water-saving kits to all customers served within the Supplier's service area to encourage water conservation. The water-saving kits shall be approved by the State. In addition, the Supplier agrees to observe all applicable Public Utilities Commission orders concerning water conservation.

## SECTION 9. OPERATION AND MAINTENANCE OF PROJECT

For a period of at least 35 years, which is a reasonable life expectancy of the Project, in consideration of the loan made by the State, the Supplier agrees to commence and to continue operation of the Project upon completion and shall cause the Project to be operated in an efficient and economical manner in accordance with applicable provisions of the law; shall provide for the making of all repairs, renewals, and replacements necessary to the efficient operation of the same; and shall cause to be maintained in as good and efficient condition as upon its construction, ordinary and reasonable wear and depreciation accepted.

## SECTION 10. OTHER ASSISTANCE

Supplier certifies that he has applied for and made reasonable efforts to secure Federal assistance for the Project and has secured the approval of the State and the State Department of Health Services to make application for Federal assistance in order to maximize and to utilize best the amounts of such assistance available.

Supplier further agrees that if Federal funds become available for this Project within three years of Project completion, supplier will remit to the State all or a portion of the Federal funds received up to the amount necessary to discharge the remaining debt, provided remittance is not contrary to the terms upon which the Federal funds were received.

## SECTION 11. REPAYMENT OF PRINCIPAL AND INTEREST

The Supplier shall execute a fiscal services agreement with a fiscal agent in a format acceptable to the State. A fiscal agent shall be retained until the principal amount of the loan and interest have been paid in full.

The Supplier shall open a special account with the fiscal agent into which sufficient funds shall be maintained for servicing the loan as provided in Article B-5, including any ratepayer surcharge revenues or assessments authorized by the Public Utilities Commission, to the extent provided in the Order of the Commission. Funds from this account shall be used only for payment of principal and interest on the loan when due, or any delinquencies thereon, until the loan is repaid in full.

Once a fiscal services agreement has been approved by the State, the Supplier shall not amend the agreement, close the special account, or retain a new fiscal agent without 90 days advance notice and approval of a new fiscal services agreement by the State.

## SECTION 12, NOTICES

Notices required to be given in writing by the Supplier under this Contract shall be sent to:

Public Utilities Commission  
California State Building  
San Francisco, CA 94102

State of California  
Department of Water Resources  
Attention: Program Manager  
Safe Drinking Water Bond Law of 1976  
P.O. Box 388  
Sacramento, CA 95802

Notices required to be given in writing by the State under this Contract shall be sent to:

Mr. John Cavanaugh

---

Greenbelt Water Company, Inc.  
200 Madrone Avenue  
Ben Lomond, CA 95005

---

A change of address for delivery of notice may be made by either party by written notice of such change of address to the other party.

All such notices shall be enclosed in a properly addressed, postage-prepaid envelope and deposited in a United States Post Office for delivery by registered or certified mail.

IN WITNESS WHEREOF, the parties hereto have executed this Contract

OCT 15 1982.

Approved as to Legal Form  
and Sufficiency:

STATE OF CALIFORNIA  
DEPARTMENT OF WATER RESOURCES

By *P.C. Touma*  
Chief Counsel

By *William R. Allen*  
Director  
P.O. Box 388  
Sacramento, CA 95802

Supplier: Greenbelt Water Company, Inc.  
200 Madrone Avenue  
Ben Lomond, CA 95005

By *Carl J. Swannick*  
Title President

## EXHIBIT A

STATE OF CALIFORNIA  
THE RESOURCES AGENCY  
DEPARTMENT OF WATER RESOURCES  
LOAN CONTRACT STANDARD CONDITIONS

## ARTICLE A-1. DEFINITIONS

Whenever in this Contract the following terms are used, their meaning shall be as follows unless the context clearly requires otherwise:

STATE DEPARTMENT OF HEALTH SERVICES The State Department of Health Services or the local health agency which has jurisdiction to issue the necessary water permit under the provisions of Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code.

CONTRACT The Contract to which these Loan Contract Standard Conditions are appended and shall be considered a promissory note for the purpose of meeting the Loan Security Requirements of Exhibit B.

DAYS-- Calendar days unless otherwise expressly indicated.

MONTH-- Calendar months unless otherwise expressly indicated.

YEAR-- Calendar year unless otherwise expressly indicated.

PROJECT-- All work and facilities, not including construction equipment, for the construction, improvement, or rehabilitation of the domestic water system, including water supply, treatment works, storage facilities, and all or part of a water distribution system proposed by the Supplier pursuant to the plans and specifications which describe the plan of the project approved by the State Department of Health Services and all addenda and changes to the foregoing documents approved by the State Department of Health Services.

SYSTEM-- All facilities under control of the Supplier for the provision of piped water to the public for human consumption which may include an collection, treatment, storage, or distribution facilities.

ELIGIBLE PROJECT-- A project for the construction, improvement, or rehabilitation of a domestic water system determined to be eligible under the California Safe Drinking Water Bond Law of 1976.

ELIGIBLE PROJECT COSTS -- Reasonable costs associated with an Eligible Project including the engineering, legal, and administrative fees associated with the construction, and also including those reasonable costs incurred by the applicant to prepare the application and to establish eligibility prior to or after the effective date of this Contract.

TREATMENT WORKS -- Any devices or systems used in the treatment of water supplies, including necessary lands, which render such supplies pure, wholesome, and potable for domestic purposes.

LOAN COMMITMENT -- The maximum sum of money which the State agrees to loan to the Supplier under this Contract.

PRINCIPAL AMOUNT OF THE LOAN -- The total amount disbursed to the Supplier under the Contract, plus an administrative fee not to exceed 3 percent (3.0%), less any amount of such total amount disbursed that may have been repaid or remitted to the State by the Supplier.

TERM OF LOAN -- The period of time between the date of first disbursement of money to the Supplier and the Date the principal amount of the loan is repaid in full.

FISCAL AGENT -- A bank, savings and loan, or any other financial institution to which funds for the repayment of this loan are deposited, or are under the control of, for the purpose of disbursing repayments of the loan to the State according to the repayment schedule in Article A-9 of Exhibit A.

## ARTICLE A-2. TERM OF CONTRACT

Subject to the provision for prior termination, this Contract shall become effective on the date of its execution and shall remain in effect until the principal amount of the loan, all interest thereon, and any other sums of money due to the State have been paid in full.

## ARTICLE A-3. BASIC CONDITIONS PRECEDENT

The State shall have no obligation to disburse money under the Contract unless and until:

- (a) The Contract is authorized by the Public Utilities Commission of the State of California.
- (b) The Supplier provides a copy of a resolution passed by its governing board, or other enabling authority if applicable, authorizing acceptance of the



loan contract and designation, an authorized representative, execute the contract and to sign the request for disbursement.

(c) The Supplier demonstrates the availability of sufficient funds to complete the Project.

(d) The Supplier demonstrates to the State's satisfaction that the Supplier has a right to use the water required to operate the Project throughout the repayment period of the loan.

(e) The Supplier has satisfied the security provisions of Article A-12.

(f) The Supplier shall demonstrate to the State's satisfaction that the proposed Project has the support of a majority of the affected community.

(g) The Supplier shall submit forecasts of Eligible Project Costs on a form provided by the State. The Supplier shall submit to the State any substantial changes in the forecast.

(h) The Supplier has engaged the services of a fiscal agent under an agreement approved by the State.

(i) The Supplier has opened a separate checking account for deposit of loan proceeds as provided in Article A-14.

(j) The Supplier has provided a certificate to the State evidencing insurance coverage of the individuals authorized to approve disbursement of funds provided in Article A-14 (b), for fidelity in the receipt, administration, and accounting of funds to be disbursed under this loan and any services or materials purchased pursuant to this contract. The certificate of insurance shall be issued by a surety or insurance broker and signed by an authorized representative of the insurer.

#### ARTICLE A-4, PERMITS AND APPROVALS

The Supplier shall obtain the approvals and permits required by any other State, Federal, or local agency necessary to commence design, construction, or operation of the Project.

#### ARTICLE A-5, LOAN DISBURSEMENTS BY STATE

##### (a) COST STATEMENTS

After the basic conditions precedent in Article A-3 are met, the State will disburse the whole or portions of the loan commitment to the Supplier following receipt from the Supplier of a statement or statements of incurred Eligible Project Costs on forms provided by the State. Requests for loan funds shall be filed monthly or for such longer period as the State and Supplier may mutually agree and the Supplier shall provide the following information:

(1) A statement of the incurred Eligible Project Costs of work performed in constructing the Project under a construction contract or construction contracts during the period identified in the particular statement.

A statement of the cost of any interests in land that have been necessarily acquired for the Project during the period identified in the particular statement for the construction, operation, or maintenance of the Project.

(3) A statement of other incurred Eligible Project Costs which have been incurred for the Project during the period identified in the particular statement, including, but not limited to, legal, engineering, and administrative fees associated with construction and reasonable Project costs of Supplier to prepare the application and to establish eligibility.

After the State gives notice to the Supplier that the Project has been completed or terminated, the Supplier shall furnish a final statement of incurred Eligible Project Costs.

Requests for loan funds shall be filed monthly or for such longer period as the State and Supplier may mutually agree, and the Supplier shall provide the following information:

(b) DISBURSEMENT

Following the review by the State of each statement of cost, the State will disburse to the Supplier the amount approved, subject to the availability of funds. Any and all money disbursed to the Supplier under this Contract and any and all interest earned by the Supplier on such money shall be used solely to pay Eligible Project Costs.

(c) WITHHOLDING OF LOAN DISBURSEMENTS BY SUPPLIER

The Supplier shall withhold not less than five percent (5.0%) from any loan disbursement or combination of loan disbursements until the acceptable completion of the Project or any component contract, which has been let under a competitive bidding procedure.

ARTICLE A-6. WITHHOLDING OF LOAN DISBURSEMENTS BY STATE

(a) CONDITIONS FOR WITHHOLDING

If the State determines that the Project is not being constructed substantially in accordance with the provisions of this Contract or, if the State determines that the Supplier has failed in any other respect to substantially comply with the provisions of this Contract, and if the Supplier does not remedy any such failure to the State's satisfaction, the State may withhold from the Supplier all or any portion of the loan commitment.

(b) WITHHOLDING ENTIRE LOAN COMMITMENT

If the State notifies the Supplier that it has decided to withhold all of the loan commitment from the Supplier pursuant to Subdivision (a) of this Article, this Contract shall terminate upon receipt of such notice by the Supplier and shall no longer be binding on either party hereto.

(c) WITHHOLDING BALANCE OF LOAN COMMITMENT

Where a portion of the loan commitment has been disbursed to the Supplier and the State notifies the Supplier that it has decided to withhold the balance of the loan commitment from the Supplier pursuant to Subdivision (a) of this Article the portion that has been disbursed shall thereafter be repaid forthwith to the State with interest as directed by the State.

ARTICLE A-7. TIMING AND MANNER OF PROJECT CONSTRUCTION(a) PROJECT COMPLETION DATE

The Supplier shall cause the construction of the Project to be completed not later than December 31, 1982, provided that said date for completion may be extended upon written approval of the State.

(b) CONSTRUCTION PURSUANT TO PROJECT PLANS AND SPECIFICATIONS

The Project shall be constructed in accordance with the final plans and specifications that are approved by the State Department of Health Services and with any revisions thereof approved by the State Department of Health Services.

(c) DETERMINATION OF PROJECT COMPLETION

For the purposes of this Contract, construction of the Project shall be considered to be completed or to be terminated when so determined by the State.

(d) COMPETITIVE BIDDING

Any Contract let for the construction of the Project, or any part thereof, which is in excess of \$10,000, or which is in excess of any smaller amount for which bids are required under the enabling authority of the Supplier, shall be let by competitive bid procedures which assure award of the Contract to the lowest responsible bidder, except as may be otherwise authorized in writing by the State.

(e) SIGN REFERRING TO SAFE DRINKING WATER BOND LAW FINANCING

During construction of the Project, the Supplier shall cause a sign to be installed at a prominent location which shall include a statement that the Project is financed under the California Safe Drinking Water Bond Law of 1976 Program administered by the State of California, Department of Water Resources, and the State Department of Health Services.

**ARTICLE A-8. STATEMENT OF PRINCIPAL AMOUNT OF LOAN****(a) REMITTANCE OF UNEXPENDED FUNDS**

The supplier, within a period of thirty (30) days from the final disbursement from the State to the Supplier of loan funds, shall remit to the State any unexpended funds that were disbursed to the Supplier under this Contract and were not needed to pay Eligible Project Costs incurred.

Unexpended funds remitted to the State under this subdivision shall not be considered to be a repayment of any part of the loan, but shall be deemed to be a return to the State of part of the funds disbursed and a reduction in the total amount loaned to the Supplier pursuant to this Contract.

**(b) TRANSMISSION OF STATEMENT TO SUPPLIER**

Within sixty (60) days after final disbursement of money, the State shall transmit to the Supplier a written statement setting forth the principal amount of the loan consisting of all disbursement plus an administrative fee not to exceed three percent (3.0%) to be repaid by the Supplier to the State pursuant to Article A-9 hereof.

**ARTICLE A-9. REPAYMENT OF PRINCIPAL AMOUNT OF LOAN****(a) REPAYMENT TERMS**

The Supplier shall make semiannual payments to the State for a period not to exceed 35 years as set forth in the following repayment schedule, entitled "Schedule of Repayment of the Loan", until the principal amount of the loan is repaid in full, provided that in any event the final semiannual payment shall be in an amount equal to the then unpaid portion of the principal amount of the loan. The first amount of the semiannual payment shall be due and payable on July 1, 1983. The remaining amounts shall be made semiannually thereafter commencing on January 1, 1984 until the principal amount of the loan is repaid in full.

**(b) ADVANCE PAYMENT OPTION**

The Supplier shall have the option of paying in advance on any January 1 or July 1 all or any part of the unpaid portion of the principal amount of the loan, provided that any interest accrued hereunder shall be paid at the same time and, provided further, that any such payment shall not relieve the Supplier of its obligation to make payments in the amount and at the times specified in Subdivision (a) of this Article until the principal amount of the loan is repaid in full.

## SCHEDULE OF REPAYMENT OF LOAN

35 YEAR TERM

8½%

<u>PAYMENT NUMBER</u>	<u>% PRINCIPAL</u>	<u>PAYMENT NUMBER</u>	<u>% PRINCIPAL</u>
1	.2440	36	1.0470
2	.2543	37	1.0915
3	.2651	38	1.1379
4	.2764	39	1.1863
5	.2881	40	1.2367
6	.3004	41	1.2893
7	.3132	42	1.3441
8	.3265	43	1.4012
9	.3403	44	1.4607
10	.3548	45	1.5228
11	.3699	46	1.5875
12	.3856	47	1.6550
13	.4020	48	1.7254
14	.4191	49	1.7987
15	.4369	50	1.8751
16	.4555	51	1.9548
17	.4748	52	2.0379
18	.4950	53	2.1245
19	.5160	54	2.2148
20	.5380	55	2.3089
21	.5608	56	2.4071
22	.5847	57	2.5094
23	.6095	58	2.6160
24	.6354	59	2.7272
25	.6624	60	2.8431
26	.6906	61	2.9639
27	.7199	62	3.0899
28	.7505	63	3.2212
29	.7824	64	3.3581
30	.8157	65	3.5008
31	.8503	66	3.6496
32	.8865	67	3.8047
33	.9241	68	3.9664
34	.9634	69	4.1350
35	1.0044	70	4.3110
			<u>100.0000</u>

**ARTICLE A-10. INTEREST PAYMENTS**

The Supplier shall pay interest to the State at the rate specified in the Contract Special Provisions on the unpaid balance of the loan. Interest on the principal is not deferred. Upon completion of the Project, interest shall be due and payable semiannually on each January 1, and July 1, until the principal amount of the loan is repaid in full.

The interest amount of each disbursement shall be calculated as the fraction  $x/365$  times the interest rate, where  $x$  is the number of calendar days remaining in the year from the date on which the disbursement was made.

**ARTICLE A-11. DELINQUENCY IN INTEREST PAYMENT**

Upon every amount of interest money required to be paid by the Supplier to the State pursuant to Article A-10 of this Contract which remains unpaid after it becomes due and payable, interest shall accrue at the rate of one percent (1.0%) per month of the amount of such delinquent payment from and after the due date until it is paid, and the Supplier hereby agrees to pay such interest, provided that no such interest shall be charged to or be payable by the Supplier under this Article unless such delinquency continues for more than thirty (30) days.

**ARTICLE A-12. SECURITY REQUIREMENTS**

The Supplier shall meet the security requirements provisions set forth in Exhibit B, "Loan Contract Security Requirements", to adequately protect the interest of the State during the term of the loan.

**ARTICLE A-13. PAYMENT CAPACITY IMPAIRMENTS****(a) TRANSFER OF WATER OUTSIDE SERVICE AREA**

No sale or other transfer of water made available by the constructed project shall be made outside the Supplier's existing service area which, in the judgment of the State, would materially impair the Supplier's capacity to make payments to the State as provided for in the Contract. The Supplier shall notify the State and the Public Utilities Commission as promptly as feasible of all proposed sales or other transfers of project water outside the Supplier's service area.

The Supplier shall notify the State and the Public Utilities Commission as promptly as feasible of any proposed change in the Supplier's organization or service area. While the Contract is in effect, no changes shall be made in the organization of the Supplier without permission of the State. The Supplier shall take no action which may materially impair the Supplier's capacity to make payments to the State.

#### ARTICLE A-14. ACCOUNTING AND DEPOSIT OF LOAN PROCEEDS

##### (a) SEPARATE ACCOUNTING OF LOAN PROCEEDS AND INTEREST; RECORDS

The Supplier shall account for funds disbursed under this Contract separately from all other Supplier's funds. The Supplier shall keep complete and accurate records of all receipts, expenditures, and any interest earned on such funds.

##### (b) DISPOSITION OF MONEY DISBURSED BY STATE

The Supplier shall open and maintain a special checking account into which funds disbursed under this Contract will be deposited directly by the State. Such account shall be separate from all other accounts, and shall be used solely to accomplish the purposes of this Contract. All drafts or withdrawals from this account shall be payable to the providers of eligible project costs as itemized on requests for disbursements submitted to the State. Drafts or withdrawals from the account shall require both the signatures of the Supplier's representative authorized to sign requests for disbursements, and a second designated individual, either a corporate officer, the registered project engineer, or the corporate accountant.

All money disbursed pursuant to this Contract shall be deposited, administered, and accounted for pursuant to the provisions of law applicable to the Supplier. Such money shall be prudently invested when not immediately required to pay Eligible Project Costs.

#### ARTICLE A-15. REPORTS ON EXPENDITURE AND PROJECT CONSTRUCTION

(a) The Supplier agrees to submit to the State annually a copy of financial reports detailing its financial condition, prepared in accordance with generally accepted accounting principles.

(b) During the planning and construction phases, the Supplier agrees to include an annual summary of the information required by Articles A-5 and A-14 (a).

#### ARTICLE A-16. INSPECTIONS OF PROJECT BY STATE AND STATE DEPARTMENT OF HEALTH SERVICES

The State and State Department of Health Services shall have the right to inspect the work being performed at the facilities being constructed at any and all times during the construction of the Project and to inspect the project and the operation and maintenance thereof at any and all times after its completion. Supplier shall notify the State and the State Department

of Health Services of the final inspection of the Project or any component by the Supplier at least ten (10) days prior to the date set for the inspection.

#### ARTICLE A-17. PROHIBITION AGAINST DISPOSAL OF PROJECT WITHOUT STATE PERMISSION

The Supplier shall not sell, abandon, lease, transfer exchange, mortgage, hypothecate, or encumber in any manner whatsoever all or any portion of the Project or of any real or other property necessarily connected or used in conjunction therewith, without permission of the State and the Public Utilities Commission.

#### ARTICLE A-18. NONDISCRIMINATION PROVISION

All contract documents between the Supplier and any and all contractors relating to the construction or operation of the Project shall contain a clause to the effect that there shall be no discrimination against any employee who is employed in the work covered by such contractor or against any application for such employment because of age, sex, race, religion, color, or national origin and that such provisions shall include, but not be limited to the following: employment; upgrading; demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship.

#### ARTICLE A-19. SUCCESSORS AND ASSIGNS

This Contract and all of its provisions shall apply to and bind the successors and assigns of the parties hereto. No assignment or transfer of this Contract or any part hereof, rights hereunder, or interest herein by the Supplier shall be valid unless and until it is approved by the State and made subject to such reasonable terms and conditions as the State may impose.

#### ARTICLE A-20. STATE TO BE HELD HARMLESS

The Supplier agrees to indemnify the State of California, Department of Water Resources and the State Department of Health Services, and their officers, agents, and employees against and to hold the same free and harmless from any and all claims, demands, damages, losses, costs, expenses, or liability due or incident to, either in whole or in part and whether directly or indirectly, the design, construction, operation, repair, maintenance, existence, or failure of the Project, or of any of its works or facilities.



**ARTICLE A-21. REMEDIES NOT EXCLUSIVE**

The use by either party of any remedy specified herein for the enforcement of this Contract is not exclusive and shall not deprive the party using such remedy of, or limit the application of, any other remedy provided by law.

**ARTICLE A-22. AMENDMENTS**

This Contract may be amended at any time by mutual agreement of the parties, after being concurred in by the Public Utilities Commission, when necessary, except insofar as any proposed amendments are in any way contrary to applicable law.

**ARTICLE A-23. OPINIONS AND DETERMINATIONS**

Where the terms of this Contract provide for action to be based upon the opinion, judgment, approval, review, or determination of either party hereto, such terms are not intended to be and shall never be construed as permitting such opinion, judgment, approval, review, or determination to be arbitrary, capricious, or unreasonable.

**ARTICLE A-24. CONTRACTING OFFICER OF THE STATE**

The contracting officer of the State shall be the Director of Water Resources of the State of California and his successors, or their duly authorized representatives. The contracting officer shall be responsible for all discretionary acts, opinions, judgments, approvals, reviews, and determinations required of the State under the terms of this Contract.

**ARTICLE A-25. WAIVER OF RIGHTS**

It is the intention of the parties hereto that from time to time either party may waive any of its rights under this Contract unless contrary to law. Any waiver by either party hereto of rights arising in connection with this Contract shall not be deemed to be a waiver with respect to any other rights or matters.

**ARTICLE A-26. NOTICES**

All notices that are required either expressly or by implications to be given by one party to the other under this Contract shall be signed for the State by its contracting officer and for the Supplier by such officers, as

from time to time, it may authorize in writing to do so. All such notices shall be deemed to have been given if delivered personally or if enclosed in a properly addressed, prepaid envelope and deposited in a United States Post Office for delivery by registered or certified mail.

#### ARTICLE A-27. INSPECTION OF BOOKS, RECORDS, AND REPORTS

During regular office hours, each of the parties hereto and their duly authorized representatives shall have the right to inspect and to make copies of any books, records, or reports of the other party pertaining to this Contract or matters related hereto. Each of the parties hereto shall maintain and shall make available for such inspection accurate records of all of its cost, disbursements, and receipts with respect to its activities under this Contract.

#### ARTICLE A-28. SUIT ON CONTRACT

Each of the parties hereto may sue and be sued with respect to this Contract.

## EXHIBIT B

## LOAN CONTRACT SECURITY REQUIREMENT

## ARTICLE B-1. NO PRIORITY FOR ADDITIONAL LOANS

The Supplier agrees to incur no additional indebtedness having any priority in payment of principal or interest or pledge or revenues of facilities in existence at the date of this Contract or to be construed or obtained under terms of this Contract prior to written consent of the State.

## ARTICLE B-2. RATES AND CHARGES

The Supplier agrees that it will levy and collect special assessments or user charges as may be necessary to operate and to maintain the Project and to meet the payment of the loan when the same becomes due and if, for any reason, gross revenues prove insufficient to service the loan contract, Supplier agrees to raise sufficient funds through increased user charges or assessments to meet loan payments and to operate and to maintain the Project.

## ARTICLE B-3. PERFORMANCE AND ASSURANCES

Supplier agrees to faithfully and expeditiously perform or cause to be performed all Project work as described in the final plans and specifications as submitted or as later amended and approved by the State Department of Health Services under this Contract and to apply State funds received only to Eligible Project Costs. In the event the State finds it necessary to enforce this provision or any right of power under this Contract in the manner provided by law, Supplier agrees to pay all costs incurred by the State including, but not limited to, reasonable attorney's fees, legal expenses, and costs.

## EXHIBIT B

## ARTICLE B-4, IMPROVEMENTS TO REMAIN STATE'S

The Supplier agrees that all improvements to the existing facilities and equipment financed by this loan will be and shall remain the property of the State until such loan is paid in full.

## ARTICLE B-5, RESERVE FUND

The Supplier agrees to provide for the accumulation of necessary reserves in accordance with Section 11 of this contract to assure that funds will be available to make the semiannual payments when due. A reserve of two semiannual payments will be required to be accumulated during the first ten-year period for all repayment methods except those based on the quantity of water used, for which a reserve of four semiannual payments shall be accumulated during the first ten years. This reserve shall be maintained at this level thereafter with withdrawals being replaced at the same original rates until the reserve is returned to the maximum amount. The reserve fund shall be maintained and administered by the Fiscal Agent

## ARTICLE B-6, DEFAULT PROVISIONS

In the event that the Supplier defaults on the loan, the Department has the authority to take over all of Supplier's property and to operate the Supplier's water system at its discretion.

## ARTICLE B-7, SECURITY INSTRUMENTS

In order to secure the payment of the principal and interest of the loan and prior to disbursement of funds under this Contract by the State, the Supplier shall execute in favor of the State good and sufficient lien instruments encumbering either the properties or assets, or both, real and personal, constituting said Project, as completed or as thereafter extended, including an assignment and pledge or revenues and such other instruments as may be prescribed by the State.

## Memorandum

Date :

JUL 13 1991

To :

Kenneth K. Henderson, Director  
Commission Advisory and Compliance Division  
California Public Utilities Commission  
505 Van Ness Avenue, Room 3105  
San Francisco, California 94102

RECEIVED  
Finance Branch  
CACD

JUL 1 1991

From : Department of Water Resources

Subject :

Greenbelt Water Company, Inc.  
Safe Drinking Water Contract No. E51038  
PUC Decision No. 82 07 113

The purpose of this correspondence is to provide you with a summary of the circumstances surrounding the Greenbelt Water Company, and its loan under the Safe Drinking Water Bond Law of 1976. This should be of interest to you since the Company is regulated by the Public Utilities Commission, and appears to be in violation of PUC orders. We have briefly discussed this matter in several telephone conversations with Barry Carlson and Kenneth Louie.

On October 15, 1982, Greenbelt Water Company, Inc., entered into a \$124,700 Safe Drinking Water Loan Contract, No. E51038, with the Department of Water Resources. With the State's three percent administration fee added to the loan, the total loan principal is \$128,441. In its decision No. 82 07 113 (enclosed), the PUC authorized GWC to borrow the funds and approved a surcharge to pay the debt service for the loan. The PUC ordered that the funds be deposited into a restricted account maintained by the Company's Fiscal Agent. Our records indicate GWC's fiscal agent is Bank of America. The Department received the first semiannual payment January 11, 1985, and semiannually each year thereafter until July 1993. The Company has not made its semiannual payments due July 1993, January 1994, and July 1994 resulting in a current delinquency of \$18,052.96.

In a letter dated June 20, 1994 (enclosed), the owner of GWC, John Cavanaugh, requested that the Department revise the loan repayment schedule. Cynthia Thomas of my staff spoke with Mr. Cavanaugh on July 5, 1994 in response to his letter. Mr. Cavanaugh stated he could pay \$1,000 a month toward the DWR loan, once he receives "borrowed funds" that have been promised to him. We agreed to work with the Company to negotiate an appropriate repayment schedule with the understanding that the entire transaction would require PUC approval.

Mr. Cavanaugh also made us aware that he is blind and his wife who normally handled the paperwork, suffered a stroke three years ago. Since that time, the Cavanaugh's have incurred extensive medical expenses and have depleted their funds. Ms. Thomas assured Mr. Cavanaugh that we appreciate his misfortunes, and reminded him that GWC is under a PUC order to deposit the surcharge collected for our loan into an account maintained by the Fiscal Agent. He stated he understood; however, it is questionable that he understands the seriousness of violating the PUC order. Ms. Thomas encouraged Mr. Cavanaugh to contact the PUC and inform your agency of GWC's situation. Mr. Cavanaugh stated he would do this since he is intending to request a rate increase as well. He requested the telephone number of John Reeder, a former PUC employee, now private consultant, and stated he would seek Mr. Reeder's services concerning both matters.

To verify the status of the Fiscal Agent account, Ms. Thomas contacted the Bank of America and spoke to Chuck Maffia, Bank Manager. Mr. Maffia stated that the account number we have on file as GWC's restricted account has been closed. Bank of America consolidated branches and the account number was changed at that time. In addition, Mr. Maffia stated GWC's current account has virtually no money and has no restrictions on withdrawals as required by the Fiscal Services Agreement. Mr. Maffia had no knowledge of the Fiscal Services Agreement signed by a Bank of America representative in 1985 (enclosed). We sent new Fiscal Services Agreement forms to GWC and will follow up to ensure a restricted account is opened.

Finally, for your information, we noted that the "Citizens of Redwood Drive Association" filed a formal complaint with the PUC against GWC on September 4, 1991. Our records indicate the PUC responded with an investigation, No. 91-09-057. There are no indications at this time that the association is aware of the current situation.

Kenneth K. Henderson, Director

Page Three

I hope this information is helpful. Please contact me at (916) 653-9724 or Cynthia Thomas at (916) 653-9634 if you have any questions. In the meantime, we will work with Mr. Cavanaugh to negotiate a revised repayment schedule, and will keep you informed.

SEARCHED  
SERIALIZED

Gerri La Rue Higgs, Chief  
Bond Financing and Administration  
Office

Enclosures

cc: Mr. Fred Curry, Chief  
Water Utilities Branch  
Commission Advisory and Compliance Division  
California Public Utilities Commission  
505 Van Ness Avenue, Room 3105  
San Francisco, California 94102

Mr. Paul Potter, Chief ✓  
Finance Branch  
California Advisory and Compliance Division  
California Public Utilities Commission  
505 Van Ness Avenue, Room 3105  
San Francisco, California 94102

Mr. Barry Carlson  
Commission Advisory and Compliance Division  
California Public Utilities Commission  
505 Van Ness Avenue, Room 3105  
San Francisco, California 94102

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3238



June 5, 1995

John S. Cavanaugh  
Greenbelt Water Company, Inc.  
200 Madrone Avenue  
BEN LOMOND CA 95005

Dear Mr. Cavanaugh:

This letter confirms our conversation today regarding an audit of the Safe Drinking Water Bond Act (SDWBA) funds of Greenbelt Water Company.

Please let me know when you will have the following items available:

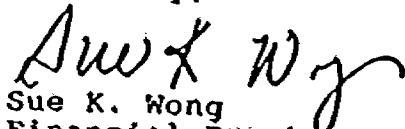
1. Bank statements for the reserve fund since inception of the account.
2. Journals and ledgers for the following Uniform System of Accounts (USOA) since 1982:
  - a. Special Deposit - Fiscal Agent (#132)
  - b. Plant - SDWBA (#101)
  - c. Long Term Debt - SDWBA Loan (#244.1)
  - d. SDWBA surcharge (#470.5)
  - e. SDWBA balancing account.
3. Schedule of number of customers (broken down by residential, 5/8 x 3/4-inch meter, and 3/4-inch meter) from 1982 to 1995.
4. The number of customers who made the upfront, one-time cash payment of \$1760 in 1982.
5. Copies of actual customer bills for the following months: September 1982, August 1983, November 1985, December 1987, January 1988, February 1990, July 1993, May 1994, and April 1995.
6. Billing and collection summaries for all periods since inception of the surcharge.
7. Annual reports filed with the California Public Utilities Commission from 1982 to 1995.

Please call me by June 8 as to when the preceding records will be available. At that time, I would also like to discuss the timing for the audit. I would like to schedule the audit for a 5 day



period. Please also let me know if there will be a work surface (space for 2 people) and access to copier available. I look forward to hearing from you by June 8. If you have any questions, I can be reached at (415) 703-1543.

Sincerely,



Sue K. Wong  
Financial Examiner  
Commission Advisory and Compliance Division

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298

June 22, 1995

VIA CERTIFIED MAIL

John S. Cavanaugh  
Greenbelt Water Company, Inc.  
200 Madrone Avenue  
BEN LOMOND CA 95005

Dear Mr. Cavanaugh:

This letter confirms our conversation on June 20, 1995 regarding an audit of the Safe Drinking Water Bond Act (SDWBA) funds of Greenbelt Water Company for the week of July 10 through July 14.

During our conversation, you mentioned that you were uncertain as to whether you received my earlier letter which listed the items that would be needed during the audit. Therefore, I have attached that letter. If any of the records will be unavailable during the week of the audit, please let me know by July 5. Otherwise I will assume that all the records will be available.

As I understand, I should call your office when I reach Ben Lomond and you will send someone so that I can follow him to your office as it is outside the town of Ben Lomond.

I look forward to seeing you on July 10 at 10 am. If you have any questions, I can be reached at (415) 703-1543.

Sincerely,

Sue K. Wong  
Financial Examiner  
Commission Advisory and Compliance Division

Attachment

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3278

January 31, 1996

John S. Cavanaugh  
Greenbelt Water Company, Inc.  
200 Madrone Avenue  
BEN LOMOND CA 95005

Dear Mr. Cavanaugh:

We have completed our review of the Safe Drinking Water Bond Act (SDWBA) surcharge for Greenbelt Water Company (Greenbelt) for the period 1982 to June 1995. As a result of the review, Greenbelt owes \$45,677 as of June 30, 1995. The adjustment is computed as follows:

Surcharge Collected	\$159,462.29
Remittances to Department of Water Resources	<114,283.40>
Penalties for Delinquent Payments	498.51
Amt. to be transmitted to the Trust Account	<u>\$ 45,677.40</u>
	=====

It is our understanding that there is no bank account for the SDWBA funds, therefore Greenbelt should set up a trust account with a bank. Such account should not be in the name of Greenbelt. The bank/fiscal agent should be the trustee for the account and the account should be set up in such a way that once money is deposited into the trust account, the fiscal agent may only use the funds to pay the Department of Water Resources for repayment of the SDWBA loan and itself for fiscal agent fees. Greenbelt should negotiate with the bank for the amounts of the fiscal agent fees.

After paying the \$45,677 to the trust account, please send to Sue Wong of our staff a copy of the bank statement which shows the payment. If possible, please ask the fiscal agent to label the payment as "payment for review adjustment." Should Greenbelt be unable to reimburse \$45,677 to the trust account in one lump sum payment, please suggest an installment plan within 90 days with an appropriate interest rate for the repayment of the delinquency. We will consider your installment plan and will let you know whether or not we agree with the plan.


Greenbelt should also file quarterly SDWBA surcharge summaries detailing the amounts of surcharges collected and deposited and amounts paid to DWR. Along with the summary, Greenbelt should attach copies of the bank statement.

In addition, Greenbelt should start to remit all surcharges collected to the trust account on a timely basis. Since the surcharge is collected on a monthly basis, Greenbelt should remit

the exact amount collected to the trust account within 30 days after month end on a monthly basis.

If you have any questions, please call Sue Wong at (415) 703-1543.

Sincerely,



Kenneth K. Louie, Chief  
Accounting and Auditing Branch  
Commission Advisory and Compliance Division

cc: Barry Carlson  
Fred Curry

Cindy Thomas  
Department of Water Resources  
PO Box 942836, Rm. 804  
Sacramento CA 94236-0001

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3278

March 18, 1996

John S. Cavanaugh  
Greenbelt Water Company, Inc.  
200 Madrone Avenue  
BEN LOMOND CA 95005

Dear Mr. Cavanaugh:

This letter confirms our conversation on March 15 to schedule a meeting with you to discuss our letter, dated January 31, 1996, regarding an audit assessment of \$45,677 based on Safe Drinking Water Bond Act (SDWBA) surcharges collected from the customers of Greenbelt Water Company.

As agreed upon in our conversation, CZ Wong and I will contact you when we arrive in Ben Lomond and you will meet us at the location where we place the call. We should arrive in Ben Lomond at approximately 12:30 pm on Thursday, March 28. At the meeting, please be prepared to discuss:

- a) all points indicated in our letter of January 31, 1996, particularly your proposal for repayment of the audit assessment and your efforts at setting up a trust account with a fiscal agent/bank.
- b) any records which you may have to substantiate an increase in rates.

I look forward to seeing you on March 28 at 12:30 pm. If you have any questions, I can be reached at (415) 703-1543.

Sincerely,

A handwritten signature in cursive script that reads "Sue K. Wong".

Sue K. Wong  
Financial Examiner  
Commission Advisory and Compliance Division

## PUBLIC UTILITIES COMMISSION

503 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298

April 5, 1996

John S. Cavanaugh  
Greenbelt Water Company, Inc.  
200 Madrone Ave.  
BEN LOMOND CA 95005

Dear Mr. Cavanaugh:

To assist you in setting up a bank account for the Safe Drinking Water Bond Act surcharges, this letter explains the type of account we would like you to open. In addition, we would like to reschedule a meeting with you on April 16.

I have attached two copies of instructions provided by Department of Water Resources (DWR) which should be used in opening a "bank control account". Please bring the instructions to the bank in which you open the account. DWR has indicated that two banks are familiar with "bank control accounts" (as called by Bank of America). The two contacts in the Sacramento area are:

Bank of America: Blossom Dunge (916) 321-4718  
U.S. Bank: Mark Martinez (916) 552-5674

If there are any local branches for either banks in the Santa Cruz area, I suggest that you visit the local branch and indicate that you want to set up a "bank control account". If the local branch has any questions, you can refer them to the Sacramento contacts. If you would like to contact other banks, tell them the following general characteristics of a "bank control account":

- a) only bank officers are authorized to cut checks from the account,
- b) once money is deposited into the account, depositor cannot have access to the funds, and
- c) no withdrawals allowed on this account without prior written approval from DWR.

Please set up a "bank control account" by April 12, 1996. Once you have set up the account, please call me right away. I will be checking with you periodically next week to inquire about your efforts in setting up the account.

CZ Wong and I will meet you at your home on Tuesday, April 16 at 10:30 am to discuss your proposals for repayment of the Safe Drinking Water Bond Act surcharge audit adjustment of \$45,677.

If you have any questions, I can be reached at (415) 703-1543.

Sincerely,

*Sue K. Wong*

Sue K. Wong  
Financial Examiner  
Accounting and Auditing Branch

Attachments

## PUBLIC UTILITIES COMMISSION

525 JANSSEN AVENUE  
SAN FRANCISCO CA 94102-3278



April 11, 1996

VIA CERTIFIED MAIL

John S. Cavanaugh  
Greenbelt Water Company Inc.  
200 Madrone Ave.  
BEN LOMOND CA 95005

Dear Mr. Cavanaugh:

This letter reiterates our conversation on April 9, 1996:

- 1) You agreed to have a "bank control account" set up by April 12, 1996,
- 2) You agreed to meet with CZ Wong and myself at your home on Tuesday, April 16 at 10:30 am, and
- 3) You agreed that you will send and have available for the Tuesday meeting a copy of your written proposal(s) for repayment of the revised audit adjustment specifying the monthly amount to be repaid, the period of time, and a reasonable interest rate.

We also discussed that I would adjust the audit adjustment since our original audit adjustment of \$45,677 covered the period 1982 through June 1995. However, nine months has passed and you have only made two payments of \$1000 each to the Department of Water Resources (DWR). Of the \$2000, \$887 was applied for delinquent interest. Therefore, the following illustrates an updated adjustment which is the amount you will need to repay. Please note that the additional amount is only an estimate and may still be subject to audit in the future. For this estimate, we have assumed:

- a) 79 customers paying \$14.50 per month, and
- b) A 5% uncollectibles rate as you have indicated that uncollectibles have been relatively minor.

Estimated amount for 1982 through March 1996:

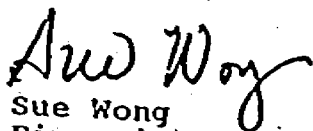
Original audit adjustment (1982 through June 1995):	\$45,677
Additional surcharge (July 1995 through March 1996):	
9 months x 79 customers x \$14.50 x 95%	9,794
Less Additional payments to DWR:	<2,000>
Plus Delinquent Interest:	887
Amount to be transmitted to "bank control a/c":	\$54,358
	=====



In addition, I have attached a copy of my April 5th letter since you have indicated that you still have not received the letter as of today.

I look forward to meeting with you on Tuesday, April 16 at 10:30 am. We will discuss your proposal(s) to repay \$54,358 and to look over any summary and documentation you may have to substantiate a rate increase. If you have any questions, please call me at (415) 703-1543. If an emergency arises and you need to reschedule our meeting, please call me by 8:00 am on April 16. You can call anytime to leave a message as I have an answering machine.

Sincerely,



Sue Wong  
Financial Examiner  
Accounting and Auditing Branch

Attachment

To Whom it May Concern

To repay the money owed John Cowanough requests a rate increase (which he has not had for 13 years). The additional money from the rate increase and the sale of some small lots adjacent to individual homes will make it possible to repay this debt.

Done by John Cowanough  
- 1983 -

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



April 26, 1996

Mr. John Cavanaugh  
Greenbelt Water Company  
200 Madrone  
BEN LOMOND CA 95005

Dear Mr. Cavanaugh:

This letter summarizes our meeting on April 16, 1996 between representatives of Greenbelt Water Company (John Cavanaugh, Mary Cavanaugh, and Evelyn Cavanaugh) and the California Public Utilities Commission (Commission) staff (C.Z. Wong and Sue Wong). Additional actions taken by the staff will also be summarized below.

Staff assisted you in completing the Fiscal Services Agreement which enables Greenbelt Water Company (GWC) to open a fiscal account with Bank of America, the fiscal agent. All Safe Drinking Water Bond Act (SDWBA) surcharges collected from GWC customers are to be deposited in this account. Staff forwarded the above agreement with your \$500 check to the bank on April 19. You agreed to send a copy of the bank statement on a monthly basis to the Commission.

On April 19, Staff forwarded your \$1,000 check to the Department of Water Resources (DWR) to be applied to the SDWBA loan.

Staff has estimated your current surcharge collections at approximately \$1,145 per month (assuming 79 customers each paying the \$14.50 surcharge and no uncollectibles). You agreed to deposit, with Bank of America, the actual monthly surcharges collected or \$1,000, whichever is higher, by the 15th of every month. If the fiscal account is not set up by May 15th, you should mail a minimum \$1,000 payment to DWR. The following information should be included on the check:

Pay to the order of DWR  
Greenbelt Water Company, GWC's telephone number  
SDWBA Contract #E51038

In our original audit, staff reported that GWC is delinquent on \$45,677. As of March 31, 1996, the adjustment has been updated to \$54,358 (as outlined in our letter dated April 11). You indicated disagreement with the amounts. Staff advised you to provide written explanation and documentation to support your numbers. Please provide the above to the Commission by May 31, 1996. An interest rate of 5.00% (13 weeks T-Bills rate)

April 26, 1996

Page 2

will be assessed on any remaining delinquent balance until it is fully repaid, starting May 1.


Your only proposal to pay off the audit adjustment was dependent on the sale of vacant lots you personally own in the GWC service area. You indicated that you will include a notice in your next water service billings (approximately May 18, 1996) offering to sell 60 adjacent vacant lots to customers for \$2,000 each. You agreed to send to the Commission a copy of said notice. In addition, you stated that you also personally own 3 buildable sites which can be marketed for an asking price of \$100,000 each. Please send a copy of any document that can show that the sites have been offered for sale.

Staff did a cursory review of the documents provided by GWC to substantiate a possible rate increase. No invoices were provided, therefore staff cannot indicate whether GWC's expenses justified a rate increase. You had requested names of any consultants that could be retained to help with filing for a rate increase. However, instead of hiring a consultant, we suggest that you hire an accountant to help with bringing the books up to date (ie, record transactions and operating expenses and revenues, etc.). When you wish to file for an increase, the Water Branch should be able to assist you in filing an advice letter. If at that point, you still wish to retain the services of an consultant, Water Branch should also be able to give you the names of any consultants they are aware of.

Please be aware that to file for a rate increase, GWC will need a summary of all water related expenses and supporting documentation (ie, invoices, etc.). The expenses should be from 1993 to current 1996. In checking with the Commission's financial reports room, the last financial report filed by GWC was 1992. It would be a good start to file financial reports for 1993 through 1995. If you need blank copy of the financial report, please call Sue Wong for them.

I hope this letter has been of assistance. If you send any correspondence to the Commission relating to this audit of SDWBA funds, please send it to the attention of Sue Wong at the address on this letter. Please call Sue Wong at (415) 703-1543 if you have any questions.

Sincerely,

  
Kenneth K. Louie, Chief  
Accounting and Auditing Branch  
Commission Advisory and Compliance Division

April 6, 1996

Page 3

cc: Mary Cavanaugh  
Greenbelt Water Company  
895 Quince Ave., #8  
Santa Clara CA 95051

Cindy Thomas  
Department of Water Resources  
P.O. Box 942836, Room 804  
Sacramento CA 94236-0001

Art Jarrett, CPUC  
Barry Carlson, CPUC