CWD & SSWD

Business Case for a Potential Combination

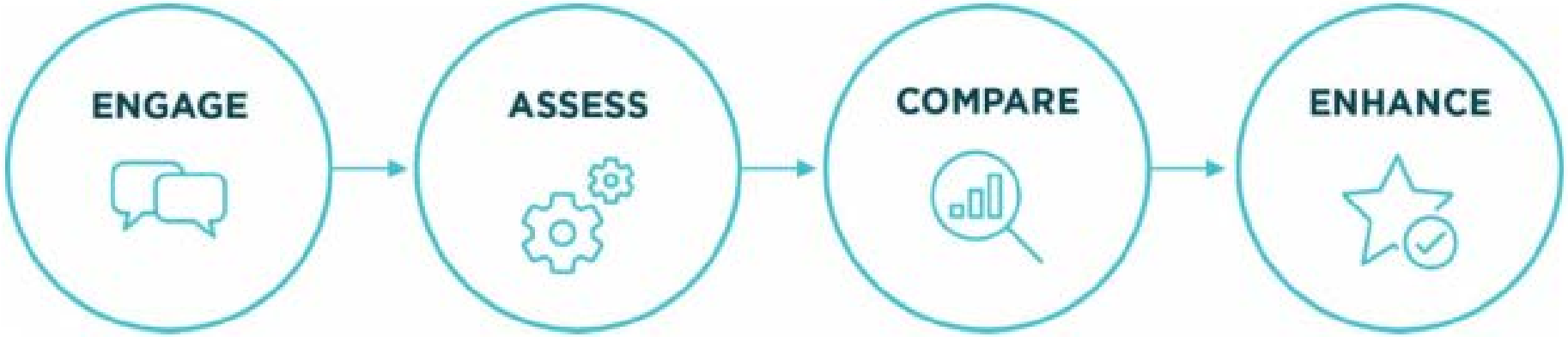
July 20, 2022

RAFTELIS

Agenda

1. Approach
2. Financial Analysis
3. Rate Review
4. Services
5. Staffing
6. Water Resources
7. Key Risks & Opportunities

Business Case Approach



Kickoff and gather information

Organize and analyze information

Interpret findings

Report on path forward

Outline an implementation timeline ***if*** business case proves out.

Key Areas of Analysis

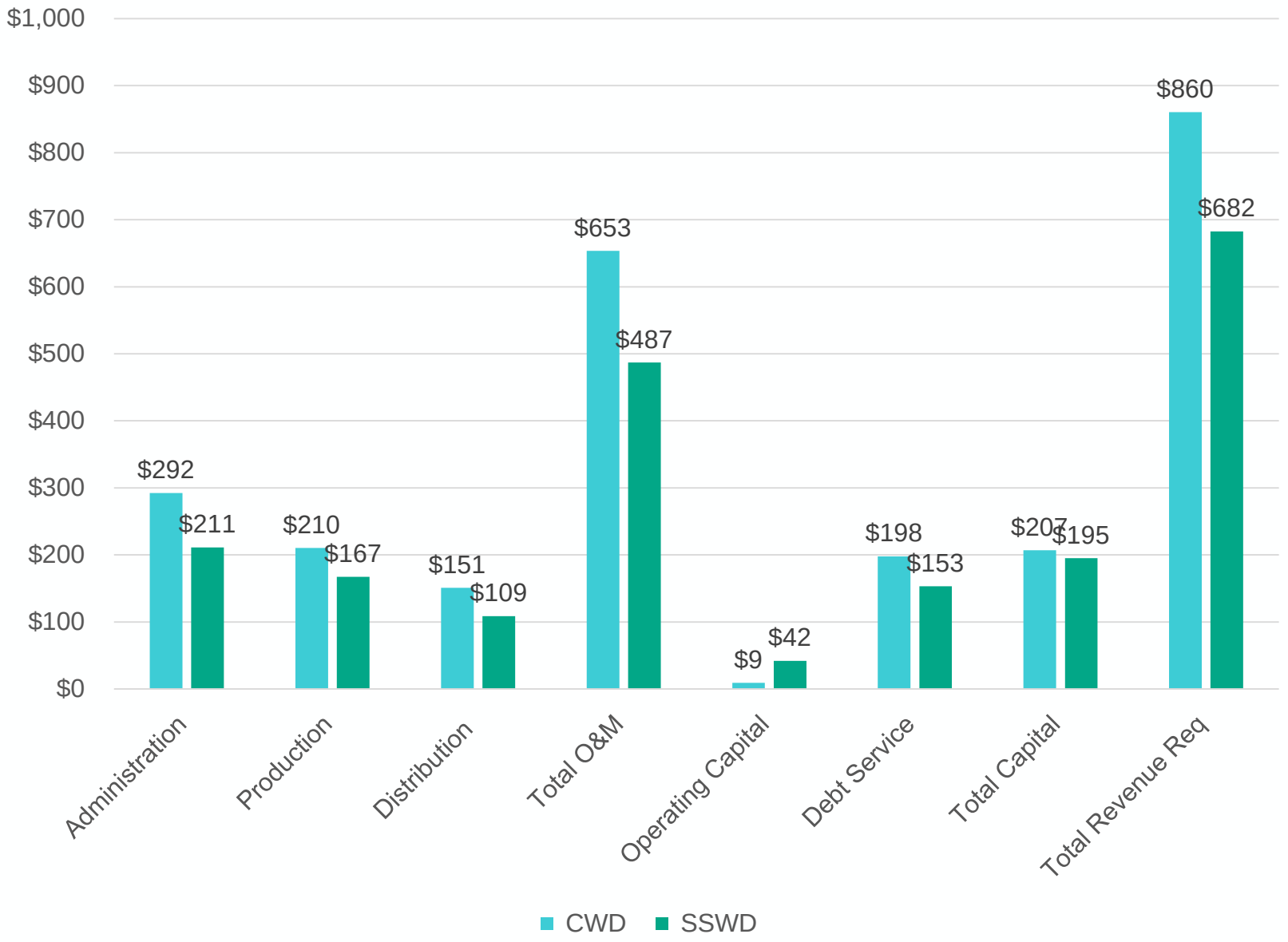
- **Functional Comparisons**
  - Organization & Governance
  - Management & Administration
  - Customer Services & Billing
  - Distribution & Field Operations
  - Pumping & Treatment Operations
  - Engineering & Capital Improvement
- **Key Considerations**
  - Board & LAFCO
  - Labor – Union Considerations, Benefits
  - Water Resources – Surface & Groundwater
  - Finance
  - Other Regulatory

Outreach Goals

- Raise awareness that a feasibility study is being conducted.
- Clearly communicate to stakeholders how and what frequency they will be kept informed about the study.
- Build relationships with stakeholders through regular communication.
- Expand and diversify communication channels and provide information for both Districts to share with stakeholders.
- Communicate Value of Water and organizational focus balancing service reliability and costs over the long term.

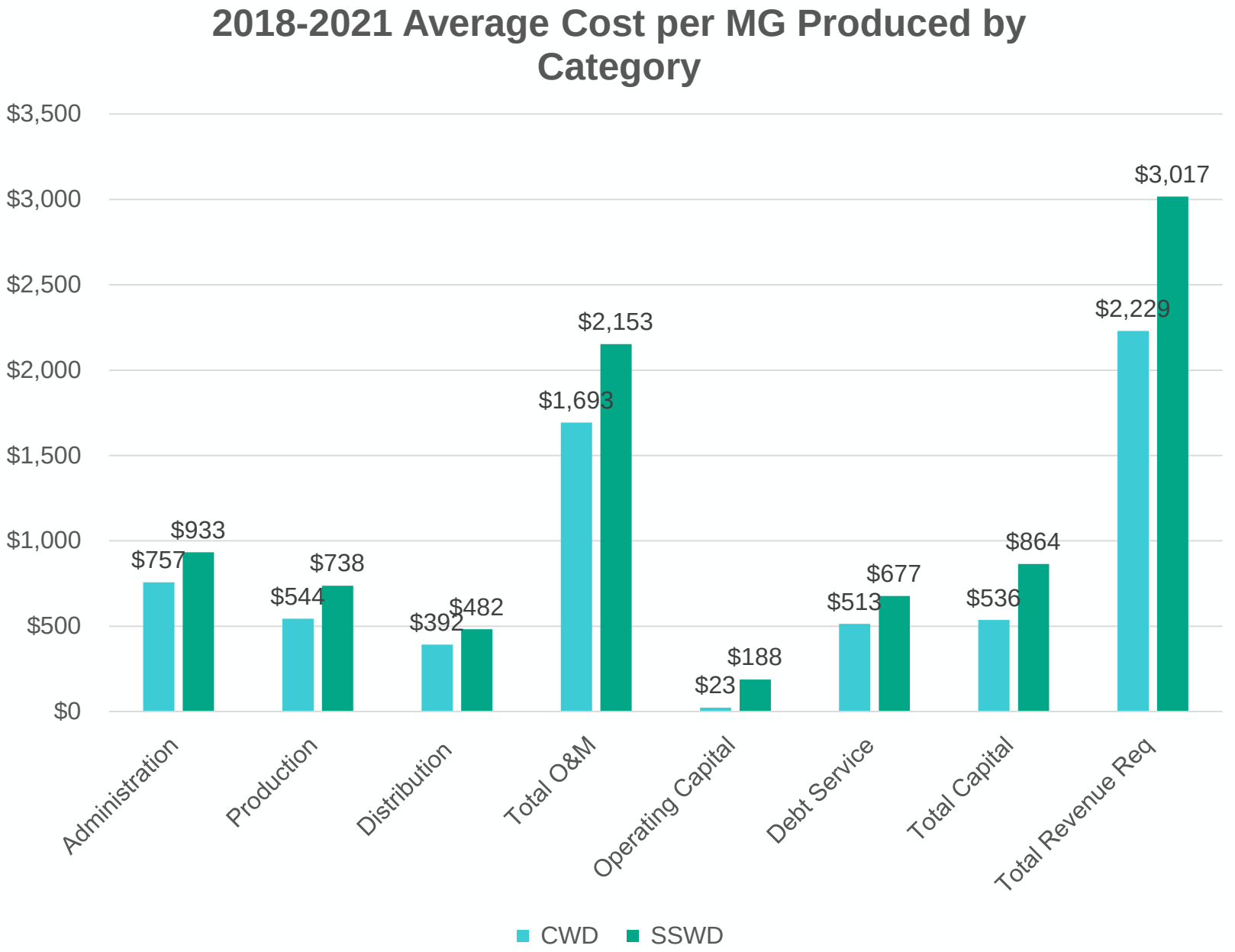
Cost Per Connection

- SSWDs total costs per connection are 79% of CWDs ($682 vs $860).
- Evidence of potential for regional scale efficiencies.
- We also see a generally similar allocation of resources.



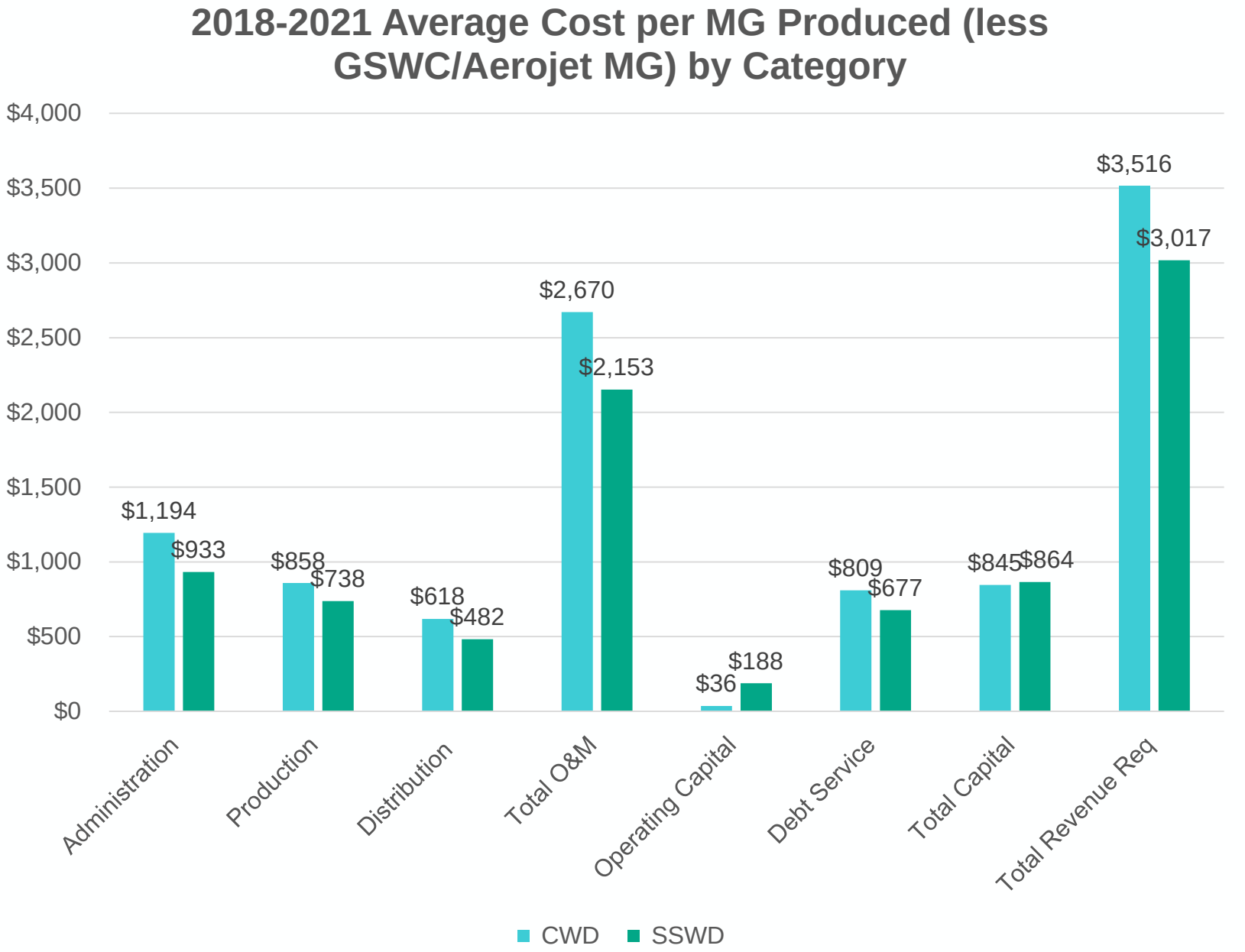
Cost Per MG Produced

- For costs per MG produced, CWDs costs are 74% of SSWDs ($2,229 vs. $3,017).
- This contradiction is driven by the GSWC/Aerojet contract, which is a single CWD account with high volume.



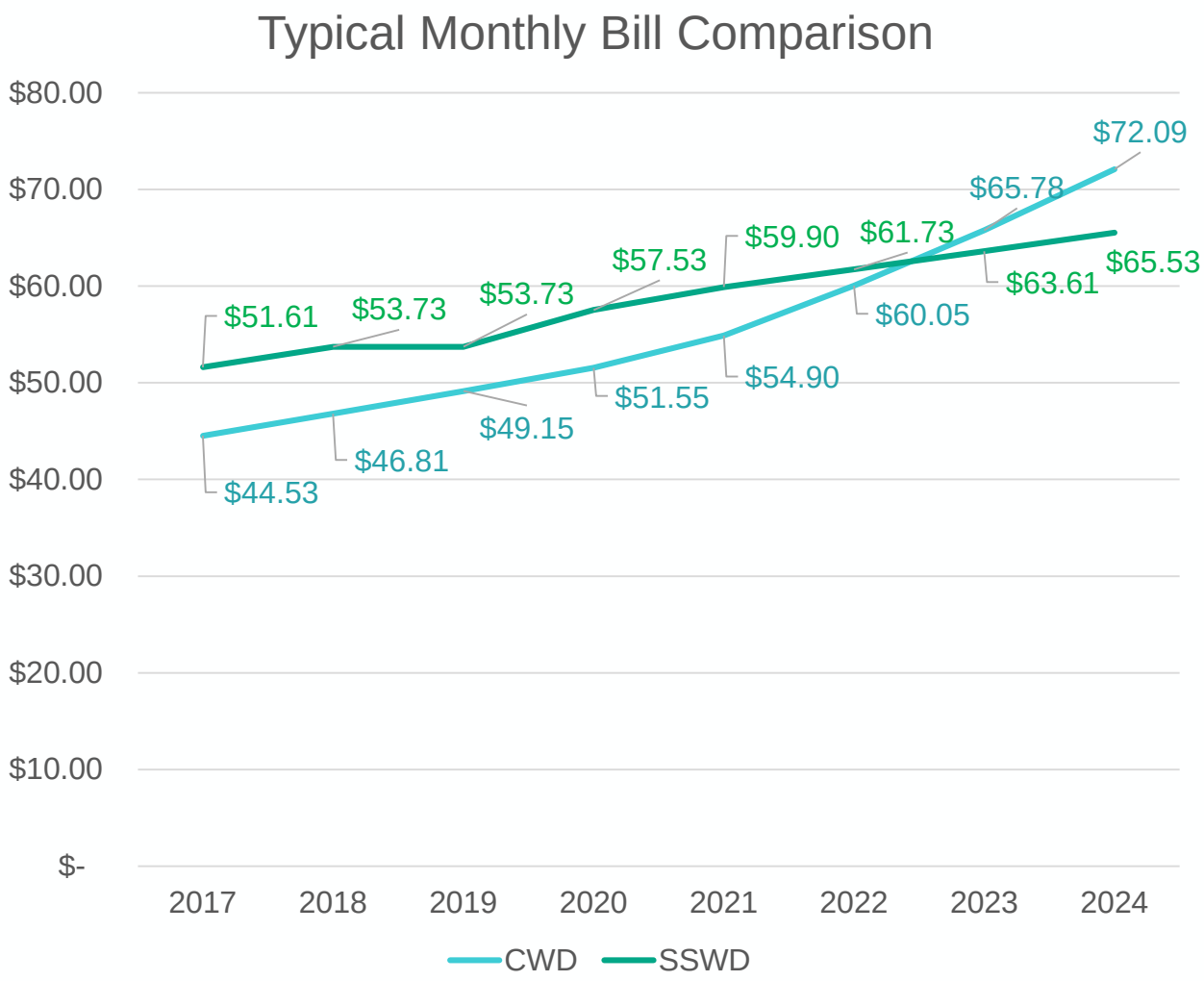
Cost Per MG Produced (less GSWC / Aerojet water)

- Without including the GSWC/Aerojet water, SSWDs costs per MG are 86% of CWDs ($3,017 vs. $3,516).
- A true analysis would require stripping out some of CWD costs to serve GSWC/Aerojet as well.



Rates

Rate Component	CWD	SSWD
Volumetric rate per ccf		
Tier 1 (0-15 ccf)	$1.88	$0.95
Tier 2 (16+ ccf)		$1.24
Meter charge		
5/8”	N/A	$34.29
3/4”	$32.01	$47.56
1”	$50.14	$74.12
1.5”	$95.46	$140.51
2”	$149.84	$220.16
3”	$276.73	$432.60
4”	$458.00	$671.59
6”	$911.18	$1,335.44
8”	$1,455.00	$2,397.61
10”	N/A	$3,194.24
12”	N/A	$4,488.76



Services – Distribution PM Example

1. Documented that SSWD has one of the region's most comprehensive distribution system preventative maintenance programs, at among the lowest costs per mile pipe.
   a) Estimated that this higher level of service, could actually save CWD money every year given SSWD cost efficiency.
   b) Main leaks and breaks per mile of pipe were estimated to be 4X higher in CWD than SSWD.
   c) SSWD leak detection spending is higher, but again is thought to deliver a higher level of service.

Services – Other opportunities

1. Both CWD and SSWD noted that more regional joint training and expanded HR service support were wish list items.
2. SSWDs larger staff results in fewer weeks per year per staff member of after-hours stand-by duty.
    a) Some staff like these overtime opportunities, but they can drive burn out and hurt staff retention for small utilities.
3. CWD is spending 6X on answering services compared to SSWD, another opportunity for potential savings.
4. Across 71 water conservation initiatives SSWD covers nearly 65, vs. CWD 38.
    a. This is an area for possible service level enhancement again at lower cost per capita.

Financial & Services Summary

Preliminary support for hypotheses on regional opportunities

- Evidence of financial synergies attributable to differential variable costs.
- Efficiency and service level enhancements particularly for retail customers.
- Analyses are ongoing.

Costs

A more nuanced picture depending on GSWC/Aerojet data inclusion.

Cost & Rate Growth

Confirm impact of pandemic on residential costs and status of trend.

Further Analysis

Consider cost recovery considerations, service level goals, reserve levels, and CIP as well.

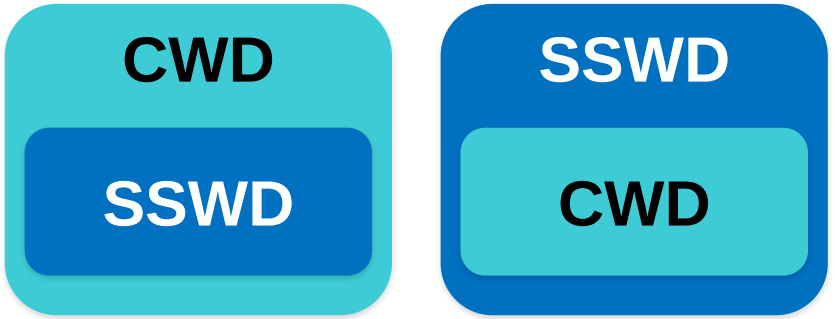
Fundamental Question

- What organizational structure offers the optimal operational model?

Status Quo

- Currently two separate utilities, with limited opportunities for shared services, that could be somewhat expanded.

Option #1 - Acquire

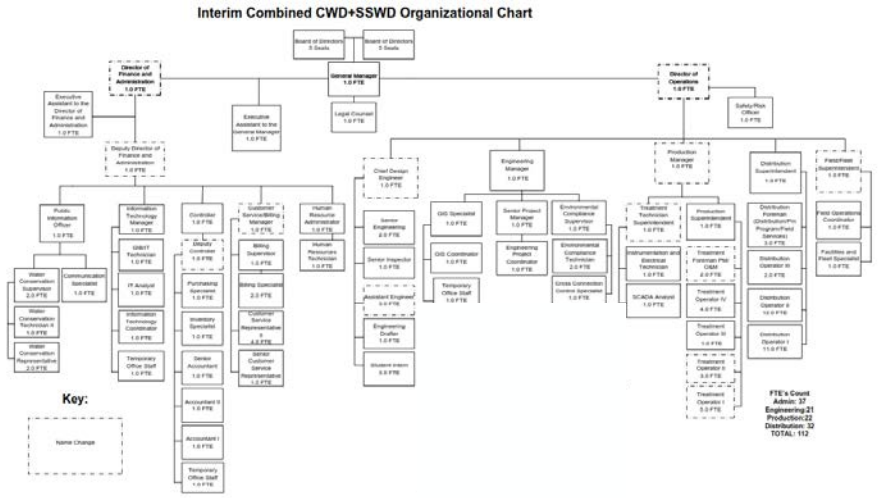


- One option is that SSWD could absorb CWD or visa versa.
- Typically, the larger organization would absorb the smaller organization.

Option #2 - Merge

- Another option is that the entities would merge to create a new utility.
- While this may appear to be more administratively complicated it could also offer more constitutional flexibility and neutrality.

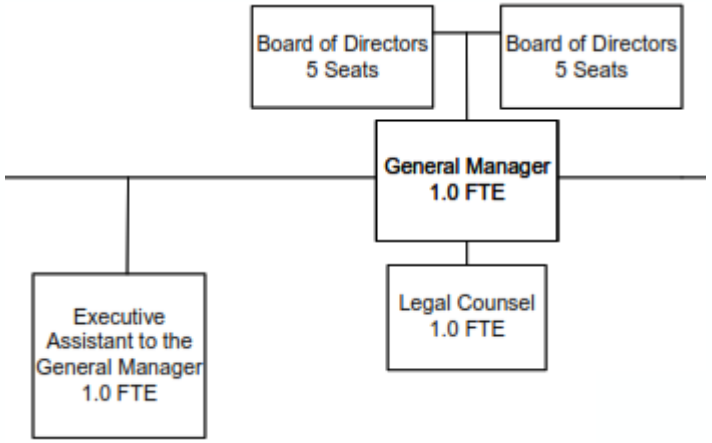
Proposed Interim Org Chart



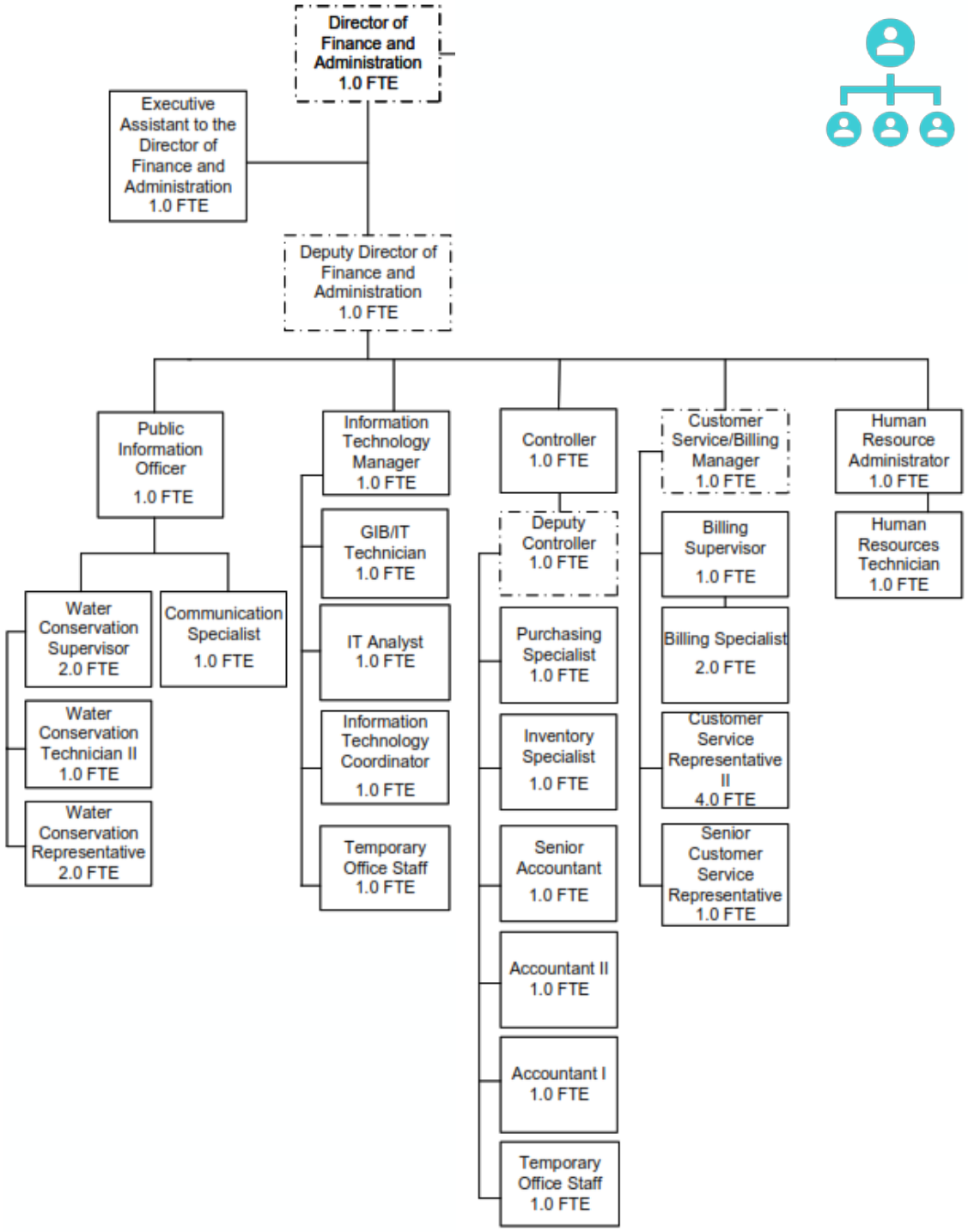
- We have developed a combined org chart that is initially FTE neutral.
- During a transition period of 2 to 5 years we expect about 5 roles could be adjusted through attrition.
- 5 more FTEs rationalized once fully combined, but subject to change.
- Estimated to allow for ~$1M in operational savings every year.

Proposed Interim Board Org Chart

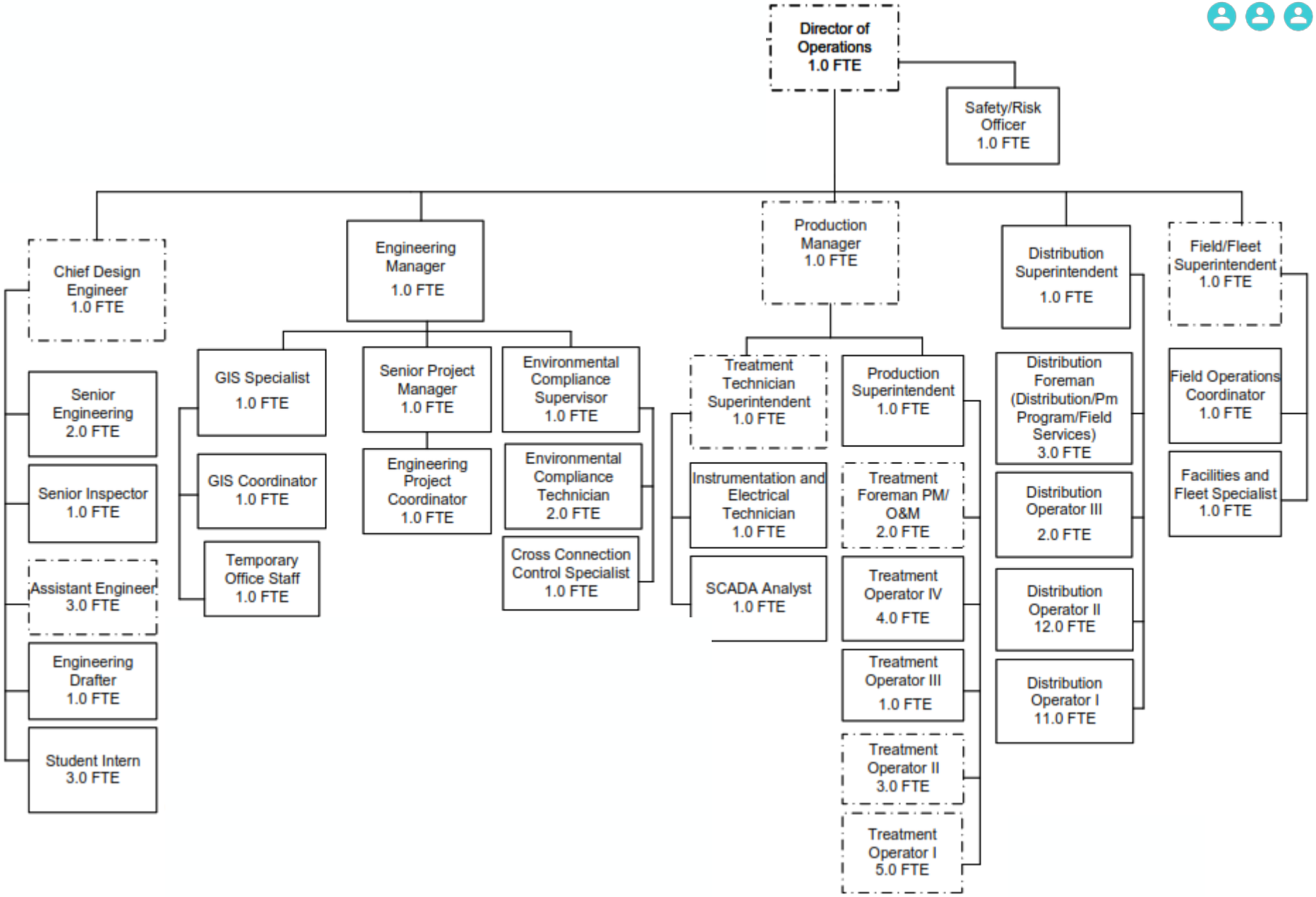
- The Board could be initially maintained (10), but then reduced as terms end through planned attrition in proportion to population down to 7 and then 5.



Proposed Interim Administration Org Chart



Proposed Interim Operations Org Chart



Surface Water Supplies

- **CWD's Surface Water Supplies**
  - CWD's Place of Use excludes SSWD
  - Appropriative Permit 7356 was not renewed
  - CWD access to SJWD Pre-14 Supplies

- **SSWD Surface Water Supplies**
  - PCWA Supply Place of Use excludes CWD
  - City of Sacramento Surface Supplies may be used in CWD
  - CWD Point of Diversion does not include PCWA Supply or City Supply

Groundwater Banking and Use

- Both Districts Appropriate Groundwater From the North American Subbasin
- Groundwater Governed by Sacramento Groundwater Authority's Groundwater Sustainability Plan
- Both District's hold banked groundwater in North American Subbasin

Bay-Delta Water Quality Control Plan and Voluntary Agreements

- Impacts to All Surface Supplies
- Impacts to Groundwater Use
- Potential Financial Implications Depending Upon Interagency Cooperation

Actions

- **Surface Water Rights**
  - CWD's Assets – Place of Use, Permit 7356
  - SSWD's Assets – Place of Use, Cost to use

- **Groundwater Banking**
  - Rules for in-lieu and injection
  - Rules for extraction and use

- **Bay-Delta Water Quality Control Plan**
  - Surface Supplies to meet obligations
  - Realistic outcomes of Voluntary Agreements

Key Risks & Opportunities

Opportunities

- Willingness to engage
- Scale efficiencies = savings
- Service level enhancements
- Similar rate structures and levels
- Proximity to each other
- Reliable water supplies

Risks

- Politics
- Stakeholder management
- Regulatory hurdles (water resources, other)
- Rate structure alignment (tiering)
- Differences in labor contracts
- Aligning fringe benefits and pay levels
- Optimizing staffing and boards

Next Steps

1. Advance analytical tasks to deeper levels
2. Deliver communications plan
3. Draft report
4. Conduct meetings with staff
5. Final report