

Agenda Item: 1

Date: June 5, 2024

Subject: Draft Minutes of the May 22, 2024, Del Paso Manor Water District and Sacramento Suburban Water District Joint Board Meeting

Staff Contact: Dan York, SSWD General Manager
Cathy Lee, CWD General Manager

Recommended Board Action:

Approve the Draft Minutes of the May 22, 2024, Del Paso Manor Water District and Sacramento Suburban Water District Joint Board Meeting.

Attachment:

1. Draft Minutes of the May 22, 2024, Del Paso Manor Water District and Sacramento Suburban Water District Joint Board Meeting.



Minutes

Del Paso Manor Water District/Sacramento Suburban Water District Joint Board Meeting

Monday, May 22, 2024

Location:

3701 Marconi Avenue, Sacramento, CA 95821, and Audio Conference at 1-669-900-6833, and Video Conference using Zoom at Meeting ID #895 0601 0403

SSWD Call to Order – Videoconference/Audioconference Meeting

Sacramento Suburban Water District (SSWD) Board President Kevin Thomas (Chair Thomas) called the meeting to order at 6:02 p.m.

Roll Call

SSWD Directors

Present: Jay Boatwright (via Zoom), Dave Jones, Craig Locke, Kevin Thomas, and Robert Wichert.

SSWD Directors

Absent: None.

SSWD Staff Present: General Manager Dan York, Jeff Ott, Dane Westvik, Julie Nemitz, and Heather Hernandez-Fort.

Public Present: SSWD Legal Counsel Josh Horowitz, Del Paso Manor Water District (DPMWD) Legal Counsel Lauren Bernadett, Jose Henriquez, Sabrina Coyan, Evelyn David, Trish Harrington, and Roy Wilson.

DPMWD Call to Order – Videoconference/Audioconference Meeting

DPMWD Board Vice President Carl Dolk (Mr. Dolk) called the meeting to order at 6:03 p.m., however, DPMWD did not have a quorum. As a result, DPMWD could not hold a meeting, therefore, the two DPMWD Directors present joined the audience as members of the public.

Roll Call

DPMWD Directors

Present: Carl Dolk and Gwynne Pratt.

DPMWD Directors

Absent: David Ross and Robert Matteoli.

DPMWD Staff Present: General Manager Adam Coyan.

SSWD Director Wichert expressed concern over the participation of the DPMWD Board, noting that if their lack of a quorum was any indication of the interest they have with combination discussions, he would not be interested in continuing.

DPMWD General Manager Adam Coyan (DPMWD GM Coyan) expressed his full support for combination discussions, and urged the SSWD Board to continue discussions, noting he felt it would be beneficial to DPMWD.

SSWD Legal Counsel Josh Horowitz expressed that the SSWD Board could still proceed with the meeting as scheduled, if the Board desired to do so.

SSWD Director Wichert expressed he was not interested in continuing with the meeting, as he did not feel it would be effective.

The majority of the SSWD Board agreed to continue with the meeting, noting that they could at least review and discuss strategies on the Agenda items.

Public Comment

None.

Items for Discussion and/or Action

1. **Sacramento Local Agency Formation Commission – Public Hearing on Del Paso Manor Water District**
SSWD GM York presented the staff report.

Jose Henriquez (Mr. Henriquez) Executive Officer of Sacramento Local Agency Formation Commission (LAFCo) echoed SSWD GM York in stating that the LAFCo Commissioners voted unanimously to approve a resolution to attempt to dissolve DPMWD due to serious deficiencies and required infrastructure repairs. He noted there was roughly 52 million dollars worth of infrastructure repairs needed to be able to provide clean potable water, and that impact would bear too much of a burden on the DPMWD ratepayers. He expressed that there is a state grant program that the district could qualify for, however, he noted to qualify, DPMWD would have to dissolve or combine with another district. Mr. Henriquez assured the SSWD Board that it would not be a burden on SSWD ratepayers if they did absorb DPMWD, noting that it was a necessary step in order to provide the customers of DPMWD with clean, potable water.

Discussion ensued over what the DPMWD deficiencies were, including fire flow, inability to meet peak demands, significant leaks in their system, and upcoming state mandates that DPMWD would have to finance such as meters and treatment.

Further discussion ensued over grant funding, what would be covered by grant funding, and how likely it would be for the districts to qualify for and acquire it.

SSWD Director Locke inquired if there was a list of engineering firms that have successfully submitted for the grant funding that could be provided for assistance.

Mr. Henriquez expressed he did not know the answer but would look into it.

SSWD GM York pointed out that DPMWD's rates were very similar to SSWD's rates during the most recent combination discussions, and with DPMWD's recent rate increase, the longer the combination process takers, the larger the gap would be between SSWD rates and DPMWD rates.

SSWD Director Wichert inquired if DPMWD had made any progress on the three wells that were identified as being needed.

DPMWD GM Coyan expressed that DPMWD did not have the funding to work on those wells at this time.

Discussion ensued over the vacant position on the DPMWD Board.

Clarifying questions were answered regarding a potential 218 process with a combined district.

Roy Wilson, a ratepayer of DPMWD expressed his disappointment in the lack of a quorum of the DPMWD Board, and expressed his support for the combination of the two districts, noting he appreciated all of the help SSWD has provided thus far, and that he was looking forward to having SSWD absorb DPMWD.

Mr. Dolk and Gwynne Pratt (Ms. Pratt) expressed their appreciation for SSWD, noting they felt SSWD is a very professional group and they felt fortunate for the potential to join SSWD.

SSWD Director Locke expressed his desire to move quickly on whatever is decided.

SSWD GM York pointed out that there were additional options for funding that was discussed during the most recent combination discussions.

2. **Sacramento Suburban Water District and Del Paso Manor Water District – Potential Reorganization**

SSWD GM York provided a brief summary of the staff report.

SSWD Director Wichert expressed he was not in favor of SSWD absorbing the full cost of the necessary tasks list included in the staff report.

SSWD Director Locke pointed out that in an effort for the SSWD Board to make an informed decision, they should at least begin to perform an analysis, such as the rate structure and liabilities.

SSWD Director Wichert reiterated that he did not want to take on the funding of the work unless the Board knew that it was not going to burden the SSWD ratepayers.

SSWD GM York pointed out that a lot of the analysis had already been conducted previously and would just need to be reviewed for any updates. He pointed out that if the districts decided to hire a consultant and/or work on a communications plan, those costs would need to be divided between the two districts.

SSWD Director Locke requested to provide the pros and cons list, previously prepared, to the next meeting.

Mr. Henriquez informed the Board that the next step for LAFCo was to hold an Open House meeting to the DPMWD ratepayers on July 16, 2024, at the El Camino High School Cafeteria, to inform the public of the LAFCo options and what the next steps would be for DPMWD.

The Board agreed to review and revise the pros and cons list to provide it to the next Joint Board meeting, but not to spend any money on consulting or communications until both Boards agree to do so.

SSWD Director Locke requested staff reach out to the communications consultant to get an idea of a scope of work for this endeavor.

SSWD Director Boatwright stated that he was not in favor of spending money at all on consultants as he felt this should be the burden of DPMWD.

Further discussion ensued over who would be responsible for bearing the cost of consultants, where the consensus of the Board agreed to discuss it further with the DPMWD Board.

SSWD GM York requested that any messaging or communication sent to ratepayers of each district be identical.

3. **Del Paso Manor Water District and Sacramento Suburban Water District Board of Directors – Comments and/or Concerns**

SSWD GM York presented the staff report.

SSWD Director Boatwright reiterated that he felt DPMWD should be financially responsible for any consulting or communication expenses going forward.

Discussion ensued over governance and how the district's Board could be structured, should the two agencies be combined.

4. **Communications Plan**

SSWD GM York briefly summarized the staff report and pointed out that the draft communication plan was included in the packet.

Chair Thomas expressed this item would be moved to the next meeting of the Joint Boards.

SSWD Director Locke noted that he wanted to be sure that any communication and outreach going forward between the two districts rate payers should be identical messaging.

5. **Joint Board Meetings vs 2x2 Committee Meetings**

SSWD GM York presented the staff report.

SSWD Director Locke wanted to ensure that members of both Boards attended if the decision was to only hold Joint Board meetings.

SSWD Director Wichert expressed he was in favor of Joint Board meetings as opposed to 2x2 Committee meetings.

SSWD Director Boatwright expressed he was not in favor of 2x2 Committee meetings, noting that if DPMWD was not able to assemble a quorum during these meetings, then SSWD should cease combination discussions with them until it was mutual.

The Board agreed to hold the next meeting of the Joint Boards as a Joint Board meeting on June 5, 2024, at 6:00 p.m.

6. **Future Meeting – Draft Agenda Topics**

SSWD GM York presented the staff report.

The SSWD Board agreed to hold the next meeting of the Joint Boards on June 5, 2024, and then every second Wednesday thereafter starting in July. They agreed to bring back the same items from this meeting to the June 5, 2024, meeting.

Mr. Dolk and Ms. Pratt agreed with the Joint Board meeting days proposed.

SSWD Director Locke requested to bring back the communications plan along with the previously presented pros and cons list.

SSWD GM York noted that if DPMWD GM Coyan requested to include additional items on the next agenda, that he would inform the Board of the added topic.

Adjournment

Chair Thomas adjourned the meeting at 7:15 p.m.

Dan York
General Manager/Secretary
Sacramento Suburban Water District

Agenda Item: 2

Date: June 5, 2024

Subject: Sacramento Suburban Water District and Del Paso Manor Water District – Potential Reorganization

Staff Contact: Dan York, SSWD General Manager
Adam Coyan, DPMWD General Manager

Recommended Board Action:

Direct staff to develop a process for which to bring forth a vote to initiate reorganization tasks to dissolve Del Paso Manor Water District by combining under Sacramento Suburban Water District.

Background:

Since 2019, Sacramento Suburban Water District (SSWD) and Del Paso Manor Water District (DPMWD) have been in various discussions to combine the two districts, as well as SSWD operating DPMWD’s water system by way of a Mutual Aid Agreement and an Operational Services Agreement. This was due to three of their four staff members retiring/resigning on May 31, 2019, as well as the 2021 Grand Jury Report.

Between 2020 and 2023, SSWD and DPMWD conducted an analysis on the following areas:

- Condition Assessment of DPMWD’s Infrastructure
- Groundwater/Surface Water Supplies
- Municipal Services Review Updates
- Financial Analysis
- Water Rate Comparison
- Combination Benefits – Rates, Costs, Operations
- Combination Benefits, Advantages, and Disadvantages

The above items were presented at the SSWD - DPMWD 2X2 Committee meetings, with report backs to the full Board of each agency. However, at the May 22, 2023, Joint Board meeting, the DPMWD Board of Directors made the decision to move forward with the Proposition 218 process and let their customers choose to pass a potential rate increase, or not.

Discussion:

On April 10, 2024, the Sacramento Local Agency Formation Commission (LAFCo), provided a Public Notice informing the public that LAFCo scheduled a Public Hearing on May 1, 2024, for the purpose of adopting an addendum to DPMWD’s Municipal Services Review and adopt a Resolution of Intent to Initiate Dissolution of DPMWD.

On April 16, 2024, DPMWD held a Special Board meeting to discuss LAFCo’s intent mentioned above. One of the options stated was to re-initiate discussions with SSWD. Per the minutes of

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DPMWD's Special Board meeting, the DPMWD Board of Directors voted to initiate discussions with SSWD. The vote was 3-1.

On May 1, 2024, LAFCo approved the adoption of an addendum to DPMWD's Municipal Services Review and adopt a Resolution of Intent to Initiate Dissolution of DPMWD. The vote was 7-0 on both items.

If SSWD and DPMWD choose to continue the path of combining the two agencies, a list of necessary tasks needs to be developed. For example, the State Water Resources Control Board, Division of Drinking Water (DDW) will need to initiate amending SSWD and DPMWD's Water System Permits, which typically takes approximately 6-12 months. However, during the Water System Permit amendment process, DDW can temporarily re-appoint DPMWD's Water System Permit to SSWD, which provides SSWD with the authority/responsibility to operate DPMWD's water system until the Water System Permit amendment process is completed.

In addition, there are several tasks that need to be outlined and assigned as priorities. Below is an example of various tasks that would need to be conducted if the process is approved by both districts:

- Financial System – Determine how cash receivables and liabilities are transferred. Inventory non-bonded loans/grants, etc. Notify bond holders.
- Water Rates – Determine rate setting process.
- LAFCo resolutions
- Insurance Claims/Litigation. Identify outstanding claims and litigation.
- Real property disposition inventory and transfer
- Vehicle and equipment inventory
- Division of Drinking Water – Amend Water System Permits

Note: The above items are not in order of priority.

Agenda Item: 3

Date: June 5, 2024

Subject: Reorganization Benefits, Advantages, and Disadvantages

Staff Contact: Dan York, SSWD General Manager
Adam Coyan, DPMWD General Manager

Recommended Board Action:

No action. Receive presentation and direct staff as appropriate.

Discussion:

Per the direction of the Sacramento Suburban Water District (SSWD) Board of Directors at the May 22, 2024, Joint Board meeting with Del Paso Manor Water District (DPMWD), staff is providing the benefits, as well as the advantages and disadvantages if DPMWD were to dissolve with SSWD.

Based on the fact that the Sacramento Local Agency Formation Commission adopted a Resolution of Intent to Initiate Dissolution of DPMWD at their May 1, 2024, Commission meeting, the Commission made it very clear at that meeting the focus is to ensure the DPMWD customers are provided a long-term safe and reliable water supply, at a reasonable rate, is paramount.

Below are benefits, advantages, and disadvantages:

Improved Levels of Service and Customer Value - Passing on benefits to customers could be possible because utilities with greater scale can often optimize their overall capacity, be more efficient, specialize staffing, acquire capital at lower rates, spread costs to address affordability and equity challenges, and have more capacity to engage and be responsive to customers.

Financial Benefits – One of the critical pieces is knowing what the value to DPMWD would be and how long it could take to realize. Assessing, estimating, and quantifying benefits is essential to know whether benefits outweigh the costs and challenges. Potential financial benefits from combination include:

- o Economies of scale and operating efficiencies;
- o Increased access to capital at a lower cost;
- o Equal customer rates for a specified level of service;
- o Revenue stability;
- o Reduced exposure to regulatory penalties;
- o Improved planning and risk management; and
- o Increased opportunities for economic development.

Increased Access to Capital at a Lower Cost - Water is a capital-intensive enterprise. There are high costs associated with investing in and maintaining the vast infrastructure that water utilities operate. Costs are climbing with the need to upgrade, retrofit, and make systems more resilient. Several case studies in this report show that consolidated utilities can access capital

from investors at a lower cost. With a combination, the resources are pooled together to serve larger customer bases.

Revenue Stability – A larger agency can make systems less vulnerable to revenue shortfalls. Combined systems that tie together more diverse water users may be able to mitigate revenue fluctuations and spread the cost of filling shortfalls over a larger customer base when they do occur.

Reduced Exposure to Regulatory Penalties – There are existing regulatory pressures on DPMWD. For example, with their groundwater wells and ailing infrastructures system. Reorganization into SSWD can become one of the solutions for achieving cost effective regulatory compliance.

Lower Operational Costs - Reorganization can lead to greater efficiency and lower cost per customer. Water utilities can spread fixed costs and lower the share borne by any one customer when their rate base increases. An agency can optimize their capacity and potentially pay lower costs per unit of service by consolidating duplicative functions, systems, and infrastructure.

Potential Advantages for DPMWD

- **Ability to achieve greater scale efficiencies through a larger organization:** Combining the two agencies can provide DPMWD overall efficiencies, operationally and financially.
- **Greater water resource utilization:** Maximizing the use of water resources is a complex process filled with regulatory and political hurdles. DPMWD will benefit from SSWD's water resources with a combined portfolio of groundwater and surface water entitlements.
- **Higher levels of customer service:** More specialization of staff and greater levels of service and efficiencies to the DPMWD customers.
- **More rate and financial stability:** Larger and more stable supply of water resources, a broader customer base, and an improved ability to address changes in operating conditions brought on by water resource challenges, staffing shortages, and inflation.
- **Upward mobility for staff** at a larger organization.
- **State funding:** If DPMWD were to dissolve into SSWD, there is potential for State funding for infrastructure improvements.
- **Transparent and well precedented process** with LAFCo and SSWD history of success.

Potential Disadvantages for DPMWD

- **A perceived loss of local control and the dilution of representation:** A combined entity would have Board members representing a larger number of constituents, assuming the Board is the same size as the current Boards.
- **Challenges to combining existing water resources:** SSWD's South Service Area (SSA) is fluoridated. The existing contract with First Five Commission expires in 2027. At that point and time SSWD will most likely attempt to obtain approval from the Division of Drinking Water to discontinue fluoridating the SSA. However, until that time, measures will have to be taken to increase water supplies to meet peak demands, but most importantly, to meet fire flows.

Agenda Item: 4

Date: June 5, 2024

Subject: Del Paso Manor Water District and Sacramento Suburban Water District Board of Directors – Comments and/or Concerns

Staff Contact: Dan York, SSWD General Manager
Adam Coyan, DPMWD General Manager

Recommended Board Action:

Receive input from the Del Paso Manor Water District and Sacramento Suburban Water District Board of Directors on any concerns or issues related to potential reorganization efforts.

Discussion:

The Joint Board meeting between Del Paso Manor Water District (DPMWD) and Sacramento Suburban Water District (SSWD) will provide an opportunity for each Director from the respective districts to provide input on their thoughts and/or concerns related to the potential of a reorganization in which DPMWD is dissolved into SSWD.

Note: At the May 22, 2024, DPMWD SSWD Joint Board meeting, the SSWD Board commented that any analysis or communications plan is to be split 50/50 between the two agencies. In addition, there was discussion regarding how the District’s Board could be structured should the two agencies combine.

Agenda Item: 5

Date: June 5, 2024

Subject: Communications Plan

Staff Contact: Dan York, SSWD General Manager
Adam Coyan, DPMWD General Manager

Recommended Board Action:

Director staff to develop a Communications Plan for a reorganization of Del Paso Manor Water District under Sacramento Suburban Water District for outreach to customers/stakeholders of each district.

Discussion:

If the respective Board of Directors of Del Paso Manor Water District (DPMWD) and Sacramento Suburban Water District (SSWD) choose to initiate the process of reorganizing DPMWD into SSWD, it is imperative that a draft Communications Plan is developed that will reach internal and external stakeholders of each district. The Communications Plan, at a minimum, should address potential efficiencies, water supply reliability, and enhanced customer service. Attached to this staff report is a Draft Communications Plan that identifies outreach phases and options for communicating the discussions to internal and external stakeholders.

If DPMWD and SSWD choose to develop a Communication Plan, the cost of the effort will be split 50/50 between the two agencies.

Note: At the May 22, 2024, DPMWD SSWD Joint Board meeting, the SSWD Directors commented that any communication and outreach going forward between the two districts rate payers should be identical messaging.

Attachment:

1 – Draft – Communications Plan

Draft – Communications Plan

Outreach Outline for Del Paso Manor Water District and Sacramento Suburban Water District

OUTREACH PHASES AT A GLANCE

PHASE 1: Reorganization discussion progress

- Educate audiences that SSWD and DPMWD are in the process of a potential reorganization.
- Postcards, newsletter, website, bill inserts, etc.

PHASE 2: Once the SSWD and DPMWD Boards takes a position on reorganization:

- Educate audiences about the SSWD and DPMWD Board’s position, and next steps.
 - If the Board’s position is to move forward with reorganization, then outline next steps for Board action, including opportunities for audiences to learn more and provide input.
 - Recommend providing ample time, robust outreach and several opportunities for audiences to learn more and provide input.

Target Audiences

Note that priority levels for target audiences will change depending upon the outreach phase.

Internal

- SSWD and DPMWD employees

External

Priority

- Customers
 - Parks departments within SSWD and DPMWD service areas
 - Civic and business organizations within the SSWD and DPMWD service areas
 - HOAs within the SSWD and DPMWD service areas
- Local elected officials that represent the SSWD and DPMWD service areas (County Board of Supervisors, CA Assembly and Senate, and Congressional)
- Taxpayer advocacy groups
- LAFCo (already engaged)
- Regulators, especially the State Water Resources Control Board, Division of Drinking Water

Secondary

- Regional Water Authority/Sacramento Groundwater Authority
- Regional water providers

PHASE 3: Once the SSWD and DPMWD Boards vote on whether to move forward with Reorganization:

- Educate audiences about the SSWD and DPMWD Board's position and perspective on reorganization, and next steps.

Outreach Activities

Outreach Activities are TBD, but will generally include those above, customized to the Board's decision/direction.

Agenda Item: 6

Date: June 5, 2024

Subject: Joint Board Meetings vs 2x2 Committee Meetings

Staff Contact: Dan York, SSWD General Manager
Adam Coyan, DPMWD General Manager

Recommended Board Action:

Discuss preference to conduct Joint Board meetings or appoint a 2x2 Committee going forward on the potential reorganization of Del Paso Manor Water District into Sacramento Suburban Water District. Direct staff as appropriate.

Discussion:

The Del Paso Manor Water District (DPMWD) and Sacramento Suburban Water District (SSWD) conducted combination discussions from 2020 to 2023. During that timeframe, the DPMWD and SSWD Board of Directors chose to appoint a 2x2 Committee to receive the information and analysis provided by staff. The 2x2 Committee would then report back to the full Boards with recommendations, if appropriate.

However, the 2x2 Committee does not have the authority to approve critical points of a reorganization between the two districts. Due to this, a 2x2 Committee has the potential to delay important tasks throughout the process and can ultimately extend critical decision points.

In directing staff to schedule Joint Board meetings to present information, or critical decision points, the process is more efficient as all of the Directors of each district receive the same information and allows making decisions in a more timely manner.

Note: At the May 22, 2024, DPMWD SSWD Joint Board meeting, the SSWD Directors commented that they were not in favor of conducting 2x2 Committee meetings. In addition, the SSWD Board wanted to ensure that members of both Boards attended if the decision was to only hold Joint Board meetings.

Agenda Item: 7

Date: June 5, 2024

Subject: Future Meeting – Draft Agenda Topics

Staff Contact: Dan York, SSWD General Manager
Adam Coyan, DPMWD General Manager

Recommended Board Action:

Discuss agenda topics to be presented at the next meeting of Del Paso Manor Water District and Sacramento Suburban Water District and direct staff as appropriate.

Discussion:

Direct staff on which topics need to be placed on the agenda for the next meeting of Del Paso Manor Water District and Sacramento Suburban Water District.

Note: At the May 22, 2024, DPMWD SSWD Joint Board meeting, the SSWD Board agreed to hold the next meeting of the Joint Boards on June 5, 2024, and then every second Wednesday thereafter starting in July 2024. They directed staff to bring back the same items from the May 22nd meeting to the June 5, 2024, meeting.

Mr. Dolk and Ms. Pratt agreed with the Joint Board meeting days proposed.

The SSWD Board requested to bring back the communications plan along with the previously presented pros and cons list.