



## ***SSWD-DPMWD Combination Discussions***

# **Frequently Asked Questions**

August 29, 2024

### **General Information**

#### **Why is a merger being considered between SSWD and Del Paso Manor Water District (DPMWD)?**

Since 2019, Sacramento Suburban Water District (SSWD) and Del Paso Manor Water District (DPMWD) have engaged in various discussions about potentially combining the two districts. Both are neighboring water providers with the majority of the DPMWD service area surrounded by SSWD's service area. They also have previous experience collaborating through a Mutual Aid Agreement and an Operational Services Agreement.

Combination discussions were reinitiated in the spring of 2024 with renewed focus after the Sacramento Local Agency Formation Commission (LAFCo) adopted a Resolution of Intent to Dissolve DPMWD. LAFCo has identified that DPMWD's aging infrastructure requires extensive investment, estimated at over \$50 million. This would necessitate significant rate increases for DPMWD customers, potentially up to four times the rates of neighboring districts. LAFCo's focus is to ensure that DPMWD customers are provided a long-term safe and reliable water supply, at a reasonable rate.

By merging, DPMWD has the potential to achieve greater financial stability and access to grant funding for upgrading infrastructure that would not be available without a combination. At the same time, SSWD is well-positioned to integrate DPMWD customers and staff without exposing existing SSWD customers to financial risk.

#### **What are the key challenges facing DPMWD as identified by LAFCo?**

LAFCo has identified several critical challenges for DPMWD, including extensive infrastructure deficiencies and financial instability. The district's water system requires over \$50 million in upgrades due to aging infrastructure. Additionally, DPMWD has two wells offline because of contamination, which cannot be quickly activated for emergencies, compromising its ability to meet fire flow requirements. Financially, the substantial cost of improvements could lead to significant rate increases, making DPMWD's rates potentially much higher than those of neighboring districts. Additional information from LAFCo can be found at <https://sacrafc.co.saccounty.gov/Pages/Del-Paso-Manor-Water-District.aspx>.

### **Grants and Financial Considerations**

#### **How can State grants be used to fund needed improvements to DPWMD's infrastructure?**

DPWMD will have greater access to potential grant funding to improve the district's infrastructure by combining with another public agency. State funding is available in the form of grants and principal forgiveness funding, as well as to help with the costs of consolidating. This includes up to \$20 million per infrastructure project and a consolidation incentive of up to \$5,000 per connection and up to \$500,000 total to cover administrative expenses. Note that grant funding is through a competitive process.

**Did SSWD and DPMWD submit a grant application to help cover DPMWD's infrastructure improvements and combination costs?**

Yes, SSWD and DPMWD collaborated on a \$20 million grant application to the State Division of Financial Assistance in June 2024, understanding that time is of the essence and the estimated timeline for the State's review and decision is six to nine months. If awarded through the competitive process, the grant would amount to over \$10,000 per DPMWD ratepayer. The application was submitted by SSWD because the funding is contingent upon the combination of two districts. However, a requirement is that grant funds for infrastructure will remain within the DPMWD service area.

For more information, please refer to:

- [SSWD-DPMWD grant application](#), including a list of infrastructure projects proposed for funding
- [The Drinking Water State Revolving Fund \(DWSRF\)](#)

**How will you make sure that any grant funding is used only for DPWMD customers?**

While the topics of governance and representation are still under discussion, the SSWD and DPMWD Boards have agreed in concept that, if the districts combined, a special advisory committee, comprised of DPMWD Directors, will be established to guide infrastructure improvements within the area. Policies will be developed to clearly define the committee's responsibilities and functions.

**What is SSWD's financial condition?**

SSWD has a strong financial standing with an AA+ credit rating. The district currently has \$54.9 million in debt, but it is expected to be completely debt-free by 2032. You can learn more about SSWD's financial picture at <https://www.sswd.org/departments/finance>.

**Will customers be responsible for any existing or new debt from either district?**

LAFCo mandates that each agency's debt remains the responsibility of the respective legacy portion of the district, ensuring that the debt does not become a liability of the general combined agency. While operational and maintenance costs are consolidated, rate management keeps rates separate for each service area until all outstanding debt has been retired. This approach allows for the orderly management of financial obligations and avoids one service area bearing the financial burden of capital programs in another area. Both water districts would continue their debt repayment processes as before.

**Will one water district's customers be responsible for covering the costs of addressing the other district's infrastructure issues?**

Infrastructure upgrades and maintenance will remain the responsibility of each district's legacy portion. This ensures that customers of one district will not be liable for covering the costs associated with the other district's infrastructure issues until such time the Board determines the rates and improvements can be combined into one organization

**What are the financial implications for both districts if the merger occurs?**

By merging, DPMWD has the potential to achieve greater financial stability and access to grant funding for upgrading infrastructure that would not be available without a combination. At the same time, SSWD is well-positioned to integrate DPMWD customers and staff without exposing existing SSWD customers to financial risk.

## Water Rates

### **How will the merger affect my water rates?**

The merger is not expected to impact SSWD water rates as each district will be separately responsible for its debt and infrastructure improvements. DPMWD customers are currently paying more for their water service than SSWD customers. Combining would enable DPMWD to access funding from the State Water Resources Control Board to help with the costs of infrastructure improvements and combining. Over time, a combined organization with a larger customer base could have a greater rate stability rate compared to what would be anticipated if the districts remained separate.

### **Does SSWD's proposed rate increase for 2025-2029 cover increased costs and liabilities associated with a combination?**

The merger will not impact SSWD water rates as each district will be separately responsible for its debt and infrastructure improvements. SSWD's current rate process is separate and covers the needs of SSWD's existing water system.

## Benefits, Advantages, and Disadvantages

### **What work has been conducted to date to understand the potential benefits and challenges of combination?**

Between 2020 and 2023, SSWD and DPMWD analyzed the following areas:

- [Condition Assessment of DPMWD's Infrastructure, production and distribution](#)
- [Groundwater/Surface Water Supplies](#)
- [Municipal Services Review Updates](#)
- [Financial Analysis](#)
- [Water Rate Comparison](#)
- [Combination Benefits – Rates, Costs, Operations](#)
- [Combination Benefits, Advantages, and Disadvantages](#)

### **Why would SSWD wish to combine with DPMWD given the challenges outlined by LAFCo?**

SSWD and DPMWD are part of the same community, drawing water from the same groundwater basin. All residents have a right to clean, reliable water at an affordable cost, and SSWD is well-positioned to integrate DPMWD customers and staff without exposing existing SSWD customers to financial risk. Here's why:

- **Debt and Liability Management:** LAFCo mandates that each district's debt remains the responsibility of its respective legacy portion. This ensures that the debt of one district does not become a liability for the combined entity. Operational and maintenance costs are consolidated, but rate management keeps rates separate for each service area until all outstanding debt is retired. This approach allows for the orderly management of financial obligations and prevents one service area from bearing the financial burden of another's capital programs.
- **Infrastructure Responsibility:** Infrastructure upgrades and maintenance will remain the responsibility of each district's legacy portion. This means that customers of one district will not be liable for the costs associated with the other district's infrastructure issues.
- **Rate Impact:** The merger will not impact SSWD water rates. Each district will continue to handle its own debt and infrastructure improvements separately. Over time, a combined district with a larger customer base could offer greater rate stability compared to remaining separate.

### **What are the potential benefits of a combination for DPWMD customers?**

*Note that a detailed discussion on this topic is found at <https://www.sswd.org/home/showpublisheddocument/11357>.*

Potential benefits from the combination, include:

- **Improved Service and Value:** The larger scale of the combined utilities can optimize overall capacity, enhance operational efficiency, and provide specialized staffing. This can result in better customer service, lower operational costs, and increased responsiveness to customer needs.
- **Financial Benefits:** Economies of scale and operating efficiencies can lower costs. Increased access to capital at a lower cost can support infrastructure investments. Equal customer rates for a specified level of service and revenue stability contribute to affordability and equity. Improved planning and risk management reduce exposure to regulatory penalties and support economic development.
- **Increased Capital Access:** Water utilities require significant capital for infrastructure. A larger, combined utility can access capital from investors at a lower cost, pooling resources to serve a larger customer base and making systems more resilient.
- **Revenue Stability:** A larger agency can mitigate revenue fluctuations by spreading costs over a diverse customer base, reducing the impact of revenue shortfalls.
- **Regulatory Compliance:** Reorganization can help DPMWD achieve cost-effective regulatory compliance, reducing exposure to penalties related to groundwater wells and aging infrastructure.
- **Lower Operational Costs:** Consolidation can lead to greater efficiency, spreading fixed costs over a larger rate base, and reducing the per-customer share. This optimization of capacity can lower costs per unit of service by eliminating duplicative functions, systems, and infrastructure.

### **What are the potential drawbacks of a combination for DPWMD customers?**

*Note that a detailed discussion on this topic is found at <https://www.sswd.org/home/showpublisheddocument/11357>.*

Potential drawbacks of the merger include:

- **Reduced Local Representation:** Although DPMWD would continue to be part of a public agency with an elected Board member representing the Del Paso Manor community, the merger would result in fewer board members per ratepayer, increasing the number of constituents each board member represents. However, to help ensure that the area's specific needs are addressed, a special advisory committee made up of DPMWD Directors is planned. This committee will advise the SSWD Board on the needs of the DPMWD service area and guide infrastructure investment in the area for several years after the merger (See Governance and Control).
- **End of a Legacy:** DPMWD, with over 80 years of service to the community, would cease to exist as an independent entity.
- **Challenges in Water Resource Integration:** SSWD's South Service Area (SSA) is fluoridated, and the contract with First Five Commission expires in 2027. Until then, measures will be needed to ensure sufficient water supplies, particularly for peak demands and fire flows. Post-2027, SSWD may seek approval to discontinue fluoridation.
- **Billing Disruptions:** DPMWD customers might experience issues during the transition to a new billing system, such as needing new account numbers, online accounts, and passwords.

## Governance and Control

### **What form will the combination take?**

The planned structure is **reorganization**. With a reorganization, DPMWD will be dissolved, and SSWD will annex the former service area, becoming the successor entity. The process begins when DPMWD applies for dissolution, and SSWD applies to annex the dissolved district's service areas.

### **How will the districts help ensure fair representation for DPWMD residents in a larger combined district?**

While the topics of governance and representation are still under discussion, the SSWD and DPMWD Boards have agreed in concept that, if the districts combined, the DPMWD service area will be integrated into one of SSWD's existing divisions. Additionally, a special advisory committee, comprised of DPMWD Directors, will be established to advise the SSWD Board on the needs of the DPMWD service area and guide infrastructure improvements within the area. Policies will be developed to clearly define the committee's responsibilities and functions. (A map of SSWD divisions is available at <https://www.sswd.org/about/board-of-director-division-map>.)

## Water Quality, Fluoride and Water Rights

### **What are the current water supply sources of SSWD and DPMWD?**

Both SSWD and DPMWD rely primarily on groundwater within the same basin. However, SSWD has access to surface water when available through agreements with the Placer County Water Agency and the City of Sacramento.

### **Are DPMWD customers currently receiving SSWD water?**

Yes, SSWD supplies water to DPWMD through three existing interties, which are used when the pressure in the DPWMD system drops below the required levels for meeting their system demands. Information about the quality of DPWMD's water, including water provided by SSWD, is available in our Consumer Confidence Report found at <https://www.sswd.org/departments/water-quality/consumer-confidence-reports>.

### **Would DPMWD customers receive fluoridated water if a combination moves forward?**

Both SSWD and DPMWD rely primarily on groundwater from the same basin. SSWD currently supplies water to DPMWD to maintain pressure and support fire flows. This water comes from SSWD's SSA, which is fluoridated under a contract with the First Five Commission that expires in 2027. If the districts combine, the DPMWD customers will receive fluoridated water that meets State Department of Drinking Water requirements. In the long term, SSWD is considering seeking approval to discontinue fluoridation after the contract with the First Five Commission expires in 2027.

### **What are the risks to the groundwater supply and associated liabilities concerning the former McClellan Air Force Base and Aerojet General Corporation Superfund sites?**

The U.S. Environmental Protection Agency, along with state and local environmental regulators, is overseeing the cleanup efforts at both Superfund sites. These efforts are designed to thoroughly and safely remediate soil and groundwater, minimizing associated risks. **Importantly, the water districts and their customers are not liable for these remediation activities**, as they are managed and directed by the relevant environmental agencies. Additionally, SSWD is seeking compensation for ratepayers for the wells that were taken offline near the McClellan site.

If contamination affects a well site, the district is responsible for treating the water or removing the well from service.

**What is being done to monitor for and address potential contaminant plumes that could migrate into the service area?**

SSWD actively monitors water quality in the South Service Area through two dedicated monitoring wells. These measures help ensure that any potential plume migration is detected early and managed effectively to protect the water supply.

**How will the merger affect water rights and access for customers?**

There should be no impact on water rights or access for customers. If SSWD and DPMWD choose to combine, the State Water Resources Control Board, Division of Drinking Water, will need to amend their Water System Permits, which typically takes six to 12 months.

**Employees and Contracts**

**How would the combination affect current employees?**

SSWD is well-positioned to integrate DPMWD staff and there are no plans to reduce the workforce.

**Timeline and Process**

**How long will discussions continue and what are the steps in the process?**

The current expectation is that discussions will persist into early 2025. If the districts decide to move forward, the application to LAFCo could take another year. General milestones are as follows (additional details are available [here](#)):

- **Phase 1** – Public Outreach and Initial Decision to Proceed with or Terminate Combination Proposal
- **Phase 2** – District Form and Governance Decisions
- **Phase 3** – Operational and Financial Decisions—**CURRENT PHASE**
- **Phase 4** – Final decision to submit application to LAFCo
- **Phase 5** – LAFCo Application and Approval Process
- **Phase 6** – Post-Consolidation Actions to Implement New Agency

**LAFCo's Role**

**What is the Sacramento Local Agency Formation Commission (LAFCo)?**

In 1963, the State Legislature passed legislation creating the Local Agency Formation Commissions as a way to encourage the orderly growth and development of local governmental agencies including cities and special districts. These independent agencies are led by representatives from local County Board of Supervisors, city councils, governing boards of special districts, and members of the public. You can learn more about the work of the Sacramento County LAFCo on their website at <https://saclafoo.saccounty.gov/Pages/default.aspx>.

**What role does LAFCo play in the merger process?**

LAFCO works with residents, counties, cities, and special districts to encourage the orderly formation of appropriate local agencies. They have the authority to approve and manage combination efforts, as well as enable the transition from one organizational form to another.

**Who holds the authority to make the final decision on the combination?**

The decision on whether the districts combine lies with the Boards of Directors for SSWD and DPMWD with LAFCo's approval. In May, LAFCo adopted the Resolution of Intent to Dissolve DPMWD and has given the water district 12 months to either consolidate with another public agency or adequately address their deficiencies.

A public vote is not required with a reorganization unless there is a protest (see next question below).

Regardless of whether a public vote is necessary, our commitment is to actively engage with the community, giving residents a voice in the process. We are dedicated to a comprehensive public engagement process, helping to ensure that all customer concerns and feedback are heard and addressed during this significant decision-making process.

### **Is an election required under LAFCo?**

It depends. The LAFCo process includes many opportunities for the public to provide their opinions on a combination. This typically includes two public hearings and the opportunity for landowners and registered voters to file a protest. Here's where the potential vote comes into play:

- If less than 25% of landowners and registered voters protest, the combination moves forward.
- If more than 50% of landowners and registered voters protest – combination fails.
- If 25-50% of landowners and registered voters protest – combination may go to an election.

### **Community Participation**

#### **How can I stay informed about SSWD-DPMWD combination discussions and voice my opinion?**

SSWD and DPMWD are hosting ongoing joint meetings of their Boards of Directors that the public is invited to attend. In addition, they are posting regular updates to their websites. The minutes and agendas from the joint board meetings are available for viewing at:

- <https://www.sswd.org/about/meeting-agendas-packets-minutes>
- <https://www.delpasomanorwd.org/sswd-dpmwd-joint-meetings>

You can also learn more on the Sacramento County LAFCo website at <https://sacraclafco.saccounty.gov/Pages/Del-Paso-Manor-Water-District.aspx>.

#### **Where can I submit questions about combination discussions?**

Please submit questions to [feedback@sswd.org](mailto:feedback@sswd.org).

### **Other**

#### **Would DPMWD ratepayers be required to have water meters installed?**

Yes. Water meters are required for larger water agencies under the California Urban Water Management Planning Act. This would apply to the Del Paso Manor Service Area if the combination with SSWD moves forward. It should be noted that water meters offer several benefits. These include:

- Insight and Information: Tracking water use provides valuable insights into consumption patterns, enabling more informed decisions about water use.
- Leak Detection: Water meters can help detect leaks or plumbing issues early. Unusual spikes in water use can indicate leaks, allowing for timely repairs before significant damage occurs.
- Accurate Billing: Metered billing helps ensure charges are based on actual water consumption rather than estimates.