



Del Paso Manor Water District

May 15, 2024

Dear Valued Ratepayer,

On May 1st, 2024, Sacramento Local Agency Formation Commission (LAFCo) passed a resolution of dissolution with a twelve-month remediation period. The Del Paso Manor Water District Board of Directors are looking at all options including voluntary consolidation with Sacramento Suburban Water District (SSWD). Updates will be provided to the ratepayers as information becomes available.

Please feel free to contact the District should you have any questions. On behalf of the Board of Directors and staff, we thank you for your continued support.

Thank you,

A handwritten signature in blue ink that reads "Adam Coyan".

Adam Coyan, General Manager



RESOLUTION NO. LAFC 2024-06

**THE SACRAMENTO LOCAL AGENCY FORMATION COMMISSION
RESOLUTION OF INTENT TO INITIATE THE DISSOLUTION
OF THE DEL PASO MANOR WATER DISTRICT
(LAFC PROJECT #2024-01)**

WHEREAS, the Sacramento Local Agency Formation Commission (the "Commission") is responsible for regulating boundary changes affecting cities and special districts pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 ("Act"); and

WHEREAS, Del Paso Manor Water District ("Del Paso Manor WD," "DPMWD" or "District") is a single-purpose special district, formed in 1956 pursuant to the County Water District Law (Wat. Code §§ 30,000 *et seq.*) to provide municipal water services to the community located in the greater Arden/Arcade area, generally bounded by Marconi Avenue, Cottage Way, Eastern Avenue, and Watt Avenue; and

WHEREAS, Del Paso Manor WD's service area is largely residential, but it also includes the commercial areas of Country Club Plaza and other shopping centers. DPMWD encompasses 672 acres or 1,790 parcels; and,

WHEREAS, in January 2021, the Sacramento County Grand Jury conducted an investigation of Del Paso Manor Water District that culminated in a report released on November 5, 2021; and

WHEREAS, the report concluded that there were "serious concerns with the DPMWD's operational safety and management practices" that were supported by a series of findings. The report indicated that a Municipal Service Review should be conducted for the District; and

WHEREAS, the Sacramento Grand Jury encouraged the Commission to review DPMWD's governance, finances and its ability to provide services; and

WHEREAS, on December 7, 2022, Sacramento LAFCo adopted a municipal service review (MSR) report for the DPMWD which included identifying certain public infrastructure and facility needs and deficiencies; and

WHEREAS, the adopted 2022 MSR states that "an abbreviated MSR will be conducted in three years that focuses on system repairs and upgrades, financial status, and governance standing;" and

WHEREAS, that abbreviated MSR would take place on or around December 2025; and

WHEREAS, on June 30, 2022, the Directors of DPMWD authorized the initiation of a merger discussion with the adjacent Sacramento Suburban Water District. ("SSWD"). On July 1, 2022, SSWD received a letter from DPMWD recommending that the SSWD Board of Directors approve and assemble a 2x2 Committee to discuss a potential merger between the two agencies; and

WHEREAS, the 2022 MSR encouraged the District to continue its discussions with SSWD and keep LAFCO informed; and

WHEREAS, the LAFCo staff has worked with DPMWD to discuss a strategy to remedy the chronic deficiencies of the District; and

WHEREAS, at a District Board meeting held on October 2, 2023, DPMWD pulled out of their discussions with SSWD, and instead chose to fund infrastructure improvements through an increase in water rates through Proposition 218; and

WHEREAS, on September 18, 2023 DPMWD adopted a resolution to increase water rates consistent with Proposition 218 to raise funds for \$9 million in capital infrastructure repairs and replacements over a five-year period; and

WHEREAS, the DPMWD Board of Directors thereafter received financial consultation for two options available to the District to immediately finance a portion of the necessary infrastructure and facility needs which include a bond for \$9 million that will cost \$18 million to pay back with interest; or a loan for \$9 million that will cost \$12 million to pay back with interest; and

WHEREAS, it is estimated that the District's infrastructure needs in order to address existing service and infrastructure deficiencies and to meet California regulatory requirements is estimated to be at least between \$40-52 million, far exceed the amount of money that the District can currently finance independently; and

WHEREAS, DPMWD and its ratepayers are in an untenable financial position if Del Paso Manor WD were to finance all of its infrastructure needs and deficiencies on its own; and

WHEREAS, according to the State Water Resources Control Board indicated that the District is eligible for approximately \$111 million in State grants and Principal Forgiveness funding should DPMWD consolidate with another water agency; and

WHEREAS, pursuant to Government Code 56375.1, a Commission may initiate a proposal for the dissolution of a district if at a public hearing the Commission approves, adopts, or accepts a study prepared pursuant to Government Code 56430; and

WHEREAS, study must demonstrate that there is a preponderance of evidence, that the district has one or more documented chronic service provision deficiencies that substantially deviate from industry or trade association standards or other government regulations and its board or management is not actively engaged in efforts to remediate the documented service deficiencies; and

WHEREAS, the Commission evaluated updated and new information from the District and prepared an update to the District's 2022 MSR to reflect changed circumstances and increasing and ongoing deficiencies with service provided by the District;

WHEREAS, as set forth in the updated MSR the existing chronic service issues include the following:

- There is estimated to be approximately 3,000 linear feet of pipeline that is less than three-inch diameter which does not meet current regulations for water distribution mains (Title 22 of the California Code of Regulations) which specifies that water mains must be at least four inches in diameter;
- DPMWD has documented numerous system leaks both in water mains and on the customer side of connections. The District stated a dramatic decrease in total leaks by lowering operating pressure and coordinating well operation to prevent pressure spikes. Since the District neglected to invest in regular repair and maintenance of these facilities, several wells are currently offline;
- Since December 2022, additional wells have gone offline or are no longer useable due to contamination or OSHA regulations. There are known and unknown groundwater contamination sites surrounding the District. This contamination is currently affecting two of the District's wells. The District is looking into potential carbon filtration in order to bring these wells back online;
- In January 2024, the motor for Well #4 failed completely and now requires replacement. According to the District's 2009 Master Plan prepared by Kennedy Jenks, the pump for Well #4 was running above its service capacity since 1999. While the motor to Well #4 has been replaced, the casing is 70 years old, is past its useful life and could fail at any time;

- DPMWD does meet regulations pertaining to source capacity including California Code of Regulations Title 22, Section 64554(c) which requires that groundwater systems be able to meet their Maximum Daily Demand (MDD) with their highest-capacity source offline, and Section 64554(a) which requires that systems with 1,000 or more service connections be able to meet four hours of peak hourly demand with source capacity, storage capacity, and/or emergency source connections. Currently, with Well #9 offline, DPMWD can only produce 2,060 gpm, which is less than their MDD of 3,130 gpm;
- DPMWD is responsible for providing fire flows of 3,500 gal/min for the AT&T commercial building in addition to the District's regular MDD. Based on the District's current infrastructure, prior to the failure of Well #4, and legal production rate of 3,560 gpm, there is a shortage of 3,070 gal/min. Even if the District were to utilize all of its currently connected wells, there would not be enough water to meet Sacramento County fire flow standards. Additionally, the District would have to utilize contaminated water which may result in additional customer noticing;
- Currently, the District was able to meet fire flow requirements by relying on the interties with SSWD. California Water Code Section 10609.62 now requires a small water supplier to have source system capacity, treatment system capacity if necessary, and distribution system capacity to meet fire flow requirements by January 1, 2032;
- In order to increase water capacity for the District, existing wells would have to be refurbished or new wells would have to be drilled. As of October 2023, it was estimated that refurbishment of Well #2 would cost approximately \$837,000;
- As of March 2022, it was estimated that the District needs approximately \$52 million for well rehabilitation and water main replacements not including the cost of meter installation and self-reliance for fire flows, as required by regulations;
- Meter replacement for the District is estimated at \$5 - \$6 million. The cost for increasing source capacity to meet fire flows is currently unknown but likely to cost several million dollars;
- DPMWD has been unsuccessful at obtaining grant funding to support infrastructure improvements. Based on the District's lack of consistent governance and management, and the level of neglect that has been exhibited over the last two decades, it is unlikely that they will be successful in obtaining grant funding in the future;

- While the District was able to successfully complete a Proposition 218 process in 2023, the rate increases only cover the cost of four capital improvement projects totaling \$9.23 million. A \$9 million bond measure could be utilized that would eventually cost \$18 million to pay back with interest, or a \$9 million loan that would cost \$12 million to pay back with interest.
- The resulting rate increases from the Proposition 218 process will increase residential rates by approximately 22% from November 2023 to July 2027; and
- Due to the small size of the District and limited customer base, rates would have to be increased substantially above those of surrounding water providers in order to cover the costs of repair and maintenance for District infrastructure. This would place an unnecessary and avoidable burden on rate payers within DPMWD;

WHEREAS, there is concern, in addition to these deficiencies that DPMWD cannot generate sufficient fire flow and that households in the District's service area may be at risk of losing their fire insurance coverage; and

WHEREAS, the Commission pursuant to Government Code Section 56375.1 may initiate the dissolution of Del Paso Manor Water District; and

WHEREAS, if dissolution is recommended by the Commission, Government Code 56375.1 provides that the Commission adopt a resolution to initiate dissolution with a remediation period of at least 12 months to afford time for the District to address the specified deficiencies; and

WHEREAS, the Executive Officer reviewed the MSR Addendum or the Resolution of Intent to Initiate Dissolution pursuant to the California Environmental Quality Act (CEQA), and recommended that the project is exempt from CEQA under §15061(b)(3) because it is covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA, and, based thereon, the Executive Officer prepared a Notice of Exemption; and

WHEREAS, the Executive Officer set a public hearing for May 1, 2024 for consideration of the approval of an updated MSR and a resolution of intent to initiate dissolution of the Del Paso Manor Water District and caused notice thereof to be posted, published and mailed at the times and in the manner required by law at least twenty-one (21) days in advance of the date; and

WHEREAS, on May 1, 2024 the municipal services review update came on regularly for hearing before LAFCo, at the time and place specified in the Notice; and

WHEREAS, at said hearing, LAFCo reviewed and considered the DPMWD MSR, and the Executive Officer's Report and Recommendations; each of the policies, priorities and factors set forth in Government Code Sections 56375.1 and 56430 et seq.; LAFCo's Policies, Standards and Procedures, starting with Policy V; and all other matters presented as prescribed by law; and

WHEREAS, the Executive Officer's report and recommendations on the proposal have been presented to the Commission in the manner provided by law; and

WHEREAS, at that time, an opportunity was given to all interested persons, organizations, and agencies to present oral or written testimony and other information concerning the proposal and all related matters; and

WHEREAS, the Commission received, heard, discussed, and considered all oral and written testimony related to the sphere update, including but not limited to protests and objections, the Executive Officer's report and recommendation, the environmental document and determinations and the service review; and

WHEREAS, if the Commission finds the District has adequately remedied the deficiencies, by May 1, 2025 the Commission shall rescind the notice of intent to initiate dissolution and no further action is required.

NOW, THEREFORE, IT IS HEREBY RESOLVED AND ORDERED by the Sacramento Local Agency Formation Commission does hereby find and resolve as follows:

1. The foregoing recitals are true and correct.
2. The Commission considered the Del Paso Manor Water District 2022 Municipal Service Review, the Del Paso Manor Water District Municipal Service Review Addendum April 2024 ("MSR Addendum"), the Executive Officer's Report and all referenced findings and determinations and hereby adopts such finding and determinations included in the Del Paso Manor Water District Municipal Service Review Addendum April 2024, the Executive Officer's Report and referenced attachments.
3. The Commission finds that the written determinations within the Del Paso Manor Water District Municipal Service Review Addendum April 2024 ("MSR Addendum") are complete and satisfactory and supported by

substantial evidence, and hereby makes the determinations as set forth in the MSR Addendum and adopts and approves the MSR Addendum.

4. The Commission is in compliance with Government Code Section 56375.1, which allows the Commission to initiate dissolution.
5. The Commission considered all factors required by law under Government Code sections 56375.1, and all written and oral evidence presented to the Commission, and hereby adopts a Resolution of Intent to Initiate Dissolution of the District based on the following findings, which are consistent with Government Code 56375.1(a)(1)(A), that there is a preponderance of the evidence, that the District has one or more documented chronic service provision deficiencies that substantially deviate from industry or trade association standards or other government regulations and its board or management is not actively engaged in efforts to remediate the documented service deficiencies including the following:
 - There is estimated to be approximately 3,000 linear feet of pipeline that is less than three-inch diameter which does not meet current regulations for water distribution mains (Title 22 of the California Code of Regulations) which specifies that water mains must be at least four inches in diameter.
 - DPMWD has documented numerous system leaks both in water mains and on the customer side of connections. The District stated a dramatic decrease in total leaks by lowering operating pressure and coordinating well operation to prevent pressure spikes. Since the District neglected to invest in regular repair and maintenance of these facilities, several wells are currently offline.
 - Since December 2022, additional wells have gone offline or are no longer useable due to contamination or OSHA regulations. There are known and unknown groundwater contamination sites surrounding the District. This contamination is currently affecting two of the District's wells. The District is looking into potential carbon filtration in order to bring these wells back online.
 - In January 2024, the motor for Well #4 failed completely and now requires replacement. According to the District's 2009 Master Plan prepared by Kennedy Jenks, the pump for Well #4 was running above its service capacity since 1999. While the motor to Well #4 has been replaced, the casing is 70 years old, is past its useful life and could fail at any time.
 - DPMWD does not meet regulations pertaining to source capacity including California Code of Regulations Title 22, Section 64554(c) which requires

that groundwater systems be able to meet their Maximum Daily Demand (MDD) with their highest-capacity source offline, and Section 64554(a) which requires that systems with 1,000 or more service connections be able to meet four hours of peak hourly demand with source capacity, storage capacity, and/or emergency source connections. Currently, with Well #9 offline, DPMWD can only produce 2,060 gpm, which is less than their MDD of 3,130 gpm.

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- Currently, the District was able to meet fire flow requirements by relying on the interties with SSWD. California Water Code Section 10609.62 now requires a small water supplier to have source system capacity, treatment system capacity if necessary, and distribution system capacity to meet fire flow requirements by January 1, 2032.
- In order to increase water capacity for the District, existing wells would have to be refurbished or new wells would have to be drilled. As of October 2023, it was estimated that refurbishment of Well #2 would cost approximately \$837,000
- As of March 2022, it was estimated that the District needs approximately \$52 million for well rehabilitation and water main replacements not including the cost of meter installation and self-reliance for fire flows, as required by regulations.
- Meter replacement for the District is estimated at \$5 - \$6 million. The cost for increasing source capacity to meet fire flows is currently unknown but likely to cost several million dollars.
- DPMWD has been unsuccessful at obtaining grant funding to support infrastructure improvements. Based on the District's lack of consistent governance and management, and the level of neglect that has been exhibited over the last two decades, it is unlikely that they will be successful in obtaining grant funding in the future.
- While the District was able to successfully complete a Proposition 218 process in 2023, the rate increases only cover the cost of four capital improvement projects totaling \$9.23 million. A \$9 million bond measure could be utilized that would eventually cost \$18 million to pay back with

- interest, or a \$9 million loan that would cost \$12 million to pay back with interest.
- The resulting rate increases from the Proposition 218 process will increase residential rates by approximately 22% from November 2023 to July 2027.
 - Due to the small size of the District and limited customer base, rates would have to be increased substantially above those of surrounding water providers in order to cover the costs of repair and maintenance for District infrastructure. This would place an unnecessary and avoidable burden on rate payers within DPMWD. There is estimated to be approximately 3,000 linear feet of pipeline that is less than three-inch diameter which does not meet current regulations for water distribution mains (Title 22 of the California Code of Regulations) which specifies that water mains must be at least four inches in diameter.
6. The Commission provides a remediation period of not less than 12 months during which Del Paso Manor WD may take steps to remedy the specified deficiencies.
 7. The Executive Officer is directed to file a Notice of Exemption under §15061(b)(3) in compliance with the California Environmental Quality Act and local ordinances implementing the same.
 8. Del Paso Manor WD shall provide the Commission a mid-point report by November 1, 2024 on such remediation efforts by the District which report may thereafter be considered at a regularly scheduled Commission meeting.
 9. At the conclusion of the 12-month remediation period, the Commission will consider at a noticed public hearing whether the District has remedied the identified deficiencies and whether the District shall be dissolved in accordance with Government Code Section 56375.1. If the Commission finds the District has adequately remedied the deficiencies, the Commission shall rescind the notice of intent to initiate dissolution and no further action is required.
 10. The Executive Officer is hereby directed to take all further actions required by law and necessary to implement the intent of this resolution including filing a Notice of Exemption consistent with the California Environmental Quality Act.

BE IT FURTHER RESOLVED that Resolution No. **L AFC 2024-06** was adopted by the **SACRAMENTO LOCAL AGENCY FORMATION COMMISSION**, on the 1st Day of May, by the following vote, to wit:

	Motion	2nd	Aye	No	Absent	Abstain
Lindsey Carter		X	✓			
Sue Frost			✓			
Gay Jones			✓			
Lisa Kaplan			✓			
Timothy Murphy			✓			
Iva Walton			✓			
Rich Desmond	X		✓			

Commission Vote Tally Aye 7 No 0 Absent 0 Abstain 0
 Passed Yes X No 0

By: *[Signature]*
Rich Desmond, Chair
SACRAMENTO LOCAL AGENCY FORMATION COMMISSION



FILED
 BOARD OF DIRECTORS
 MAY 01 2024
[Signature]
 CLERK OF THE BOARD

In accordance with Section 25103 of the Government Code of the State of California a copy of the document has been delivered to the Chair on
 By: *[Signature]*
 Deputy Clerk, Board of Directors

ATTEST: *[Signature]*
Lorice Washington, Clerk of the Commission
SACRAMENTO LOCAL AGENCY FORMATION COMMISSION