

ITEM #8.A

Suggested Addendums To LAFCo Mid-Point Review

DEL PASO MANOR WATER DISTRICT

BOARD MEETING

DATE: October 30, 2024

AGENDA ITEM NO. 8.A

SUBJECT: SUGGESTED ADDENDUMS to LAFCo MID-POINT REVIEW

STAFF CONTACT:

Adam Coyan, General Manager

BACKGROUND:

On April 10, 2024, Sacramento LAFCo issued formal notice of intent for dissolution of DPMWD.

On May 1, 2024, Sacramento LAFCo passed a resolution of dissolution with a twelve-month remediation period.

Del Paso Manor Water District shall provide a mid-point report to Sacramento LAFCo by November 1, 2024 on such remediation efforts by the District which report may thereafter be considered at a regularly scheduled LAFCo commission meeting.

At the October 22, 2024 special meeting, the board requested another special meeting to review individual board member's addendum suggestions and vote on adding them to the mid-point review that was prepared and approved by Kronick.

RECOMMENDATION:

Review and discuss directors suggested addendums to LAFCo response and select a Director to present at the November 06, 2024 LAFCo meeting.

ATTACHMENTS:

Kronick's mid-point report
President Dolk's addendum suggestions
Director Pratt's addendum suggestions
Director Ross's addendum suggestions
Directors Matteoli's addendum suggestions

ENVIRONMENTAL IMPACT:

This item is not a project under Section 21065 of the California Public Resources Code, as it could not have any direct or indirect impact on the environment.

FINANCIAL IMPACT:

This decision will not have financial implications.

MONA G. EBRAHIMI
mebrahimi@kmtg.com

October 18, 2024

Sacramento Local Agency Formation Commission
c/o Executive Officer José Henríquez
1112 I Street, Suite 100
Sacramento, CA 95814

Re: Del Paso Manor Water District

Members of the Commission and Executive Officer Enriquez:

I serve as outside General Counsel to the Del Paso Manor Water District (“District”). As you are aware, the Commission is responsible for regulating boundary changes affecting special districts under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 within Sacramento County. At its May 1, 2024 regular meeting, the Commission conducted a public hearing to consider and adopt CEQA statutory exemptions, adopt an addendum to the Municipal Service Review (MSR) for the District, and adopt a Resolution of Intent to Initiate the Dissolution of the Del Paso Manor Water District (“Resolution of Intent”). In so adopting those actions, and according to the Commission, it believed that the District’s service is not meeting industry standards or government regulations, as based on the 2021 Grand Jury report, the MSR, MSR addendum, and independent studies and information provided by the District related to the current infrastructure. The District was provided a 12-month remediation period during which it could take steps to remedy deficiencies specified by the Commission. This letter serves as the District's mid-point response to those remediation efforts.

Specifically, the District has undertaken various efforts to explore consolidation with the Sacramento Suburban Water District (“SSWD”) as well as explore the potential to remain an independent, single-purpose special district. The District appreciates Executive Officer Henríquez’s involvement and support throughout this time, and his contributions at various meetings District meetings, as well as joint meetings with SSWD, have been invaluable in navigating this process.

Responses to identified deficiencies:

1. *3,000 linear feet of pipeline with less than 3” diameter while regulations call for 4” minimum diameter.*

The District has not undertaken any remedial action on this item.

2. *System leaks in water mains and on the customer side of connections.*

The District has not undertaken any remedial action on this item.

3. *Wells taken offline due to groundwater contamination or OSHA regulations.*

The District has not undertaken any remedial action on this item.

4. *Well #4 motor failure and 70-year-old casing that is past its useful life and could fail at any time.*

Well #4 motor has been replaced and is back online, however the casing has still not been replaced.

5. *Source capacity that is insufficient to meet maximum daily demand with highest capacity source offline as required by 22 CCR 64554(c); 2,060 gpm supply while maximum daily demand is 3,130 gpm.*

The District has not undertaken any remedial action on this item.

6. *Source capacity that is insufficient to meet fire flows of 3,500 gpm for AT&T building in addition to maximum daily demand requirement; 3,070 gpm shortfall even if all connected wells were operational.*

The District has not undertaken any remedial action on this item.

7. *Source capacity to meet fire flows without relying on inerties with Sacramento Suburban Water District system.*

The District has not undertaken any remedial action on this item.

8. *\$52 million cost of rehabilitating existing infrastructure including wells and water mains.*

The District has approved three task orders to complete the engineering work necessary to complete steel pipeline replacement. These task orders encompass close to five miles of pipeline in the northern section of Del Paso Manor Water District and are the majority of steel pipes in the district.

The District has authorized and completed a Proposition 218 study that resulted in a water rate increase that went into effect at the end of July 2024 to fund some of the identified infrastructure improvements. The increased rates are now being collected to complete the identified infrastructure improvement projects set forth in Proposition 218. The District has also explored grant options to provide additional funding, although no grants have been identified as viable if the District remains independent. On June 24, 2024, the District jointly applied with SSWD to the State Water Resources Control Board, Division of Financial Assistance for a grant that would be dependent on consolidation.

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Separately and in furtherance of this item, the District has completed hydraulic modeling of its entire system to aid in assessing the condition and needs of the District's system.

9. *\$5-6 million cost of meter replacements and unknown cost of increasing capacity to meet fire flows.*

The District has not undertaken any remedial action on this item.

10. *Unsuccessful attempts at securing grant funds are likely indicators of future inability to secure grant funds.*

On June 24, 2024, the District jointly applied with SSWD to the State Water Resources Control Board, Division of Financial Assistance for a grant that would be dependent on consolidation.

11. *Additional Prop. 218 rate increases, bonds, or loans would be necessary to fund necessary improvements as 2023 Prop. 218 rate increases only cover the cost of projects totaling \$9.23 million.*

The approved rate increase went into effect at the end of July of this year to begin collection of the funding necessary to cover the costs of the projects identified in Proposition 218.

If you have any questions concerning the above-referenced matters, please contact me.

Very truly yours,

KRONICK, MOSKOVITZ, TIEDEMANN & GIRARD
A Professional Corporation



MONA G. EBRAHIMI

MGE/las

DOLK - ADDITIONAL REMARKS FOR LAFCO

It is not possible for the Del Paso Manor Water District (District) to satisfactorily address LAFCO's stated deficiencies, as DPWD does not have the funds necessary to pursue them. With LAFCO's resolution to initiate a resolution of dissolution of the District, it is unlikely that a lender would be willing to loan us the necessary funds to address the deficiencies. With that under consideration, the focus of the District Board has been to convene joint meetings with the Board of the Sacramento Suburban Water District (SSWD). The intent is that the District choose with whom to merge, since dissolution seems inevitable. Since May 22, 2024 we have participated in seven joint Board meetings.

The Boards' intent is to explore combination through a reorganization. Both boards have worked collaboratively, seeking the best means to combine while being fair to each entity's ratepayers. We believe the Boards have reached a consensus that meets that objective. In addition, the Boards have jointly applied for a grant with the California State Water Resources Control Board. This grant is reserved for those small water purveyors seeking consolidation with larger entities.

The DPMWD Board has held 12 meetings since May 1. Notably, the Board has approved the installation of a backup generator on our most productive well, work scheduled to begin in November 2024, with completion expected by the end of the year. It involved approval from Pacific Gas and Electric, the Sacramento Metropolitan Air Quality Management District, and the selection of a contractor to complete the installation. Total investment is approximately \$400,000.

The Board has also approved the preliminary design process to replace the aged steel pipeline area at a cost of \$150,000. This project will be financed by DPMWD ratepayers regardless of the status of the combination with SSWD.

PRATT - ADDITIONAL REMARKS FOR LAFCo

In mid-May 2024, Del Paso Manor participated with Sacramento Suburban in a joint meeting to discuss combination of the two Districts. Both Boards determined the most effective approach to proceeding with the combination process was at joint meetings rather than by way of ad hoc committees.

The Del Paso Manor and Sacramento Suburban boards have, for several months, been holding joint meetings to discuss and vote on the many facets of combination of the districts. The Boards have reviewed the Resolution regarding combination and anticipate it will soon be ready for LAFCo.

Sharing the cost with Sacramento Suburban, Del Paso Manor retained a PR firm which prepared fact sheets responding to ratepayer questions regarding combination of the districts. In addition, Del Paso Manor and Sacramento Suburban worked together to host a Public Information workshop to discuss possible combination of the districts.

Del Paso Manor has completed a hydraulic model of the system.

Del Paso Manor has approved three task orders for engineering for steel pipe replacement and anticipate they will be complete by the end of the year and ready for grant submission and evaluation in January 2025.

ROSS - ADDITIONAL REMARKS FOR LAFCo

I want to address the issue of fire flow. At the May meeting many of the LAFCO directors may have been left with the impression that DPMWD did not have adequate fire flow for the protection of our ratepayers. It's true the district does not meet the minimum requirements for fire flow with water **sourced solely** within the district.

However, recognizing the need for a sustainable solution the district entered into a mutual aid agreement with SSWD and in 2022 installed interties with the SSWD water distribution system giving us access to over 3,880 gallons per minute, well above the minimum flow rate required. These interties allow water to flow both ways and have been fully functional since June 2022. They have the capability of addressing water supply needs for both SSWD and DPMWD whenever additional water is needed by either district.

October 22, 2024

To: Carl Dolk, President
Del Paso Manor Water District

Adam Coyan, General Manager
Del Paso Manor Water District

SUBJECT: October 22, 2024 Agenda Item No. 8.C
LAFCo Mid-Point Review

Please attach this memorandum to the LAFCo Mid-Point Review.

Sacramento Suburban Water District has stated that:

- They do not intend to address their cement pipes for about 20 to 30 years because they are low priority.
- They have issues with their plastic pipes.
- Merging with SSWD will not take away DPMWD's financial responsibility to make their own DPMWD repairs because SSWD will not pay for those upgrades. No matter what DPMWD's name is, DPMWD will pay for their own upgrades.

Engineering projects include Planning, Design, and Construction. Although construction has not been started, planning and design activities (plus revenue generation activities) should be included within the term 'remedial action'.

Furthermore, SSWD has stated that the pipe projects will take years to undertake. However, DPMWD approved a 218-rate increase and the District can proceed with a loan or bond if LAFCo would help DPMWD qualify for a lower interest rate.

Responses to identified deficiencies:

1. *3,000 linear feet of pipeline with less than 3" diameter while regulations call for 4" minimum diameter.*

The District has not undertaken any remedial action on this item

Director Matteoli's comment: This task has been identified in the Forsgren engineering report as a secondary priority and will be addressed before 2032. This task is incorporated in the 'Steel Pipes – 2C' project and is ready for design.

2. *System leaks in water mains and on the customer side of connections.*

The District has not undertaken any remedial action on this item.

Director Matteoli's comment: The District is operating its system at a lower-than-normal pressure to ensure against catastrophic failure of the old steel lines. The District has approved Design Tasks for the following projects identified in the Forsgren report.

- Steel Pipes 2D-3
- Steel Pipes 2D-1
- Steel Pipes 2D-2

3. *Wells taken offline due to groundwater contamination or OSHA regulations.*

The District has not undertaken any remedial action on this item.

Director Matteoli's comment: The DPMWD controlling Board Members did not approve the \$3.9 million dollar grant application in a timely manner. In addition, they have not explored grants, which do not require consolidation, for the parallel path of independence.

4. *Well # 4 motor failure and 70-year-old casing that is past its useful life and could fail at any time.*

Well #4 motor has been replaced and is back online, however the casing has still not been replaced.

Director Matteoli's comment: The casing issue was, in part, included in the \$3.9 million dollar grant, which application the controlling Board Members did not approve in a timely manner. The District can explore grants and proceed into design. This project can also be included with 218 funds and go to design with a sleeved casing. The resultant well may have lower production and not continually operated; however, the well could be essential for redundancy and fire flow over the next 20-30 years.

5. *Source capacity that is insufficient to meet maximum daily demand with highest capacity source offline as required by 22 CCR 64554@; 2,060 gpm supply while maximum daily demand is 3,130 gpm.*

The District has not undertaken any remedial action on this item.

Director Matteoli's comment: I have already supplied LAFCo my comment on this item. In addition, approved design tasks should be considered towards 'remedial action'. The District has time to meet this requirement with redundancy.

6. *Source capacity that is insufficient to meet fire flows of 3,500 gpm for AT&T building in addition to maximum daily demand requirement; 3,070 gpm shortfall even if all conn3etd wells were operational.*

The District has not undertaken any remedial action on this item.

Director Matteoli's comment: I have already supplied LAFCo my comment on this item. In addition, approved design tasks should be considered towards 'remedial action'. The District has time to meet this requirement with redundancy.

7. *Source capacity to meet fire flows without relying on inerties with Sacramento Suburban Water District system.*

The District has not undertaken any remedial action on this item.

Director Matteoli's comment: I have already supplied LAFCo my comment on this item. In addition, approved design tasks should be considered towards 'remedial action'. The District has time to meet this requirement.

8. *\$52 million cost of rehabilitating existing infrastructure including wells and water mains.*

Director Matteoli's comment as of current understanding of the issues: LAFCo has been directed by the state to implement consolidations, based on federal and state legislation. These legislative acts provide grants which base their justification on 'economy of scale'. This justification could perhaps be contrary to the recent U.S. Supreme Court ruling overturning the 'Chevron Decision'.

LAFCo pursued and guided DPMWD on the path towards consolidation, which gave pause to seeking a plan for independence. While pursuing consolidation and consolidation grants through the iterative process of critical thinking, LAFCo appears to have reached the most probable outcome that consolidation funding is rather slim because DPMWD is not a Disadvantaged Community (DAC) nor a severely impacted DAC. Also, since SSWD indicates that the cement pipe replacement is a long-term priority, DPMWD could also consider the cement pipe replacement as a long-term priority. At the last attended DPMWD meeting which LAFCo attended, LAFCo stated that DPMWD's immediate need is about \$17.5 million dollars. I thanked the LAFCo representative for reanalyzing the matter as new facts arose. It was necessary to explore; it was necessary to see a dead end.

9. *\$5-6 million cost of meter replacements and unknown cost of increasing capacity to meet fire flows.*

The District has not undertaken any remedial action on this item.

Director Matteoli's comment: Pursuant to AB 2572, meters are not required until 10 years after consolidation. Furthermore, grants are available for meters – if meters are ever required. I have already supplied LAFCo my comment on this item. In addition, approved design tasks should be considered towards 'remedial action'. The District has time to meet this requirement. Furthermore, when the new pipes are replaced, then meter setters will be installed for possible future meters. Concerning increasing fire flows: DPMWD is fully built out. Any needed increase in fire flow capacity would probably be nil.

10. *Unsuccessful attempts at securing grant funds are likely indicators of future inability to secure grant funds.*

Director Matteoli’s comment: Searching for grants not tied to consolidation by the controlling DPMWD Board members has not been initiated.

11. *Additional Prop. 218 rate increases, bonds, or loans would be necessary to fund necessary improvements as 2023 Prop. 218 rate increases only cover the cost of projects totaling \$9.23 million.*

Director Matteoli’s comment: The following workplan overview could be initiated over the next six months to secure independence. Possible new well sites can be investigated, and other funding mechanisms may perhaps come to light.

Engineering Projects: Planning, Design, Construction

Estimates are Engineered Planning Costs and will be updated by Engineered Design Costs.

<u>Phase 1 Projects</u>		Funding: 2023 218: \$9,230,000
Well 4 (ready for design)	\$ 958,000	Possible Low Interest Loans
Steel Pipes 2D-3 (in design)	5,250,000	
Steel Pipes 2D-1 (in design)	<u>2,691,000</u>	
Subtotal:	\$ 8,889,000	
Well 8 (contaminated with PCE)		Possible Funding: DTSC Grant
Install Activated Carbon Unit	\$ 550,000	
Yearly Cost (backup & fire flow)	30,000	
Well 7 Rehab (ready for design)	\$ 3,300,000	Possible Funding: Environmental or Blight Grant

Additional planning for upcoming projects for Phase 2 will be done simultaneously

<u>Phase 2 Projects</u>		Possible Funding:
Steel Pipes 2D-2 (in design)	\$ 2,638,000	1. Low Interest Loans
Steel Pipes – 2C (ready for design)	1,690,000	2. Value Assessment or 10-year rate increase
15 + AT&T Hydrants	<u>252,000</u>	3. Grants
Subtotal:	\$ 4,480,000	

Possible Funding: Environmental Trade Off: Common In Contaminant Remediation Projects. Similar To Voluntary Agreements: \$3 to 4 million dollars – realized immediately.

An additional 218 rate increase in 2029-2030.