

AGENDA
October 3, 2018
4:30 p.m.

**Sacramento Suburban Water District and San Juan
Water District**

**2x2 Water Management / Re-Organization Committee
Meeting**

Sacramento Suburban Water District
3701 Marconi Avenue
Sacramento, CA 95821

Public Comment

1. Background of 2X2 Committee – SSWD and SJWD
2. Discuss Further Analysis of Inter-Agency Partnerships or Re-Organization
3. Discuss Agreement on Cost Sharing
4. Regional Participation
5. Meeting Locations
6. Next Meeting

Agenda Item: 1

SSWD & SJWD

Chronology of Reorganization Study and Descriptions of Phases 1 & 2A

Dan York

SSWD General Manager

October 3, 2018

Background

- SSWD and SJWD previously considered Reorganizing the two agencies for better water management, potential efficiency in operations and more leverage on statewide issues
- The effort spanned nearly 4 Years
- Two phases have been completed; Phase 1 & Phase 2A

Phase 1

- SSWD and SJWD initiated conversations to identify possible functional reorganizations in 2011:
 - increase efficiency and effectiveness
 - functional items, such as purchasing, outsourcing, sharing of staff, etc.
- Joint Board meeting in March 2013 to discuss opportunities for improvements in regional water management, resource sustainability, and long-term water supply reliability:
 - Do nothing
 - Increase interagency cooperation
 - Consider organizational changes up to and including potential agency reorganization
- Initiated a Phase 1 Study = \$50,000 (split 50/50)

Phase I Study

- Very high level study focused on water resource management
- Three options for better water management identified and studied:
 - Option 1 – continue as separate agencies without changes to water supply or outside agency approvals
 - Option 2 – remain separate agencies, but share resources through agreements that require outside agency approvals
 - Option 3 – Reorganizing the two districts

Phase I Recommendation

- Option 3 – Reorganization
 - Best For Water Management Between Agencies
 - Districts Have Complementary Assets
 - Using Assets Provide Significant Method For Achieving Water Supply Reliability For Both Districts
 - No Fatal Flaws Identified
- Joint Board Meeting – April 28, 2014
 - Phase 1 Study Accepted
 - Phase 2 Study Approved

Phase 2

- Joint Board Meeting – April 28, 2014
 - Phase 2 Study Divided into Part A and B
 - 2x2 Committee Instructed To Manage Phase 2A
 - End of 2A is a milestone; Go/No Go Decision
 - Phase 3 report at end of Phase 2B
- 2x2 Committee developed the Phase 2A Study Process:
 - Scope-of-Work
 - Budget \$100,000 (split 50/50)
 - Equal Cost Sharing MOA
 - Hired Mr. John O'Farrell as Principal Consultant
 - Hired MMS Strategies to Conduct Messaging/Outreach

Phase 2A Study

- Scope of Work Included:
 - Focused, methodical, and transparent effort
 - Summarize findings, recommendations of Phase 1
 - High level analysis of merger
 - Formation
 - Governance
 - Board of Directors
 - Administration
 - Staffing
 - Customer Assurance
 - Stakeholder outreach and customer polling

Phase 2A Analysis (continued)

- Scope of Work did not have budget to include:
 - Customer Outreach
 - Financial Analysis
 - Human Resource Analysis
 - District Operations
 - Water Operation Plans
- This Scope to be covered if Phase 2B Go Decision is made

Phase 2A Results

- Phase 2A results:
 - Summary of Phase 1 benefits
 - Identification of stakeholder issues and concerns
 - Description of existing districts structure and data
 - Elements of possible restructuring
 - Type of restructured district
 - Potential model reorganized district organizational structure

Initial

Transitional

New

Summary of Phases

- Years of Planning
- Initial Discussions for efficiency
- Phase 1 Water Management
- Phase 2 Study of Reorganization
 - Phase 2A – first milestone
 - Phase 2B (if approved) –
 - completion of more detail analysis
 - Phase 2 Report
 - Very detailed Resolutions of Application to LAFCO
- Phase 3 LAFCO Application

Joint Board Meeting – June 25, 2015

Description of process up through Phase 2A milestone

- Two motions by SSWD Directors passed:
 1. Pay the Phase 2A Consultant, but not accept the Phase 2A report
 2. Suspend all work on reorganization between SSWD and SJWD until SSWD coordinates with SJWD Wholesale agencies regarding their concerns



Agenda Item: 2

Date: October 3, 2018

Subject: SSWD/SJWD Water Management/Re-organization Update

Staff Contact: Dan York, General Manager, SSWD
Paul Helliker, General Manager, SJWD

Recommended Committee Action:
Information only. Provide direction as appropriate.

Background:

In 2011, Sacramento Suburban Water District (SSWD) and San Juan Water District (SJWD), mutually agreed to investigate opportunities to maximize the reliability of their water supplies. The Municipal Consulting Group, LLP (MCG) was retained to conduct a Phase 1 analysis. In April 2014, MCG presented the final report of the Phase 1 analysis to the Joint Boards of Directors (Joint Boards). Based on the findings of Phase 1, MCG recommended to the Joint Boards that consolidation of the two Districts was preferable for providing increased water reliability benefits to customers of both Districts, and that a Phase 2 analysis of combining the two Districts be performed. The individual Boards of both Districts accepted MCG's recommendation and directed the Water Management Ad Hoc Committee (2x2 Committee) to move forward with developing a Scope of Work and Budget for a Phase 2 Study, Further Analysis of Consolidating SSWD and SJWD.

Both Boards further directed the Phase 2 study be broken into two phases - 2A and 2B. Phase 2A would focus on key high level issues that Board members needed to evaluate in order to make a decision of whether or not to proceed with a Phase 2B analysis. Phase 2B would focus on other important issues or incomplete or unaddressed information needed to be prepared before applying to Local Agency Formation Commission (LAFCo) for merger consideration should the Boards decide to do so. In addition, the Boards directed that Phase 2A address major concerns of SJWD's wholesale customer agencies, including water supply reliability, as well as identify other potential benefits or impacts of consolidation, such as cost saving opportunities, political influence, human resource, operations, etc. Full customer outreach was not anticipated as a component of the Phase 2A scope, instead a limited effort to obtain customer concerns by way of sampling 600 customers via a telephone survey was conducted.

The completion of Phase 2A was effectively a milestone, not a completed report. During the Phase 2A analysis, approximately 50-60 meetings were held with elected officials and other

stakeholders in order to inform them of the process that the agencies were considering. After completion of the work effort for Phase 2A, the Boards were going to consider whether or not to complete a final Phase 2B report that would include more detailed analysis and information that would be needed to make the decision whether or not to submit a resolution to LAFCo to initiate reorganization proceedings, which would be Phase 3.

At the June 25, 2015 Joint Board Meeting between SSWD and SJWD, two motions by SSWD Directors passed. Paraphrasing, the first was to pay the Phase 2A Consultant, but not accept the Phase 2A report. The second motion was to suspend all work on consolidation with SJWD until SSWD coordinates with SJWD Wholesale Agencies and SSWD can evaluate the independent legal research SSWD commissioned pertaining to SJWD water rights. The SJWD Board of Directors approved unanimously a motion to accept the Phase 2A study and direct staff to proceed with the Phase 2B study.

The SSWD Board directed the General Manager to meet with management personnel of Citrus Heights Water District (CHWD), Fair Oaks Water District (FOWD) and the City of Folsom (Folsom). All confirmed that the questions and concerns they had was represented in the written comments they provided prior to the June 25, 2015 Joint Board Meeting.

Discussion:

On March 8, 2018, SSWD received correspondence from the SJWD General Manager, on behalf of the Board of Directors of SJWD, inquiring about the status of the merger discussions previously conducted by SSWD and SJWD. At SSWD's March 19, 2018 regular Board meeting, the Board approved to develop a 2X2 Committee to meet with SSWD's General Manager and develop goals and discussion points to bring back to the full Board. This meeting was held on May 23, 2018, to develop the goals and discussion points, which are listed below:

Goals

- Create better cooperation within the water agencies of Northern Sacramento
- Secure existing water rights for the region and ensure that they are put to beneficial use
- Increase operational efficiency of the water district and save rate payers money
- Operate the groundwater and surface water supplies for the region in a sustainable manner
- No rate increase for SSWD customers as a result of a merger
- Develop off-ramps should there be fatal flaws during the process
- Attempt to achieve consensus with cooperative agreements amongst wholesale customer agencies of SJWD and regional water agencies

Discussion Points

- Respond to comments received from Phase 2A
- Address financial, human resource, water operations, operational issues, salary and benefits and customer outreach

- Research potential consultants with public utility merger experience to conduct Phase 2B analysis
- Develop Memorandum of Understanding between SSWD and SJWD
- Budget and cost sharing analysis
- Full outreach to SSWD customer agencies

SJWD also designated representatives to the 2 x 2 Committee, who have conferred and are prepared to discuss the status of the work since 2015 and the next steps.

Since June 15, 2015, various changes have occurred in the regulatory and regional contexts. The drought and associated conservation mandates ended in 2016, and new legislation has passed defining both the primacy of local control for drought contingency planning and transitioning to an efficiency-based water target approach, rather than a reduction target in per person water usage. Water contracts and water transfer protocols have been clarified and extended, and regional collaboration on both of these fronts has increased. Given these changes, the 2X2 Committee may want to review the assumptions and conclusions of the Phase 1 and 2A reports, and identify elements that need more in-depth analysis. Attached are extracts from those reports.

Fiscal Impact:

Unknown at this time.

Phase 1 Study
Municipal Consulting Group
May, 2014

Evaluated three options:

1. **Continue Current Practices (“Business as Usual”)** – SJWD would continue to provide SSWD with treated surface water under SSWD’s PCWA contract, and any additional transfers that would be mutually agreeable
2. **Inter-Agency Agreements** – SJWD’s CVP contract would be amended to include SSWD’s service area in the place of use
3. **Combination of SSWD and SJWD** – SJWD’s pre-1914 water would be delivered to SSWD in wet years for banking in the groundwater basin, and SJWD would increase use of its CVP water

Benefits of Option 3 were described as:

1. Economies of scale for district representation on regional, state and federal matters within the Lower American River region;
2. Flexibility to use Pre-1914 water and maximize the use of CVP supplies for SSWD, SJWD and the Wholesale Agencies resulting in increased water supply reliability;
3. Establish a historical record of using CVP supplies; and,
4. Avoid event-driven inter-agency negotiations for exchanges or transfers of water supplies during dry-year reductions or critically dry-year events.

Interim Phase 2A Study
John O’Farrell and Associates
June, 2015

Analyzed how a merged organization might be structured. The benefits of merger were defined as:

Water Supplies:

- The ability to utilize available surface water contracts in wet years for conjunctive use benefits. There are surface water contracts not fully being used by SJWD which might be put to beneficial use by expanded conjunctive use. The storage of water in non-drought years for use in drier years provides a more reliable water supply for all customers. This is the option encouraged in the State water plan. This option would both stabilize and better utilize the storage available in the groundwater basin for the benefit of all customers.

- Ability to provide environmental benefits in dry years through the flexibility to reduce use of surface water by using banked groundwater for the benefit of the lower American River as prescribed in the Sacramento Water Forum.
- Ability to assist other agencies in time of shortages, either hydrologic or emergency, through the use of groundwater to free up surface water for use by others, and by maintaining a stronger, more reliable water supply in the event mutual aid is required.

Maximize Potential of Existing and Future Infrastructure

- SJWD has available capacity in the existing water treatment plant that is currently not being fully utilized.
- SSWD has available capacity in the Cooperative Transmission Pipeline (CTP) and the ATP that is not being fully utilized.
- SSWD has available pumping capacity in its system of groundwater wells to support an expanded conjunctive use program.
- SSWD overlays a groundwater basin which has potential water storage opportunities with expansion of conjunctive use practices.
- There is an intertie between the districts that could be put to use more often.
- There is potential for an in-conduit hydro power project on the ATP and/or CTP between the two agencies.

Economies and Efficiencies:

- Ability to utilize one of the two general manager positions on different tasks.
- Greater ability for succession planning with combined staff.
- Ability to analyze existing positions in SJWD and SSWD to determine if there are efficiencies that could result from realigning positions that already exist within each district.
- Potential surplus positions resolved through attrition or the ability to reassign staff for more effective use of existing staff .
- Ability to combine resources to focus efforts on planning and prevention rather than reaction and response.
- Larger district would provide opportunity to gravitate to the newest and best performing information and computer-based systems as existing systems require replacement.
- Ability to reduce the impact of future rules and regulations and rules on rates with a greater base over which to spread future costs.
- Future rate increases might be reduced through economies of scale.

- Both districts have excellent credit ratings; combining the two districts might provide for even higher credit ratings resulting in savings should future debt issues be required.
- Potential ability to restructure debt for lower cost to customers.
- Potentially reduced cost due to improved purchasing power combination of districts would result in one legal counsel contract, one auditing firm with one annual audit, more efficient use of outside consultants, etc.
- Increase ability of executive staff to focus on external affairs through realignment of staff.
- Improved Regional, Statewide, and Federal advocacy and involvement.

Synergies

- Standing alone, each district is limited in its ability to put its water supply to its best use; standing alone, each has found it challenging to address the ever changing and evolving complexities in the new age and increasing significance of water in California. There are competing demands regionally and statewide resulting in “external threats” like never before. A combined district could reduce this limited ability to put water supply to use for benefit of the districts, the region, the State and the environment. A combined entity is expected to increase water supply reliability to customers of both districts.
- SSWD is dependent on ground water and an interruptible surface water supply; SJWD is reliant exclusively upon surface water. Working together, these water assets complement one another and work together synergistically creating mutual benefit and a better approach with additional flexibility.
- There are “planned changes” and future needs that both districts must face— regulatory challenges, potential staffing increases, staffing specialization, facility improvements, infrastructure upgrades, internal modernization and sophistication of management information systems all driving future rate increases. If the districts reorganize and unify, not all, but some of these planned future costs may be mitigated. Others will need to happen anyway, but the costs may be less significant if conducted as one agency and spread over a much broader customer base.
- SSWD has invested millions of dollars to upgrade its infrastructure and recharge the ground water basin north of the American River. SJWD has valuable historic water rights and contracts for American River water and has also invested millions to upgrade its water treatment and delivery systems. SJWD needs to perfect its water rights and contract obligations to maximize their beneficial use and protect them for the communities in the region which it serves. The political unification of SSWD and SJWD will allow SSWD to use ground water and share in time of need with SJWD,

and conversely SJWD to share surface water with SSWD when it makes sense to do so.

- The common governance of the combined entity will provide the capability and credibility to secure and enhance the water resources for the region, providing additional supply flexibility will increase reliability for all existing customers.