



Further Analysis of Combining Carmichael Water District and Sacramento Suburban Water District

OCTOBER 2023

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We want to thank all of the participants who have been involved in the Combination Process to provide data and input for duration of this process including:

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ACRONYMS

ACWA	Association of California Water Agencies
af	acre foot
AMI	Advanced Metering Infrastructure
ASR	Aquifer Storage Recovery
AWD	Arcade Water District
AWWA	American Water Works Association
CalPERS	California Public Employees' Retirement System
CCF	One-Hundred Cubic Foot
CCR	California Code of Regulations
CFS	cubic feet per second
CIS	Customer Information System
CMMS	Computerized Maintenance Management System
COTP	California-Oregon Transmission Line
CSM	Cogsdale's Customer Service Management System
CWD	Carmichael Water District
CY	Calendar Year
DDW	Division of Drinking Water
EDMS	Electronic Document Management System
FFC	First Five Commission
FTE	Full Time Employees
GIS	Geographic Information System
GM	General Manager
GPM	Gallons Per Minute
GSP	Groundwater Sustainability Plan
JPIA	Joint Powers Insurance Authority
LAFCo	Local Agency Formation Commission
MGD	Million Gallons per Day
MOU	Memorandum of Understanding
MW	Megawatts
NSA	North Service Area
NWD	Northridge Water District
O&M	Operations and Maintenance
PCWA	Placer County Water Agency
PEPRA	California Public Employees Pension Reform Act
SAWWA	Sacramento Area Water Works Association
Sf	Square Feet
SGA	Sacramento Groundwater Authority
SGMA	Sustainable Groundwater Management Act
SJWD	San Juan Water District
SMUD	Sacramento Municipal Utility District
SSA	South Service Area
SSWD	Sacramento Suburban Water District
SWRCB	State Water Resources Control Board
WTP	Water Treatment Plant

EXECUTIVE SUMMARY

The purpose of this report is to shed additional light on issues and questions the Directors, executive staff, and stakeholders of the Carmichael Water District (CWD) and Sacramento Suburban Water District (SSWD) have raised with respect to combining the two agencies to improve long term sustainability for the rate payers including the water reliability, operational efficiencies, financial strength, and positive political position.

This investigatory effort began in 2021 with staff beginning a dialogue on how to better serve all of the customers of the two districts. There have been two Joint Board meetings, the creation of the 2x2 Committee (two directors from each district), and the joining of General Managers and senior staff to form an Executive Team to lead and direct the study effort.

In 2021, a consulting firm was retained to perform a Business Case for a Potential Combination Study Report (Raftelis 2021) to determine if there are any fatal flaws associated with a potential combination of CWD and SSWD. The study was accepted by the CWD/SSWD Board of Directors in January/February 2023 and suggested moving to the next level of analysis, looking into organizational issues of combining districts and implementing an outreach and communication strategy to touch stakeholders, customers, and employees from both districts.

The purpose of an evaluation process for reorganization of SSWD and CWD is to guide the Board of Directors and General Managers to ensure all areas within the operational parameters of both districts are prioritized and thoroughly analyzed in a timely manner.

This report details major aspects of both districts including governance, district wide policies and regulations, finance, and employee benefits. In summary, both districts provide the same core service: municipal drinking water to mostly residential customers. Both districts even have similar mission statements which focus on *providing the best quality water with the lowest reasonable rates*.

Currently, both agencies are public agencies governed by an elected Board of Directors comprised of five Board members elected by voters in their districts for a 4-year term on a staggered election cycle of two years. CWD was established in 1916 as an Irrigation District while SSWD was a consolidation of two districts in 2002 as a County Water District. CWD relies on its surface water rights on the American River as a primary source with auxiliary groundwater wells, while SSWD utilizes mainly groundwater with supplemental surface water contract entitlements.

Financially, water revenues for both districts are predominantly from residential customers whose monthly water bills consist of a fixed charge and volumetric usage. Both districts are financially solvent with typical operating and capital budgets, reserves, and debts for their

respective size. Services provided by both districts are the same with similar employee to customer account ratios and the difference is less than half of a full-time equivalent personnel per 1,000 accounts.

Both agencies participate in the California Public Employee Retirement System (CalPERS) for employee retirement and medical health insurance benefits. The slight differences in other employee benefits and their related costs are financially immaterial for both districts and can be adjusted by the Board of Directors for each district. However, a portion of CWD's employees are unionized and benefits adjustments are negotiated. If the districts combine, continued representation is contingent on a majority vote of all rank and file employees of the new district in favor of unionizing.

Additionally, combination of CWD and SSWD would need to be approved by the Local Agency Formation Commission (LAFCo) whose application process include a determination of the combination process (consolidation or reorganization), type of the new district, name of new district, number of Directors on the new district, and main office location. Detailed analysis of advantages and disadvantages of each combination process, type of district for the new organization, and number of Directors are discussed herein.

To ensure a transparent process with public knowledge and support, both districts developed extensive outreach materials and engagement process. Both districts' staff dedicated a webpage on their websites with overview, detailed summary, FAQs and fact sheets, along with the previous Business Case Analysis and Boards and committee meeting information. Each district also held a public information workshop facilitated by an executive facilitator to listen and engage with the public. Directors and staff also reached out to other elected officials, neighboring agencies, and neighborhood associations informing them about the process and upcoming meetings.

The 2x2 Committee recommended that the combination of CWD and SSWD should undergo a "consolidation" process with LAFCo by dissolving both districts as they are currently and forming a new County Water District under County Water District Law, Water Code sections 30000 through 33901 with 11 Board of Directors. The 2x2 Committee further recommends that the number of Directors transitions to 5 directors by 2028 and the new main office building be located at 3701 Marconi Ave., Sacramento, CA 95821.

1 HISTORY AND BACKGROUND

As a follow up to the Business Case Analysis for the purpose of combining CWD and SSWD, the Boards of Directors of both districts requested staff to review and analyze detailed operations of both districts and provide information on issues and questions raised by the Directors, staff, and the public with respect of combining.

1.1 Carmichael Water District

CWD was established as an Irrigation District in 1916 and was the first Irrigation District formed in Sacramento County. The district changed its name to Carmichael Water District in the 1980s to reflect the services provided. There are approximately 12,000 service connections that represent a population of approximately 40,000. The district maintains over 160 miles of water lines within its approximately eight square miles of service area.

1.2 Sacramento Suburban Water District

SSWD was formed as a County Water District in February 2002, through the consolidation of the former Arcade Water District and Northridge Water District, which were formed in 1954 and 1956, respectively. There are approximately 47,000 service connections representing a population of approximately 200,000. The district maintains over 700 miles of water lines within its approximately 36 square miles of service area.

1.3 Sacramento Regional Water Utility Collaboration Study

In late 2018, the respective Boards of SSWD and San Juan Water District (SJWD) directed staff to initiate collaboration discussions with neighboring water agencies that could identify additional operational and financial efficiencies and to potentially improve service provisions to customers. The following agencies were invited, and accepted, to participate in the collaboration discussions: SSWD, SJWD, Citrus Heights Water District, CWD, Rio Linda / Elverta Community Water District, Del Paso Manor Water District, and City of Folsom. The effort was identified as the Sacramento Regional Water Utility Collaboration Study (Study). The Study was completed and accepted by the respective Boards in 2021. Based on the results of the Study, the CWD and SSWD Boards directed staff to continue seeking collaboration/combination opportunities.

1.4 Business Case for a Potential Combination Study Report

CWD and SSWD began the combination discussions in July 2021, by developing a 2x2 Committee (Committee) to identify opportunities to maximize/enhance the reliability of water supplies, and identify benefits or impacts related to cost saving opportunities, as well as combining into a single organization.

The Committee retained an independent financial consulting firm that specializes in working with government agencies and utilities to conduct a Combination Study Business Case Analysis (Analysis). The goal was to examine how combining the two neighboring water utilities might encourage efficiencies, reduce costs, improve water supply reliability, and enhance customer service.

The Analysis explored trends in the water industry and community, such as changing water demands, pressure to keep rates affordable, regulatory changes, water supply reliability, expansion to meet regional needs, and the feasibility for addressing those trends through combination. The Analysis included a top-to-bottom review of both water providers, including a comparison of organizational structures, management, customer services, billing, staffing, water treatment operations, capital improvement projects, and finances.

The intent of the Analysis was to determine if there were fatal flaws/deterrents identified that would hinder the combination discussions between CWD and SSWD. Based on the results of the Analysis, there were no obvious or compelling fatal flaws/deterrents in combining the two districts.

2 COMMUNICATION AND OUTREACH APPROACH

The Boards directed staff to develop an outreach strategy to ensure the transparency and objectivity for customers, rate payers, and employees. Communication and outreach processes/materials are outlined below, and the Summary Report, Public Outreach and Engagement is attached as Exhibit 1.

2.1 Meetings to Identify Stakeholders and Outreach Strategy and Implementation

On January 24, 2023, the CWD and SSWD Boards approved the Memorandum of Understanding for a Communications Plan for Public Outreach on the Combination Discussions. The cost for the Public Outreach as contracted with IN Communications is split 50/50 between CWD and SSWD and was contracted on February 9, 2023.

At the April 10, 2023 CWD/SSWD Joint Board meeting, the two Boards directed staff to enter into an agreement with a consulting firm, Strategy Driver, Inc. and JP & Company, to assist with facilitation of 2x2 Committee meetings, Joint Board meetings, interviewing Board members from each agency, as well as assisting staff in completing the necessary scope of work to finalize the Draft Further Analysis of Combining Carmichael Water District and Sacramento Suburban Water District (Report). The consultant's costs are split 50/50 between CWD and SSWD.

Development and implementation of the Stakeholder and Outreach Plan included the following noticed public meetings conducted according to Brown Act and minutes made available on both districts' websites:

DATE	MEETING DETAIL
July 2021 through Present	Public updates at Individual District Board meetings; Joint Board Meetings; and through the CWD-SSWD 2x2 Committee
July 7, 2021	2X2 Committee
July 23, 2021	2X2 Committee
August 24, 2021	2X2 Committee
September 29, 2021	2X2 Committee
October 6, 2021	Joint Board Meeting
November 18, 2021	2X2 Committee
February 18, 2022	2X2 Committee
June 16, 2022	2X2 Committee
July 20, 2022	2X2 Committee
September 23, 2022	Full draft study provided to SSWD and CWD
October 13, 2022	Draft study delivered to the public via the 2x2 Committee meeting
December 21, 2022	2X2 Committee
February 8, 2023	Study accepted with amendments at the 2x2 Committee meeting
March 3, 2023	2X2 Committee
March 28, 2023	2X2 Committee
April 10, 2023	Joint Board Meeting - Approved moving forward with discussions, public information workshops and associated communication collateral
May 4, 2023	2X2 Committee
June 8, 2023	2X2 Committee
June 15, 2023	Individual CWD Public Workshop
June 21, 2023	Individual SSWD Public Workshop
July 11, 2023	2X2 Committee
August 9, 2023	2X2 Committee
October 11, 2023	2X2 Committee
October 24, 2023	Joint Board Meeting
December 13, 2023 (planned)	2X2 Committee Meeting
January 8, 2024 (planned)	Joint Board Meeting

2.2 Public Involvement / Communication Collateral

At the April 10, 2023, CWD / SSWD Joint Board meeting, the following foundational materials were approved:

- Comprehensive CWD-SSWD stakeholder list for outreach to elected officials, business groups, neighboring and partnering water providers, homeowners associations, and others.
- Communication Collateral: Supporting materials to communicate with the public about combination discussions, including:
 - **Postcard for public information sessions:** Invites the public to an information session held by each District to learn about combination discussions and the findings of the initial study, ask questions and provide input.
 - **Road map/milestones for the outreach process:** Outlines the steps and overall approach for the public outreach/engagement process.
 - **Summary: Exploring the Combination of CWD and SSWD:** Provides a one-page document highlighting the opportunities, process, and ways to learn more.
 - **Fact Sheet: Perceived Advantages and Disadvantages to Combination:** Highlights perceived advantages and disadvantages to combination.
 - **Overview: About the Combination Study and Process:** Provides an overview of why the districts are discussing combination, activities to date and how the public can learn more.
 - **Fact Sheet: Study: A Business Case for a Potential Combination:** Provides an overview of the initial study findings and seeks to anticipate/answer likely questions.
 - **Map of Voting Divisions:** Shows the CWD and SSWD service areas and divisions for the Boards of Directors.
 - **Comment Sheet:** Invites the public to provide written comments on combination discussions.
 - **Key Messages (external/internal audiences and on special topics):** Provides a concise means for communicating the status of combination discussions; addresses frequently asked questions about fluoride.
 - **PowerPoint presentation** for the Public Information Workshops.

2.3 Public Information Workshops

The CWD and SSWD Boards approved two Public Information Workshops (Workshops) to inform the rate payers/stakeholders of both districts regarding the combination discussions and obtain public opinions. The Workshops were held on June 15, 2023, at CWD and June 21, 2023, at SSWD. Both Workshops were facilitated by an Executive Facilitator who assisted with public comments and questions. The Workshops included a presentation by the General Manager of each district followed by a question and comments (Q&A) session from the attendees. The major themes expressed by the attendees are highlighted below. Both districts plan to host additional Workshops after the release of this Report to engage with the public on the information included in this Report. If the districts decide to combine, there will be additional workshops as part of the LAFCo process.

CWD Workshop (June 15, 2023):

- **Representation and Governance:** Comments were raised about the representation of CWD residents in the new water district, as they would constitute only 17 percent of the population and have only one board member. The desire for more representation from CWD was expressed, and attendees requested clarity on how the geography will be divided to ensure fair representation.
- **Surface Water Availability:** There was a comment about whether the combination would result in decreased surface water availability for CWD customers, especially if there was a water shortage situation and SSWD required more water.
- **Infrastructure Condition:** There was a comment expressed that if SSWD's infrastructure was in poor condition, CWD ratepayers would have to bear the cost of fixing it without receiving any advantage.
- **Water Quality:** Individuals expressed their satisfaction with the current water quality, particularly with the absence of fluoride. They emphasized the importance of maintaining the same water quality.
- **Change in District Status:** The potential change in CWD's status from an irrigation district to adopting county water was mentioned, and the legal distinction and potential gains or losses from such a change were raised.
- **The Cost of Inaction:** Comments were expressed about future water reliability and cost if the combination does not proceed. The Boards and general managers were commended for their efforts, and attendees were encouraged to consider the benefits of moving forward.
- **Previous Consolidation talks and water rights:** The past experience of potential consolidation with other districts was mentioned, highlighting concerns about losing water rights. The possibility of CWD annexing SSWD was suggested, and the idea of a combination of equals was discussed.
- **Concerns about the Business Case Analysis:** Individuals expressed their view that the report was high-level and too preliminary. They desired more in-depth analysis and information, including scenarios and potential risks. An attendee expressed skepticism about the report, questioning the credibility and motivations of the entities involved in its creation.
- **Employee Contracts:** The potential combination raised questions about the voiding of current contracts and the need to rewrite them.

- **Alternatives to Combination:** Attendees expressed their desire to explore alternatives to combination such as joint projects through Memorandums of Understanding or Joint Powers Authorities instead of a full combination.
- **Concerns about Rate Increases:** Attendees expressed their opposition to the combination, citing fears of potential water rate increases. They expressed satisfaction with the current services provided by CWD and question the need for a combination.
- **Influence on the State Water Board:** Attendees expressed frustration with the State Water Resource Control Board and suggested that instead of combining, efforts should be made to have someone fight for their interests at the political level.
- **Decision-making Process and Community Input:** Attendees inquired about who ultimately made the final decision regarding the combination and whether there would be a vote by the community. They expressed a desire for greater involvement.
- **Opposition to the Combination:** Individuals expressed their opposition to the combination and inquired about any CWD Board members who are in opposition.
- **Data to Support Increased Efficiency:** Attendees inquired about the efficiency data that would result from the combination. They expect that merging the districts should lead to increased efficiency, but they sought clarification on specific data regarding the anticipated efficiencies.
- **Potential Cost Savings:** Attendees questioned whether proceeding with the combination would result in unnecessary expenses and suggested that savings could be achieved by not merging.
- **Further Consolidation and Dilution of Voice:** Attendees discussed the potential for CWD and SSWD to further consolidate beyond the current combination, expressing concern that as districts combine and become larger, the individual voices and influence of ratepayers may diminish.
- **Maintaining Water Rights:** Attendees commented about curtailment and the need to demonstrate use of water rights to avoid potential loss. The challenges of perfecting water rights were emphasized.
- **Considering the Bigger Picture:** An attendee emphasized the importance of taking a long-term perspective, looking ahead 15 years, and considering the implications for rates and pay in the future.
- **Appreciating the Process:** Individuals acknowledged that they entered the meeting without preconceived notions and appreciated that it was the first step in a long process. They expressed willingness to absorb the information and pass it along to others.

- **Timeline for Future Steps:** Attendees inquired about the approximate timeline for steps 3, 4, and 5 of the process, seeking clarity on the timeline for future states of combination talks.

SSWD Workshop (June 21, 2023):

- **Impact on Incorporation Efforts:** Attendees questioned how the combination of water districts would affect the incorporation efforts of Arden Arcade or Carmichael as cities.
- **Public Vote on the Decision:** Comments were raised regarding whether the decision on the combination or reorganization of the districts would go to a public vote.
- **Discussions with Del Paso Manor Water District:** Attendees inquired about discussions with Del Paso Manor Water District regarding a combination, particularly considering its infrastructure issues.
- **Water Supply Reliability:** Questions were raised about how the combination of different water supplies, rights, permits, and distribution systems would affect water supply reliability.
- **Contracts and Expansion:** Attendees commented about the impact from combination on contracts with the City of Sacramento and Placer County Water Agency (PCWA) if they were curtailed, and inquired about the benefits of the combination if the place of use could not be expanded.
- **Financial Aspects and Consultants:** Comments were raised about the role of consultants and corporations profiting from the project. Attendees requested that financial information and details of consultant fees be made available online. There were also concerns about potential layoffs, benefit cuts, and the overall cost of consultants.
- **Debt and Combination:** Questions were asked about the current debt of each water district and how the debt would be addressed in the event of a combination.
- **Satisfaction with the Status Quo:** An attendee expressed satisfaction with the current state of their water district and a desire to maintain the status quo.
- **Support for Combination and Outreach:** Attendees expressed support for the combination and suggested outreach to other jurisdictions, including recreation and park districts. Continued outreach to the public was also encouraged.
- **Cost Concerns and Rate Increases:** Comments were expressed about the cost of studies, potential rate increases, and temporary short-term increases becoming permanent.

- **Liability and Contamination:** Attendees inquired about liability issues related to contamination potentially infiltrating wells in CWD and whether such liabilities have been addressed.
- **Cost Reductions:** Questions were raised about how costs would go down with the combination.
- **Water Pressure for Fire Protection:** An attendee asked which water district, SSWD or CWD had better water pressure for fire protection.
- **Groundwater Accounting and Excess Water:** Questions were asked about the Groundwater Sustainability Agency groundwater accounting system, SSWD's usage percentage, and the possibility of selling excess stored water.
- **Surface Water Rights and Diversification:** Attendees discussed the potential benefits for SSWD in gaining surface water rights through the combination with CWD.
- **Weighted Vote and Transparency:** Comments were raised about the concept of a weighted vote, and attendees expressed the need for clear explanations regarding this voting system.
- **Support for Combination but Frustration with Process:** Attendees expressed support for the combination but voiced frustration over the lengthy process involved with LAFCo.
- **Support with Careful Execution:** An attendee supported the consolidation effort but emphasized the importance of careful execution, appreciating the opportunity for customer input.
- **Layperson-friendly Information:** Attendees requested more layperson-friendly information in future reports and studies to help customers understand how water supply reliability could be enhanced.

2.4 Additional Outreach Efforts

Other outreach stakeholder briefings include:

- April 30, 2023: Carmichael Colony Neighborhood Association Annual Meeting: CWD provided briefing on the process and status of combination and invited the public to upcoming workshops.
- May 11/June 5, 2023: Press release distributed to media outlets
- May 18, 2023: Mailed letter to HOAs/Neighborhood Associations
- May 30, 2023: LAFCO Special Districts Advisory Committee: SSWD provided an overview and status of the CWD-SSWD Combination discussions.
- May 27-June 21, 2023: Digital Advertising (Facebook and news/weather sites via the Google Display Network)

- May/June, 2023: Outreach via existing CWD and SSWD communication channels, including websites, bill inserts, bill messages, etc.
- May/June, 2023: Social media post and monitoring and outreach.
- June 13, 2023: Presentation to the Women’s Group at the St. Mark’s United Methodist Church in Sacramento.
- June 9, 2023: Print ads in Carmichael Times and Arden-Carmichael News Public Information Workshops.
- July 13, 2023: Briefing for Sacramento City Councilmember Lisa Kaplan.
- July 14, 2023: Briefing for Assembly Member Josh Hoover.
- June 16, 2023: Print ad in Carmichael Times
- July 18, 2023: Briefing with McClellan Park.
- July 19, 2023: Presentation to the Carmichael Kiwanis Club.
- July 26, 2023: Briefing for Assembly Member Kevin McCarty.
- July 26, 2023: Briefing for Supervisor Sacramento Supervisor Sue Frost.
- August 8, 2023: Briefing for Senator Roger Niello.

CWD’s external outreach and communications:

- Ongoing: Website updated/link added to home page
- May 2023: Article in May 2023 bill insert
- Ongoing 2023: Social media post on Nextdoor.com and monitoring
- May 19, 2023: Information article in Carmichael Times newspaper

CWD’s internal outreach efforts:

- October 14, 2022: Employee Meeting/staff update on study and Q&A with GM
- October 31, 2022: The SSWD General Manager attended a Carmichael Water District staff meeting to discuss his experience with the Arcade/Northridge Water District consolidation
- April 21, 2023: Two Employee Meeting/staff update and Q&A with two CWD Board of Directors
- Ongoing: Internal webpage and various employee meetings

SSWD’s external outreach and communications:

- Ongoing: Website updated/link added to home page
- September 15, 2022: Fall newsletter mailed
- October 6, 2022 / October 4, 2023: PowerPoint Slide during Open House
- October 2022: Customer Service monitor regarding combination efforts
- October 7, 2022: Direct mail postcard with QR code mailed to 45,000 SSWD customers
- October -November 2022: Advertising on Facebook and the Google Display Network on Facebook and on November 10th on the Google Display Network
- October and November 2022 and July 2023 bill inserts

SSWD's internal outreach efforts:

- July, August, September, October, November, December 2022; January, February, March, April, May, June, July, August, September, October 2023: Employee Meeting/staff update on combination discussions
- September 15, 2022: Internal information Staff hub link for information and questions
- Ongoing: Internal key messages and Frequently Asked Questions provided to SSWD staff and Board members
- Ongoing: Weekly Manager's Meeting
- October 19, 2022: General Manager invitation to staff, inviting questions and providing link to key messages and FAQs

3 DISTRICTS' CURRENT BUSINESS & OPERATIONS

This section provides detailed information and characteristics of each agency as it provides the similarities and differences of the two organizations. Information in this section provides a deep dive for analyses in subsequent chapters or steps for discussion throughout the Report.

3.1 Carmichael Water District

Existing Governance

CWD is governed by a 5-member Board of Directors elected by division. Elections are held in November of even-numbered years. Below are the CWD Directors and their terms:

Director	Term
Ron Davis	2022-2024
Mark Emmerson	2020-2024
Ron Greenwood	2020-2024
Jeff Nelson	2022-2026
Paul Selsky	2022-2026

Personnel, Organizational Structure and Chart

CWD has a total of 25 full-time-equivalent (FTEs) positions, of which 11 are management/administration employees and the remaining 14 in operations (see Exhibit 2).

Water Rights and Well Inventory

CWD has three surface water rights with various priorities: 1915 and 1925 licensed rights at 10 and 15 cubic feet per second (cfs) respectively and a 1925 permit at 25 cfs.

CWD has five active groundwater wells with a total capacity of approximately 9.2 million gallons per day (mgd).

CWD also has a backup water supply, which is a remediated groundwater supply from Aerojet that is used based on operational needs.

Water Rate Structure

CWD has the following water rate characteristics:

1. Rates are comprised of a fixed charge and usage charge component. The usage charge is based on one-hundred cubic foot (CCF) measurement and the fixed charge is based on meter size.
2. Primary residential meter size is 1.0”.
3. A single tier usage rate for all customers.

4. A Water Shortage Surcharge.
5. Approved a 5-year rate schedule in 2021 that covers the calendar years 2021 – 2025 at 9.5% per year and has implemented scheduled increases through 2023.
6. 11,633 Accounts; 11,053 residential, 580 non-residential.

Description	Fixed Rate Charges			Fire Service		
	2023	2024	2025	2023	2024	2025
5/8" Meter	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3/4" Meter	35.05	38.38	42.03			
1" Meter	54.90	60.12	65.83			
1 1/2" Meter	104.53	114.45	125.33			
2" Meter	164.07	179.66	196.73	54.88	60.10	65.82
3" Meter	303.02	331.80	363.33	82.32	90.15	98.73
4" Meter	501.51	549.15	601.32	109.76	120.20	131.64
6" Meter	997.74	1,092.53	1,196.32	164.64	180.30	197.46
8" Meter	1,593.22	1,744.58	1,910.31	219.52	240.40	263.28
10" Meter	-	-	-	274.40	300.50	329.10
12" Meter	-	-	-	329.28	360.60	394.92
Condo Living Units	35.05	38.38	42.03			
MF Living Units with Separate Meter	35.05	38.38	42.03			
Usage Rates	2023	2024	2025			
All Customers	\$ 2.06	\$ 2.26	\$ 2.47			

Finances and Budget

CWD has a Fiscal Year (FY) budget. For FY 2022-23, operations and maintenance (O&M) is \$9,772,660, capital expenditure is, \$10,036,944 with a revenue of \$20,489,240. Outstanding debt as of 06/30/2022 is \$31,023,528.

Facilities and Equipment

The Carmichael Administration Building, located at 7837 Fair Oaks Blvd., houses approximately 11 administrative staff positions. The building also includes a 90-person capacity Boardroom with an adjoining warehouse, parking garage, and loading dock. The building is approximately 9,700 square feet on an almost 2.5-acre lot. The parcel is also CWD's Corporation Yard where equipment and materials are stored for operations. The 2.5-acre parcel also has a large parking area with a solar generating shade structure.

Bajamont Water Treatment Plant (BWTP) is located at 3501 Bajamont Way in Carmichael. The BWTP includes a surface water treatment plant and intake facilities that is located on

approximately 18 acres. The BWTP includes above-ground filtration and treatment facilities and an underground 2-million-gallon concrete tank. Five groundwater facilities are located throughout the district's service area. There are seven parcels for wells and CWD is in negotiations with San Juan Unified School District to acquire additional properties. CWD has two water storage reservoirs at two separate locations containing a 1-million-gallon (MG) steel tank and a 3-MG steel tank, equipped with booster pump stations.

CWD has a total fleet of 34 vehicles that range from passenger vehicles to a large 5-yard dump truck. CWD's large equipment includes 4 backhoes, 1 mini excavator, 2 vacuum trailers, 1 valve exerciser, 1 mini excavator, 1 forklift, and flatbed trailers.

California Oregon Transmission Line:

The CA-OR Transmission Pipeline/Project (COTP) is an electric transmission project consisting of 340 miles of 500-kilovolt alternating current transmission line between Southern Oregon and Central California. The COTP has a capacity of 1,600 megawatts (MW) of which CWD has 1 MW. CWD sits on the Board of the COTP.

Policies and Procedures

CWD has 22 Directors' Policies (Policies) and general 37 Policies (Procedures). (See Exhibits 3 and 4)

Communities Served

CWD provides water service to customers in the unincorporated community of Carmichael.

3.2 Sacramento Suburban Water District

Existing Governance

SSWD is governed by a five-member Board of Directors elected by divisions. Directors are elected to serve four-year terms. Elections are held in November of even-numbered years. Below are the SSWD Directors and their terms:

Director	Term
Jay Boatwright	2022-2024
Dave Jones	2020-2024
Craig Locke	2022-2026
Kevin Thomas	2022-2026
Robert Wichert	2022-2026

Personnel, Organizational Structure and Chart

SSWD has a total of 75 full-time-equivalents (FTEs), of which 26 are management/administration, and the remaining 49 being in operations (see Exhibit 5).

Water Contract Entitlements, Well Inventory, and Fluoride

SSWD has a surface water contract entitlement with City of Sacramento to receive 26,064 af per year, a surface water contract entitlement with PCWA to receive 29,000 af per year, and Central Valley Project Section 215 Water from the Bureau of Reclamation, when available.

SSWD has a total of 71 active groundwater wells with a total capacity of approximately 124 mgd. SSWD is currently constructing 5 new groundwater wells, which will be completed and operational in late 2025. SSWD has three 5-MG reservoirs, one 500,000-gallon elevated storage tank, one 150,000-gallon elevated storage tank, and one 125,000-gallon elevated storage tank. SSWD's South Service Area (SSA) is fluoridated. Capital funding was provided by the First Five Commission (FFC) in 2007, with a twenty-year Agreement to fluoridate SSWD's SSA. The existing Agreement with FCC terminates in 2027.

At the April 10, 2023, CWD / SSWD Joint Board meeting, staff was directed to obtain a legal opinion that if CWD and SSWD were to combine, could SSWD discontinue fluoridating water served in the SSA after the Agreement between SSWD and the FFC Expires in 2027. Below is the legal opinion:

The agreement between SSWD and the FFC for fluoridating the water in SSWD SSA likely will remain in effect through its June 30, 2027, expiration. A combined district (or SSWD, if a combination does not occur) would not be obligated to continue fluoridating the former SSWD SSA after the FFC agreement expires unless SSWD or a combined District voluntarily continue paying the ongoing costs of operating and maintaining the fluoridation system through rate or other district revenues or are mandated to continue because the state has identified an outside funding source available for this purpose.

In accordance with Title 22 of the Code of California Regulations ("CCR"). Health and Safety Code section 116410 states that, if a public water system with multiple water sources is fluoridating a portion of its system, it is not required to fluoridate any portion of its system for which funding is not available.

Water Rate Structure

SSWD has the following water rate characteristics:

1. Rates are comprised of a fixed charge and usage charge component. The usage charge is based on one-hundred cubic foot (CCF) measurement and the fixed charge is based on meter size.

2. Primary residential meter size is 3/4".
3. A single tier usage rate for non-residential customers. 2 tier usage rate for residential customers.
4. Approved a 5-year rate schedule in 2019 that covers the calendar years 2020 – 2024 at 5%, 4%, 3%, 3%, 3% per year and has implemented scheduled increases through 2023.
5. 45,322 Accounts; 42,496 residential, 2,826 non-residential

Description	Fixed Rate Charges			Fire Service		
	2023	2024	2025	2023	2024	2025
5/8" Meter	\$35.32	\$36.38	\$36.38	\$ -	\$ -	\$ -
3/4" Meter	48.99	50.46	50.46			
1" Meter	76.34	78.63	78.63			
1 1/2" Meter	144.72	149.07	149.07			
2" Meter	226.77	233.57	233.57	15.40	15.87	15.87
3" Meter	445.58	458.95	458.95	28.89	29.769	29.76
4" Meter	691.74	712.49	712.49	47.03	48.45	48.45
6" Meter	1,375.51	1,416.77	1,416.77	93.60	96.41	96.41
8" Meter	2,469.54	2,543.63	2,543.63	165.58	170.55	170.55
10" Meter	3,290.07	3,388.77	3,388.77	258.68	266.45	266.45
12" Meter	4,623.42	4,762.12	4,762.12	288.30	296.95	296.95
Condo Living Units	-	-	-			
MF Living Units with Separate Meter	-	-	-			
Usage Rates	2023	2024	2025			
Residential – 1 st Tier (0-15 ccf)	\$0.98	\$1.01	\$1.01			
Residential – 2 nd Tier (16 + ccf)	1.28	1.32	1.32			
Multi-Family Residential	1.39	1.43	1.43			
Non-Residential	1.47	1.52	1.52			

Finances and Budget –

SSWD has a Calendar Year (CY) budget. CY2023 Budget is \$24,860,000 O&M, \$22,805,000 Capital, and \$6,995,000 Debt Service. Revenues are \$54,660,000. Outstanding debt (12/31/2022): \$54,915,515.

SSWD has 45,322 accounts comprised of 39,180 single family residential, 2,306 small multi-family (3 units or less), 1,010 multi-family (4 or more units) and 2,826 non-residential units (commercial, industrial, public agency).

Facilities and Equipment:

The Marconi Administration Building, located at 3701 Marconi Avenue, houses administrative and engineering staff. 26 employees report to this facility with a building size of approximately 18,000 square feet (sf). The maximum occupancy of the Boardroom is 125 people. The building also includes a separate suite that is currently unoccupied. This particular area is approximately 6,800 sf. The building has an underground parking garage with the capability to accommodate 50 district/personal vehicles combined.

Walnut Corporation Yard, located at 5331 Walnut Avenue, is approximately 16,000 square feet in size. This building incorporates offices, a maintenance shop, and an inventory warehouse. 49 employees report to this facility.

Auburn Yard, located at 2736 Auburn Blvd., has two buildings and a groundwater well facility. This property is utilized for storing operations materials (e.g., asphalt, sand, and gravel). There is a cell tower located at this facility that currently generates annual revenues.

Antelope Reservoir Facility, located at 7800 Antelope North Road, has a two-story building, 18,000 sf in size. The building houses a booster pump station/equipment and includes a separate standby generator room, motor control center, two large meeting rooms, kitchen area, locker rooms/showers/bathrooms, office space, storage areas, and a shop. This property also has the Antelope Pump-Back and CTP Booster Pump facilities, as well as a 5 MG reservoir. The large meeting rooms are utilized for training seminars and water related events for associations such as ACWA, AWWA, SAWWA, and JPIA. The yard area has material storage bins for asphalt, sand and gravel. It also houses some of the district's large equipment (e.g., backhoe, dump truck, etc.). In addition, there is a standalone carport structure at this site.

SSWD has a total fleet of 44 vehicles that range from compact electric vehicles to as large as a 5-yard dump truck. SSWD's large equipment includes 3 backhoes, 1 front end loader, 3 vacuum trailers, 1 valve exerciser/vacuum trailer, 3 mini excavators, and 2 forklifts.

Policies and Procedures - SSWD has 47 Board-adopted policies and 62 procedures promulgated by the General Manager. (See Exhibits 6 and 7)

Communities Served – SSWD provides water service to customers in Arden/Arcade, Foothill Farms, North Highlands and portions of Citrus Heights, Carmichael, Fair Oaks, Sacramento County/City, Antelope, and McClellan Park.

3.3 Districts – At a Glance

Both CWD and SSWD’s provide municipal water supply as its core service with similar mission statements:

	CWD	SSWD
Mission Statement	Committed to providing the highest quality water for the lowest feasible cost and to serving our customers with diligence, efficiency, and integrity.	To deliver a high quality, reliable supply of water and superior customer service at the lowest responsible water rate.

Many of the financial metrics, including water rates and staff benefits, are similar as outlined below based on individual districts’ data presented above.

Water Rates

CWD has 11,633 accounts comprised of 9,847 single family residential, 1,206 multi-family residential and 580 non-residential accounts. All accounts are metered. The average monthly bill equals approximately \$99.17 for all accounts. SSWD has 45,322 accounts comprised of 39,180 single family residential, 3,316 multi-family residential and 2,826 non-residential accounts. All accounts are metered. The average monthly bill equals approximately \$92.79.

CWD has 25 FTE staff or 2.14 FTE per 1,000 accounts and SSWD has 75 FTE staff or 1.65 FTE per 1,000 accounts, which is less than half of FTE per 1,000 accounts. As expected, services provided and their values are similar for both districts.

Both CWD and SSWD’s water rates include a fixed charge to ensure the districts’ sustainable operations and a variable charge based on customers’ consumption volumes.

Annual water revenue, by charge type:

	Fixed Charge		Variable Charge	
	Dollars	Percent	Dollars	Percent
CWD	\$7,620,715	55%	\$6,225,489	45%
SSWD	34,920,697	69%	15,545,075	31%

Both districts also have similar types of customers, residential customers and the difference in customer base by revenue is minimal, about 6%.

Average billing per month, by customer type:

	Residential		Non-Residential	
	Dollars	Percent	Dollars	Percent
CWD Billing	\$954,364	83%	\$199,487	17%
Average customer bill	\$86.34		\$343.94	
SSWD Billing	\$3,246,459	77%	\$959,022	23%
Average customer bill	\$76.39		\$339.36	

The majority of CWD's water meters are based on 1-inch connection and SSWD's meters are predominantly ¾-inch on 1-inch connections. The revenues from both types of connections are listed below:

Residential billing rate, ¾" and 1" meters:

	CWD		SSWD	
	Dollars	Units	Dollars	Units
¾" Meter	\$55.65	10 ccf	\$58.79	10 ccf
	76.25	20 ccf	70.09	20 ccf
1" Meter	75.50	10 ccf	86.14	10 ccf
	96.10	20 ccf	97.44	20 ccf

Finance and Budgets

Both district's current budgets share very similar percentages of spending on O&M, Capital, and Debt Service.

CWD's 2022 O&M costs were \$8,014,335, excluding depreciation, or \$689 per account. SSWD 2022 O&M costs, excluding depreciation, were \$22,454,573 or \$495 per account.

As of June 30, 2022, CWD has outstanding debt of \$32,508,528 or \$2,795 per account. Annual debt service of approximately \$2,500,000 or \$215 per account, fully amortized in 2038. SSWD has outstanding debt of \$54,915,515 or \$1,212 per account. Annual debt service of approximately \$7,000,000 or \$154 per account, fully amortized in 2031.

CWD reserves as of June 30, 2022, were \$12,256,384 or \$1,054 per account. Days cash on hand of approximately 939 days. SSWD reserves as of December 31, 2022, were \$42,034,033 or \$928 per account. Days cash on hand of approximately 796 days.

CWD fixed assets, net, as of June 30, 2018, were \$56,080,177 and \$65,454,326 as of June 30, 2022, which is a 17% increase. SSWD fixed assets, net, as of December 31, 2018, were

\$286,179,000 and were \$324,541,471 as of December 31, 2022, which is a 13% increase. CWD's net capital assets per account is \$5,627 vs \$7,161 for SSWD.

CWD has higher per account reserves than SSWD (\$1,054 vs \$928). CWD's reserves are designated by its Board to reflect long-term capital planning.

CWD's net assets are \$65,454,326 (\$5,627 per account) as of June 30, 2022, and have increased 17% since June 30, 2018. SSWD's net capital assets are \$324,541,471 (\$7,161 per account) as of December 31, 2022, and have increased by 13% since December 31, 2018. This shows that both districts have been investing in infrastructure at a comparable rate over the past 5 years.

Financial Metrics	CWD	CWD per Account	SSWD	SSWD per Account
Capital Reserves	\$6,712,741	\$577	\$16,206,400	\$358
<u>Operating Reserves</u>	<u>5,543,643</u>	<u>477</u>	<u>25,827,633</u>	<u>570</u>
Total	12,256,384	1,054	42,034,033	928
Net Fixed Assets	65,454,326	5,627	324,541,471	7,161
Debt	32,508,528	2,795	54,915,515	1,212
Net Invest in Capital Assets	43,193,529	3,713	270,541,612	5,969
Net Pension Liability*	815,854	70	5,806,835	128
Net OPEB Liability	2,285,307	196	3,139,340	69
Water Revenue	13,846,204	1,190	48,973,275	1,113
Operating Expenses**	8,014,335	689	22,454,573	495
Annual Debt Service	2,500,000	215	7,000,000	154
Capital Asset Acquisition	6,181,810	531	24,328,128	537
Days Cash on Hand	939		796	
Debt to Net Asset Ratio	0.497		0.169	
Coverage Ratio	2.87		4.50	
Current Budget%:O&M	44%		45%	
CIP	45%		42%	
Debt Payment	11%		13%	

*Measurement date 6/30/2021

**Less depreciation expense

Note: Metric comparisons are based on each district's number of accounts and not connections. Staff utilized audited financial statements for CWD as of June 30, 2022, and as of December 31, 2022, for SSWD.

Employee Benefits

Both CWD and SSWD are CalPERS members for pension. Both agencies have CalPERS 2.0% @ 55 for classic members and PEPRA 2.0% @ 62 Miscellaneous Plans for members hired after 2013 per California Public Employees' Pension Reform Act (PEPRA). SSWD also has a 3.0% @ 60

Miscellaneous Plan for classic members who were hired before January 1, 2003. This plan is closed.

Both CWD and SSWD have similar total OPEB and Pension debt per account, approximately \$266 and \$197, respectively. As of June 30, 2021, CWD is funded 95.2% and SSWD is funded 76.7%.

CWD's OPEB funding percentage is 55.1% compared to 72.5% for SSWD.

Benefit Type	CWD	SSWD
Medical Insurance	<ul style="list-style-type: none"> ▪ Contracts with CalPERS under its Region 1 plans for full time employees and eligible retirees as based on CalPERS rules and regulations ▪ Contribution is 2023 Blue Shield Trio Rate with a maximum adjustment of 6% per year through 2025 ▪ Offers \$400 a month for medical insurance opt out 	<ul style="list-style-type: none"> ▪ Contracts with CalPERS under its Region 1 plans for full time employees and eligible retirees based on CalPERS rules and regulations ▪ Contribution is CalPERS 10/90 rate towards health premiums ▪ Offers ½ the lowest cost medical plan rate for medical insurance opt out.
Dental	<ul style="list-style-type: none"> ▪ District pays the dental premiums for all full time employee and eligible dependents for Delta Dental PPO under ACWA/JPIA. ▪ New employees are eligible the first of the month after completing 60 days. 	<ul style="list-style-type: none"> ▪ District pays dental premiums for all employees and eligible dependents under Cigna Dental. ▪ New employees are eligible on 1st day of first full month following hire date.
Vision	<ul style="list-style-type: none"> ▪ District offers VSP through ACWA/JPIA and pays the vision premiums for all full time employee and eligible dependents. ▪ New employees are eligible the first of the month after completing 60 days. 	<ul style="list-style-type: none"> ▪ District offers vision premium for all employees and eligible dependents under VSP/Ameritas. ▪ New employees are eligible on 1st day of first full month following hire date.
Employee Assistance Program (EAP)	<ul style="list-style-type: none"> ▪ District offers Anthem EAP benefits through ACWA/JPIA and pays the EAP premiums for each full time regular employee and eligible dependents. 	<ul style="list-style-type: none"> ▪ District offers Anthem EAP benefits through ACWA/JPIA and pays the EAP premiums for each full time regular employee and eligible dependents.

	<ul style="list-style-type: none"> ▪ New employees are eligible the first of the month after completing 60 days. 	<ul style="list-style-type: none"> ▪ New employees are eligible on 1st day of first full month following hire date.
Basic Life and AD&D	<ul style="list-style-type: none"> ▪ Fully paid life and accidental death insurance benefits equal to 2 times annual salary up to a maximum of \$200,000. ▪ New employees are eligible the first of the month after completing 60 days. ▪ District offers The Standard Basic Life/AD&D benefits through ACWA/JPIA and pays the premium for each full time regular employee. The District pays the premium for Basic Life benefits for both spouses and children coverage up to \$1,500 and \$1,000, respectively. 	<ul style="list-style-type: none"> ▪ Fully paid life and accidental death insurance benefits equal to 2 times annual salary (uncapped). ▪ Effective the first day of the first full month following hire date for active employees. ▪ Spouse and children under 26 are insured for \$10,000 (dependents less than 6 months are covered at \$00; this amount automatically increases to \$10,000 at age 6 months). Coverage is through UNUM.
Short Term Disability	<ul style="list-style-type: none"> ▪ District participates in the State of California disability program administered through Employment Development Department. ▪ STD is 60% of basic weekly income up to \$5,000 a month and begins on the first day of disability after 7 day waiting period up to 52 weeks. ▪ SDI is funded by employee withholding. 	<ul style="list-style-type: none"> ▪ Fully paid short-term (STD) disability insurance benefits are effective the first day of the first full month following hire date; coverage is available for active employees only. ▪ STD is 66.67% of basic weekly income to a maximum benefit of \$2,000 and begins on the 31st day of disability up to a maximum of 9 weeks. ▪ Coverage is through UNUM and District does not participate in State of California SDI.
Long Term Disability	<ul style="list-style-type: none"> ▪ District offers Guardian LTD and pays the LTD premiums for each full time regular employee. New employees are eligible the first of the month after completing six months. ▪ LTD is 60% of monthly earnings up to \$5,000 a month and 	<ul style="list-style-type: none"> ▪ Fully paid long-term (LTD) disability insurance benefits are effective the first day of the first full month following hire date; coverage is available for active employees only.

	begins on the 91 st day of disability up to 6 months.	<ul style="list-style-type: none"> ▪ LTD is 66.67% of basic monthly income up to a maximum of \$10,000.
Deferred Compensation	<ul style="list-style-type: none"> ▪ Voluntary IRS approved 457 plan that includes a Roth option administered by CalPERS. ▪ Employees are eligible to enroll upon date of hire and may change contribution amounts or percentage at end of any pay period. ▪ District makes no contribution or match. 	<ul style="list-style-type: none"> ▪ Two voluntary IRS 457 plans through Corebridge and CalPERS. ▪ Employees are eligible to enroll upon date of hire and may change contribution amounts or percentage at end of any pay period. ▪ District makes no contribution or match.
Retirement	<ul style="list-style-type: none"> ▪ Defined benefit CalPERS Retirement System <ul style="list-style-type: none"> □ Classic members 2% @ 55 formula: Employees pay the employee share of contribution. □ PEPRAs members: 2% @ 62 formula: Employees pays employees' share of contribution. 	<ul style="list-style-type: none"> ▪ Defined benefit CalPERS Retirement System <ul style="list-style-type: none"> □ Classic members 2% @ 55 formula: Employees hired after 8/18/2020 must pay the employee share of contribution. □ PEPRAs members: 2% @ 62 formula: Employees pay employees' share of contribution. □ Classic members 3% @ 60 formula: The plan is closed and covered employees hired before 1/1/2003. Employees do not pay the employee share of contribution.
Social Security	<ul style="list-style-type: none"> ▪ The District participates in the Social Security System and pays the employer portion. The employee portion is withheld from the employee. 	<ul style="list-style-type: none"> ▪ The District participates in the Social Security System and pays the employer portion. The employee portion is withheld from the employee.
Retiree Health Coverage	<ul style="list-style-type: none"> ▪ District offers CalPERS medical coverage for eligible retirees and eligible dependents based on the CalPERS medical benefits vesting schedule under Public 	<ul style="list-style-type: none"> ▪ District offers CalPERS medical coverage for eligible retirees and eligible dependents based on the CalPERS medical benefits

	<p>Employees' Medical & Hospital Care Act (PEMHCA).</p> <ul style="list-style-type: none"> ▪ Maximum District contribution is equal to current employees' contribution (2023 Blue Shield Trio rate with 6% escalation per year through 2025) based on CalPERS vesting schedule. 	<p>vesting schedule under Public Employees' Medical & Hospital Care Act (PEMHCA).</p> <ul style="list-style-type: none"> ▪ Maximum District contribution is equal to current employees' contribution (up to the higher of: the higher of the lowest-cost HMO or PPO plan offered by CalPERS, or the CalPERS "100/90 Formula") based on CalPERS vesting schedule. ▪ Those employees hired before 1/1/2003 are considered fully vested.
<p>Holidays</p>	<ul style="list-style-type: none"> ▪ 11 paid holidays plus one floating holiday to all full time employees. 	<ul style="list-style-type: none"> ▪ 13 paid holidays per year – if less than 13 are designated by GM, personal holidays are received in order to reach the total of 13.
<p>Vacation</p>	<ul style="list-style-type: none"> ▪ Full-time regular employees accrue 12 to 25 days (96-200 hours) each pay period based on length of service to District, for a maximum accrual of 300 hours. ▪ Hours over cap stop accrual. ▪ Probationary employees may accrue, but not utilize, vacation during the first six (6) months of employment. ▪ Employees receive a payout of unused vacation hours at separation of employment. 	<ul style="list-style-type: none"> ▪ Full-time regular employees accrue from 12 to 25 days (96-200 hours) per year based on length of service for a maximum accrual of 400 hours. ▪ Hours over cap are paid out in December each year unless designated to a deferred compensation plan provided through the District. ▪ Unused vacation may be cashed out if the employee has used at least forty (40) hours of vacation in the prior 12 months. ▪ Employees receive a payout of unused vacation hours at separation of employment.

<p>Sick Leave</p>	<ul style="list-style-type: none"> ▪ Full time employees earn 3.7 hours of sick time per pay period (12 days or 96 hours per year). ▪ Probationary employees may accrue, but not utilize sick leave during the first ninety (90) days of employment unless otherwise required by federal, state or local laws. ▪ Accrued sick leave upon termination of employment is forfeited. ▪ Upon retirement, accrued sick leave can be converted to service credit with CalPERS upon eligible retirement from the District. 	<ul style="list-style-type: none"> ▪ Introductory and regular employees earn 12 days per year (96 hours) beginning the first full pay period after hire date. ▪ Employees 55 and over can accumulate sick leave without limit and can cash out leave over 240 hours at ½ their current rate of pay once per year in December. ▪ Employees under 55 are paid in December each year for all accumulated sick leave exceeding 240 hours at ½ their current rate of pay unless designated to a deferred compensation plan provided through the District. ▪ Upon retirement, accrued unused sick leave can be paid out, converted to additional service credit with CalPERS, or designated to a deferred compensation plan provided by the District.
<p>Bereavement Leave</p>	<ul style="list-style-type: none"> ▪ The District offers 3 paid days with allowance for extra 2 days using employees' own leave balances. 	<ul style="list-style-type: none"> ▪ The District offers 3 paid days with allowance for extra 3 days using employees' own leave balances.
<p>Jury Duty</p>	<ul style="list-style-type: none"> ▪ District offers paid jury service time. 	<ul style="list-style-type: none"> ▪ District offers paid jury service for up to ten (10) days per calendar year with ability to extend with approval of the General Manager.
<p>Management/ Administrative Leave</p>	<ul style="list-style-type: none"> ▪ At the discretion of the General Manager, the Engineering Manager and the Finance Manager may receive up to 80 hours annually. 	<ul style="list-style-type: none"> ▪ At the discretion of the General Manager, exempt staff may receive up to 5 days of Administrative Leave annually.

	<ul style="list-style-type: none"> ▪ The leave is not accruable or compensable. 	<ul style="list-style-type: none"> ▪ Max carryover of 10 days per year.
Parental Leave	<ul style="list-style-type: none"> ▪ District participates in State's SDI which offers paid New Parent Leave (NPL), Paid Family Leave (PFL) and Pregnancy Disability Leave (PDL) for up to a total of 12 weeks. ▪ District coordinates benefits for employees to use accrued leave hours to compensate for any paid leave shortfall from the state program. 	<ul style="list-style-type: none"> ▪ Regular employees receive up to 160 hours for disability due to childbirth, birth or placement of a child in the care of the employee for purposes of adoption. ▪ District does not participate in SDI.
Educational Assistance (off-duty degree program)	<ul style="list-style-type: none"> ▪ District offers educational assistance for degree programs that are not required by an employee's present work assignment. ▪ District will reimburse up to \$500 per year with a maximum of \$2,500 per employee with a grade of "C" or better. ▪ Requires completion of two years of service after reimbursement date. 	<ul style="list-style-type: none"> ▪ District offers educational assistance for degree programs that are not required by an employee's present work assignment. ▪ Annual reimbursement will not exceed the IRS maximum of \$5,250 per calendar year for a total of \$20,000 per employee. ▪ Requires a minimum of 3 years of employment with the District following completion of degree requirements for total financial assistance from the District.

4 MODEL MERGED DISTRICT

As part of the combination investigation, both Boards considered the types of districts as they are today and what the new district may be. Both CWD and SSWD share the same legal counsel, who represents CWD as a special counsel and SSWD as its general counsel. Below, legal counsel provided the following summary on governance and a detailed comparison matrix of different types of special districts with their respective powers is attached in Exhibit 8:

Discuss Advantages/Disadvantages of Irrigation District vs. County Water District

CWD is an Irrigation District and SSWD is a County Water District. At previous 2x2 Committee and Board meetings, staff was directed to obtain a legal analysis on what are the differences in the powers of authority of a County Water District and an Irrigation District, as well as what are the advantages/disadvantages. In addition, a question was asked if there are higher powers and authority obtainable if the two districts were to combine. Legal opinion is provided below and in District Authorized Powers Matrix following this section.

What are the Differences in the Powers and Authority of County Water Districts and Irrigation Districts and Advantages and Disadvantages of Each?

SSWD was formed and operates under the County Water District Law, Water Code sections 30000 through 33901, and CWD was formed and operated under the Irrigation District Law, Water Code sections 20500 through 29978. The different “enabling acts” under which each District was formed and operates provide for somewhat different scopes of authority, although they share many powers in common as will be outlined below.

Summary of Powers and Authority of Each Form of District

Under the County Water District Law, SSWD is authorized to provide water service and to take associated actions to develop water rights and resources, to build, operate, maintain, and upgrade necessary infrastructure, and to engage in related activities to ensure its authority to supply water to its customers. County water districts also may provide wastewater, fire protection, and solid waste services. They also have limited powers for electric (leasing water for hydroelectric generation purposes) and recreational services (construct and operate ancillary recreational facilities on property owned for water supply and distribution services). SSWD, however, does not exercise any of these “latent” additional powers.

Under the Irrigation District Law, CWD also is authorized to take all necessary actions to provide water service to its customers. Originally, irrigation districts were authorized to construct projects to provide water to irrigate agricultural lands. Later, the Legislature authorized irrigation districts to also provide treated water service. The Irrigation District Law also permits irrigation districts to provide drainage, retail and wholesale electric power generation and service, and sewer

services. Similar to SSWD, CWD only provides treated water service and does not exercise any of these additional powers.

Under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (called here the “LAFCo Law”), neither District may exercise any latent power -- that is a power it is not actively exercising now -- unless and until that District applies to Sacramento County Local Agency Formation Commission (“LAFCo”) for approval to exercise the proposed latent power and LAFCo approves the application. While either District could apply to the LAFCo to exercise one or more of its latent powers, both Districts serve mainly built out areas that already receive sewer, electricity, and other utility services by other established providers.

Differences and Advantages and Disadvantages of Each Form of District

As noted above, SSWD’s and CWD’s authority under their respective enabling acts are more similar than different. This is particularly the case given their common existing missions and the likely limitations on either District being able to obtain LAFCo approval to exercise any of their additional, latent powers.

Are there “Higher Powers and Authority Obtainable if CWD and SSWD Were to Combine?”

There is no legal hierarchy of special district enabling acts, so a question regarding which enabling act is higher or lower in power or priority is not consistent with the structure of special water district enabling acts. The discussion should focus more on comparing the relative powers provided under a particular enabling act and their suitability for the specific circumstances of the community being served and whether the type of water district proposed to provide service has sufficient powers to address all service requirements and any changes circumstances that might arise in the future. A related consideration focuses on ease of operations and administrative convenience.

Legal counsel developed a matrix that identifies/outlines the various types of Powers of Authority in relations to water service/supply, other services, water conservation, property acquisition, facilities and sale of surplus services. See Exhibit 7

4.1 Consolidation vs. Reorganization

Combining two or more public agencies into one can be primarily achieved as either a consolidation or a reorganization. The end results are essentially the same, one agency assumes the rights, responsibilities, assets, and liabilities from the others. The difference lies in the legal process used. There are pros/cons listed below that are more general in nature and may not apply to this specific example.

Consolidation

Both agencies are dissolved and a new one is created in their place with a service area that encompasses the previous districts' service areas. The new agency is the successor entity. Initiation: Both agencies file for consolidation using "substantially similar" resolutions of application to the LAFCo.

Pros:

- Maximize economies of scale;

Cons:

- May be difficult to determine which existing Board members will be on the new Board because of limitations on redistricting Director voting divisions;
- There can be complications with determining which district's employment and benefits plans will be used post-consolidation by the new agency – either on an interim or long-term basis (e.g. labor agreements, pension contract with CalPERS, etc.);
- All residents and landowners from both districts can oppose during the protest period;
- May require a new Proposition 218 rate proceeding to set water service rates and charges for the new agency and a new Proposition 26 proceeding to set new connection/capacity fees;
- It is highly disruptive for the same reason as the "Pros." The potential cancellation of labor contracts can create unnecessary anxiety for affected workers. In addition, the new entity would have to start at the proverbial "square 1" on all of its policies and operations.

Reorganization

One district is dissolved and one agency annexes all of the dissolved district's former territory and absorbs all assets and obligations of the former district. The existing agency is the successor entity. Initiation: One district applies to dissolve; the remaining district applies to annex the service area of the dissolved district. Both agencies file simultaneously.

Pros:

- Because one of the existing agencies remains (albeit now with a larger service area), it is less disruptive than a consolidation. All assets/liabilities/revenues/expenses and all existing policies and operational practices of the remaining district are transferred to successor, and all existing policies and operational practices of the remaining district stay in place;
- Only the residents of the dissolving agency can oppose during the protest period.

Cons:

- The remaining agency will be unable to shed any legal obligation it might otherwise be able to shed or modify in a consolidation. For example, if the remaining agency had a

more generous benefit structure to its labor than the other district, it now may need to extend those benefits to a larger labor pool;

- May be difficult to educate the non-successor agency residents about the benefits of dissolving their home water agency (need community workshops/outreach efforts);
- May be difficult to educate the successor agency residents of the benefit of absorbing the dissolving agency (e.g. dilution of local control, etc.). The annexing agency could be under political pressure to allow a public vote on the matter;
- Need to resolve how the non-successor residents will be represented in the post-reorganization entity.

Either district can initiate a combination by adopting a resolution of application and go through the “normal” LAFCo process. However, there is a sub-LAFCo process that may be applicable: Government Code §56853(a) states that if the combining agencies adopt substantially similar resolutions of application, LAFCo must either approve or conditionally approve the proposal (in other words LAFCo cannot deny the application). In addition, this section says that the reorganization could be ordered without an election unless the conditions under GC §57081(b) are met. After the approval hearing, a second hearing (called a conducting authority hearing or a protest hearing) must still be held, but only to determine if the conditions specified in GC §57081(b) exist.

Under existing statutes in the County Water District Law and Irrigation District Law, a new agency formed either by a consolidation, or by a reorganization, can obtain a “fresh start” by adopting a new name and a board of directors that is larger in size than five members. Because of federal and state constitutional limitations against impairment of contracts, the new agency would not be able to automatically terminate most contracts and agreements as a result of the consolidation or reorganization. The new agency would either have to assume most contracts and agreements or terminate them according to the contract’s termination provisions or by negotiation.

There are typically seven major milestones in the LAFCo process. The overall time for a combination to get from Step 1 through to Step 7 can take as long as a year, with the caveat that this assumes any time before Step 1 is not counted, all goes according to plan with no disruptions (the timing of notice) and if alignment occurs (most prominently no lawsuits). After Step 6, the applicant(s) has/have up to a year to comply with the conditions of approval. LAFCo can record the Certificate of Completion once those conditions are met and this filing finalizes the proceedings and the combination is complete. Following are the 7 Steps:

1. **Project Initiation** – Applicant submits all the forms found here (<https://saclafco.saccounty.gov/Pages/ApplicationForms.aspx>), including the plan for service (please see the section immediately below).

2. **Property Tax Negotiation** – Governed by Revenue and Taxation Code §99. While neither district receives a portion of the property tax, this section cannot be bypassed per R&TC §99(b)6.

3. **LAFCo Staff Analysis** – Upon the receipt of the complete packet of application (see Step 1 above), staff will analyze the documents and follow up with the Districts to ensure there is sufficient information to address the requirements under GC §56668. Once GC §56668 has been satisfied, LAFCo staff will issue a Certificate of Filing, stating the approval hearing date for the proposal. This approval hearing is typically scheduled for the first meeting in which at least 21-days advance notice can be posted (GC §56159).

4. **Approval Hearing** – The Commission considers the facts of the proposal, the staff report, written and oral testimony, the environmental review, the context and setting of the proposal and any other pertinent information to decide on the proposal. The Commission’s discretionary decision could be unconditional approval, approval with conditions or denial. If LAFCo denies the application, the project stops and LAFCo issues a Certificate of Termination. If the decision is approval with or without conditions, then the proposal moves on to Step 5.

5. **The 30-day Reconsideration Period Begins** – Government Code §56895 allows anyone within the County of Sacramento the ability to request that the Commission reconsider its approval. The requirements for reconsideration are strict and the Commission decides whether to grant reconsideration. Historically, reconsiderations rarely succeed.

6. **Conducting Authority Hearings** – For proposals with less than 100% landowner consent, a “conducting authority hearing” (also called a protest hearing) has to be scheduled (also subject to a 21-day advance notice). This provides the opportunity for landowners and registered voters to protest the approval. What happens to the proposal depends on the number of protests received and not withdrawn:

- a. If less than 25% of registered voters or 25% of landowners who own at least 25% of the total assessed value of the land protest, then the Commission’s approval (with or without conditions) stands;
- b. If more than 50% of registered voters or landowners protest, then the Commission’s decision is overturned and the proposal fails;
If the number of protests by registered voters or landowners is between a) and b) above, then it goes to an election.

Note:

- The “sub-LAFCo process” under GC §56853(a) referenced above speaks to this step of the process. Normally the dissolution or consolidation of agencies are subject to an election. If the sub process is used, the Conducting Authority Hearing is the mechanism to determine if an election is held, and only if the number of submitted (and not withdrawn) protests is above 25% of registered voters or landowners.

- If the districts choose the reorganization route, there is a way to bypass this step if the resolution of application for the dissolving district(s) is approved unanimously by the governing board(s). Then this step is only taken on the question of annexation.
 - LAFCo staff ensures that the 21-day notice for the approval hearing is consistent with the requirements for GC §56663. If so, then this step is also bypassed for the annexation, eliminating the Conducting Authority step altogether.
7. **Final Filings** – These are filed, depending on the outcome in Step 6. If the number of protests submitted are insufficient to overturn the Commission’s approval and/or if the applicants received a conditional approval, then the applicant will have 12 months to complete them. When the conditions are met (or if there were no conditions, soon after the proposal successfully completes Step 6), the LAFCo issues a Certificate of Completion and records it with the County Clerk-Recorder. The combination is complete with the recording of this filing.

4.2 Statistics and Demographics

If CWD and SSWD were to combine, the combination would result in a district with these attributes:

- Population = 240,000
- Connections = 59,000
- Registered Voters = 94,000 SSWD / 24,300 CWD for a total of 118,300
- Communities Served = Carmichael, Arden/Arcade, Foothill Farms, North Highlands and portions of Citrus Heights, Fair Oaks, Sacramento County/City, Antelope, and McClellan Park.
- Combined Water Resources: Surface water rights/contractual entitlements = 91,691 af per year. Groundwater Supplies = 149,425 af per year or 133 mgd.

4.3 Board of Directors: Interim and Long-Term

The initial Board of Directors of the combined district may have up to eleven members, composed of the members of the current Board of Directors of CWD and SSWD. The eleventh Director seat may remain vacant by operation of law. To ensure that there is an odd number of Directors for the combined district for voting and decision-making purposes, in the interim a Director could voluntarily resign from the Board of Directors. The ultimate size of the Board by statute is 5 members, but can be larger (e.g., 7 or 9 members) upon request of SSWD and CWD and LAFCo approval. Note that both the County Water District Law and Irrigation District Law contain statutes authorizing these options (see, Water Code sections 21552.1 and 30500.1). As an example, if the Board chooses 5 members, terms of the office of Board members shall be the same term of office that he/she was serving as of the effective date of the combination. The number of seats on the Board of Directors of the combined district could be reduced to seven for the general district election scheduled for November 2024, and reduced to five for the general

district election in November 2026. If LAFCo approval of any application for consolidation or reorganization filed by SSWD and CWD occurs after the August 2024 closing of the candidate filing period, this process to reduce the board’s size would occur in the election schedule for November 2026 and November 2028.

4.4 Organizational Executive Structure

The Board of Directors will select a new General Manager of the combined district. The new General Manager will work with the Board to organize the new combined district as it undergoes transitions of operations and staffing.

4.5 Integration of Software

Information technology (IT) and software combination is anticipated to be one of the more expensive and time-consuming items to work through for the new combined agencies. The areas of concerns for software include organizational servers, which are both based on Microsoft Windows based systems, accounting systems, utility billing and customer information system, and operational systems such as computerize maintenance management system (CMMS), meter reading software, SCADA, and backflow database. The updates will range from merging both organizations’ data into one system up to new software purchases and deployment.

4.6 Human Resources

Based on both CWD and SSWD’s approved 2024 budgets, a combined agency would have 105 employees with the following annual employee salary, benefits, and total compensation information and ratios:

Employees and Budget Ratios	Annual Employee Salary	Benefits	Total Compensation
100 employees	\$10,800,000	\$5,200,000	\$16,000,000
% of O&M Budget	31%	15%	45%
% of Total Budget	14%	7%	21%

Both CWD and SSWD provide competitive salaries and benefits with on-going compensation comparison analysis on a regular basis. Salaries for both CWD and SSWD are attached as Exhibit 9.

Retirement

Both agencies are CalPERS members for retirement and medical insurance coverage which are the biggest portion of the districts’ benefits budget. California pension laws, such as the California Public Employees’ Pension Reform Act (PEPRA), set forth requirements and eligibility that participating agencies and members must follow. The new combined agency would assume

the employer's responsibility of current districts' employees and previously agreed-upon retirement contracts. There would be no additional increases in retirement plan costs as a result of combination and the PEPR rules would continue to apply. The new Board would set policy and direct CalPERS funding based on CalPERS' requirement and the new agency's financial position at that time.

Both CWD and SSWD participate in social security and participation is generally compulsory.

Health Benefits

Both CWD and SSWD contract with the CalPERS Health Program for medical health insurance plans for employees and retirees. CalPERS sets the eligibility for enrollment and each contracting agency (employer) elects its own contribution for its employees. CWD and SSWD have various contribution levels for employees and the difference is immaterial in the overall budget. Further, the difference may not be significant to employees as there are many medical insurance plans to choose from and both districts' contributions have escalators built in. Employees would most likely prefer the new Board to stay with CalPERS Health Program for minimal disruption and the future Board would have options to set different contribution rates or even choose different programs.

Dental, vision, and other benefits are different for both agencies. Both employee benefit coverage and employers' contribution levels are different but these variations, most likely, have minimum impacts to employees and immaterial to both districts' budgets.

4.7 Provision of Water Service

If SSWD and CWD combine, there would be no change in the provision of water service to customers within each district's existing service area. Combination should help minimize rate increases by reducing overhead and administrative costs, increasing the rate base, and maximizing operational efficiency. However, capital improvements will continue to be a significant driver of costs for the districts and will likely result in minimal overall reduction in costs. There will be initial (one-time) start-up costs, but it is expected that these costs will be offset by future savings.

4.8 Water Rates – Short/Long Term

Rates will be based on the combined operations and maintenance charges and capital costs related to each service area. Cost savings related to the combination will be passed to both the CWD and SSWD service areas based on an appropriate cost allocation process. Rates will be kept separate for each service area until all outstanding debt has been retired. This avoids rate shifts between areas so that one service area does not pay for capital programs in another service area. However, the Board of Directors of the combined district shall determine from time-to-time which funds derived from the operation of service areas shall be used to pay the cost of administration of the combined district that benefits the combined district as a whole.

5 HOW COMBINATION COULD AFFECT CUSTOMERS, EMPLOYEES AND OTHER STAKEHOLDERS

At the April 10, 2023, CWD / SSWD Joint Board meeting, staff was directed to obtain a legal opinion the water rights and entitlements held by CWD and SSWD, as well as what their limitations are if the two agencies combine. Legal opinion is provided below:

5.1 Water Reliability: Use of all Water, Both Surface and Groundwater, Conjunctive Use Plan, Perfection of Water Rights and Groundwater

SSWD has rights to groundwater and two contractual surface water entitlements and CWD has surface water rights and ability to pump groundwater. Both agencies also have intermittent access or undeveloped entitlements to other water supplies. But because these supplies are not reliable or permanent, they are not addressed in this report. While there are issues and nuances involved in each district's water rights and entitlements, this presents only a summary of the nature of and key issues involved in each permanent, reliable water right, or entitlement.

1. CWD Water Rights and Entitlements

CWD holds three post-1914 appropriative water rights. It also has limited groundwater pumping capacity. A summary of each of CWD's surface water supplies and its groundwater supplies follows.

a. Post-1914 Appropriative Water Right Under License 1387

CWD holds License 1387 issued by the California State Water Resources Control Board ("SWRCB"). This license is the most senior of CWD's water rights with a priority date of September 18, 1915. This makes it one of the most senior post-1914 rights on the American River. License 1387 permits CWD to divert at a maximum rate of 15 cfs and limits total diversions to 10,859 acre-feet annually. This is a year-round water right for irrigation and domestic uses. Water diverted under License 1387 can be used on 4,500 acres within CWD, as further defined and shown on a map filed with the SWRCB in 1964.

b. Post-1914 Appropriative Water Right Under License 8731

CWD's License 8731 has a priority date of August 22, 1925. Under this license, CWD may divert water from the American River at the maximum rate of 10 cfs and an annual maximum of 3,669 acre-feet. This water right has a limited season of diversion of May 1 to November 1 each year. The water right permits diversions for irrigation, domestic, and municipal uses and has a place of use of 4,500 acres within CWD, as further defined and shown in a map filed by CWD with the SWRCB in 1968.

c. Post-1914 Appropriative Water Right Under Permit 7356

CWD's final water right is held under Permit 7356. The priority date of this right is March 1, 1948. Under Permit 7356, CWD is authorized to divert water from its Ranney Collector system in the American River at the maximum rate of 25 cfs. Annual diversions are limited to 18,099 acre-feet with the season of use of January 1 through December 31. Water diverted under the permit may be used for domestic and municipal uses on 4,500 acres within CWD, as further defined and shown on a map filed with the SWRCB in 1968. The status of Permit 7356 is unclear because the SWRCB denied CWD's petition for an extension of time to complete perfecting this right in 2009, and the District has not pursued licensing the right to secure at least some portion of the right consistent with its historical use under the permit.

In total, and taking into consideration the varying seasons of diversion, purposes of use, and places of use, in normal to wet years CWD has sufficient surface water supplies to serve the demands of its customers. In fact, the District's total diversions permitted under its surface water rights exceed customer demands. This is due to several reasons, such as CWD serving a largely built-out service area and voluntary and state-mandated conservation measures reducing per-capita customer demand even with some growth in connections and population. This explains in part why CWD has been unable to perfect its right under Permit 7356.

d. Groundwater Supplies

CWD has five active wells and two backup wells with a total extraction capacity of 9.216 mgd. CWD normally uses only five of these wells to serve customers. In addition, CWD is about to begin drilling and constructing two new wells that will have aquifer, storage, and recovery (ASR) capabilities for enhance conjunctive use. CWD also has a potentially significant limitation on pumping groundwater. This limitation results from CWD's proximity to the Aerojet contamination plume, which limits where the District can locate new wells and how hard it can pump wells in order to avoid pulling the Aerojet plume into its pumping zone.

2. SSWD Water Rights and Entitlements

SSWD has three major water sources, including established rights to pump groundwater to supply all customer demands and two contractual entitlements to surface water, one from the City of Sacramento ("City") and one from the Placer County Water Agency ("PCWA"). A summary of each of SSWD's water sources follows.

a. SSWD Groundwater

SSWD has established rights to pump groundwater to supply the entire needs of district customers in any one year. Under California law, SSWD is not required to obtain a permit or other approval from any agency to establish its right to pump this groundwater supply. SSWD is required to comply with all applicable state water quality and drinking water standards. As a

municipal pumper, SSWD may extract and serve groundwater anywhere within its service area or outside of it.

SSWD has approximately 71 operable wells to pump groundwater. SSWD pumps from the North American Groundwater Basin, which is jointly managed on behalf of SSWD, CWD, and other municipal pumpers by the Sacramento Groundwater Authority (“SGA”) under a Groundwater Management Plan adopted consistent with state law.

The portion of the basin administered by SGA and the safe yield assigned to it is also subject to the Water Accounting Framework (Framework). The Framework permits SSWD to pump slightly in excess of 35,000 acre-feet of groundwater annually. Customer demands in SSWD have required annual pumping of about 30,000 to 32,000 acre-feet annually in recent years, even with an increase in population and connections due to water conservation resulting from voluntary efforts through customer education and state mandates.

In addition, SSWD has operated an active conjunctive use program since 1998. Under this program, SSWD supplies treated surface water to its customers under its City of Sacramento and PCWA contractual entitlements, which permits its groundwater supplies to be naturally recharged by wet season rains and other water sources. This operation is referred to as “in-lieu recharge.” SSWD’s in-lieu recharge program has resulted in the banking of over 350,000 acre-feet of groundwater since 1998. SSWD files annual reports with the State Water Resources Control Board to document its banked water.

b. City of Sacramento Wholesale Water Supply Agreement

SSWD’s predecessor, Arcade Water District (“AWD”), entered into an agreement with the City of Sacramento (City) to reserve a water supply for AWD’s service area within the City’s American River Place of Use. That agreement committed a portion of the City’s surface water supplies for future use by AWD, subject to annual payments. After SSWD was formed in 2002, it continued AWD’s payments to the City for the American River Place of Use water supply and AWD’s planning and design of facilities that would enable SSWD to receive treated water from the City’s E.A. Fairbairn Water Treatment Plant.

In 2004, SSWD and the City entered into a Wholesale Water Supply Agreement (Agreement) under which the City agreed to supply up to 20 million gallons per day (“mgd”) of treated surface water to SSWD under the former AWD entitlement. The Agreement contains two significant limitations. First, SSWD may use treated surface water received from the City only in the American River Place of Use, which covers most, but not all, of the District’s South Service Area, and none of SSWD’s North Service Area. Second, SSWD may only obtain surface water from the City when flows in the American River exceed the “Hodge Flow Limitations,” which generally means that City surface water is available for limited times in wetter water years.

The American River Place of Use place of use also covers a portion of CWD. Subject to discussion with the City, it may be possible to serve City water when available within the portion of CWD lying within the American River Place of Use.

c. Placer County Water Agency Contract for up to 29,000 Acre Feet Per Year

In 2000, SSWD's predecessor, Northridge Water District, entered into an agreement to purchase water from PCWA. When it was formed in 2002, SSWD assumed this contract. The PCWA water supply contract provides that SSWD would buy an increasing amount of surface water each year from PCWA until the maximum contract amount of 29,000 acre-feet per year was reached in 2014 through the expiration of the contract in 2025. The contract was amended in 2016 to extend its term to December 31, 2045, which then permitted SSWD to secure a Long-Term Warren Act Contract for the same term from the Bureau of Reclamation to wheel PCWA water supplies through Folsom Reservoir to the San Juan Water District for treatment and delivery to SSWD through the Cooperative Transmission Pipeline. The PCWA contract was further amended in 2020 to further reduce SSWD's annual "take or pay" obligation from 12,000 acre-feet to 8,000 acre-feet, with the provision that if PCWA can make additional water available to SSWD in any year, SSWD has the right to take up to 21,000 acre-feet of additional water in that year on a "take-or-pay" basis.

The PCWA entitlement also is limited. PCWA may not deliver water to SSWD in any year when the March through November unimpaired inflow into Folsom Reservoir is less than 1,600,000 acre-feet, although SSWD may take water in the following December through February whenever water is being spilled from the reservoir for flood protection. The contract also is subject to cutback if PCWA needs any portion of the SSWD entitlement to serve PCWA customers in Placer County or to meet PCWA's Middle Fork Project power generation obligations to PG&E. SSWD may use the PCWA water in PCWA's expanded place of use covering the portion of SSWD's North Service Area. SSWD also may sell or transfer any portion of its available PCWA entitlement. CWD's service area is not included in the PCWA expanded place of use.

3. Limitations on Use of CWD and SSWD Water Rights and Entitlements

a. CWD Water Right and Supply Limitations

The greatest risk to CWD's surface water supplies results from their regulation by the SWRCB's curtailment orders. In recent drought years, the SWRCB has curtailed CWD's diversions of surface water under its three post-1914 rights, requiring the District to rely on its groundwater wells and emergency purchase of supplemental surface water supplies.

A related issue is the uncertain status of Permit 7356 and the amount of water CWD may divert under it. The SWRCB's 2009 denial of CWD's petition for an extension of time was based on CWD's inactivity in developing the right by diverting and putting the water to beneficial use in

the time allowed in the permit. Since 2009, CWD has continued to divert water under this right and file annual reports with the SWRCB demonstrating water use under Permit 7356. Given the uncertainties and assuming CWD does not pursue licensing Permit 7356 before any combination might occur, a combined district should expeditiously pursue remedying the status of Permit 7356 as soon as possible in order to develop the water right.

The other issue with CWD's rights that should be resolved is the place of use. CWD's service area totals approximately 5,000 acres, but none of its surface water rights cover the entire service area and the individual maps filed to support each right have slightly different coverage. While taken together the three water rights, together with pumped groundwater, ensure that all of CWD's service area can be legally served, the best-case scenario would be for a successor district to petition the SWRCB to amend all three surface water rights to permit use of the water anywhere within the outer boundaries of the new district's service area.

The most significant issue confronting CWD's water supply situation is the lack of reliability in drier and drought years when SWRCB curtailments of post-1914 water rights can significantly reduce or terminate surface water diversions. In response, CWD is in the process of expanding its groundwater pumping capabilities to be able to meet all of its water demands with additional supplemental groundwater supplies. While a combined district could ameliorate this situation because SSWD might have excess groundwater supplies available to backfill some of CWD customer demands, there are some water conveyance constraints due to elevation and capacity that might limit the ability of SSWD to deliver additional water supplies into CWD.

b. SSWD Water Right and Supply Limitations

There are some limitations on the use of SSWD's groundwater supplies, although those limitations probably are more theoretical than real. The greatest hypothetical risk is SSWD groundwater pumping in excess of its assigned share of the safe yield of the basin as established by SGA and the Groundwater Sustainability Plan it has prepared as required by the Sustainable Groundwater Management Act.

As discussed above in the summary of SSWD's surface water rights, its City of Sacramento entitlement is limited by the Hodge Flow Limitations, the cost of that supply, and the American River Place of Use limitation. The PCWA water entitlement also is limited by the Folsom unimpaired flow limitation and Placer County use priority discussed above. As combined, however, the total supply portfolio would be more reliable than each separate District's is today. And these surface supplies have the potential to increase reliability longer-term if the regional water bank is developed and the combined water supplies are used when available as banking water to increase supply availability and reliability in dry years through water bank withdrawals.

5.2 Impacts of Combination on Other Agencies

A combination of CWD and SSWD will not impact other special/water districts. There will be no expansion in service area, change in governance, or other action that would cause impacts to other public services or agencies. The primary purpose of the combination is to provide cost-effective and efficient water service to customers within the existing territory of each district using existing water supplies and facilities. A map that identifies regional water purveyors is attached as Exhibit 8.

5.3 Impacts to Employees

With the ongoing combination discussions and a shortage of available quality workforce in the water industry, both agencies have vacancies. The number of employees of a combined agency would be the total number of employees employed by both districts at that time. There may be a shift in employee assignments within a division, but the overall work may be similar. A bigger organization would provide additional advancement opportunities and upward mobility for employees. Employee layoffs due to the combination are not expected. However, some cost-savings and operational efficiencies may be achieved by not filling vacancies.

A portion of CWD's employees are represented by American Federation of State, County, and Municipal Employees. Continued representation is contingent on a majority vote of all rank and file employees of a combined district in favor of unionizing.

5.4 Staff Efficiencies/Employee Opportunities

The organizational structure of each agency is represented as the hierarchy of each agency's functional groupings and staff roles. In general, both agencies are organized into Management & Administration roles such as Executive, Finance, and Customer Services & Billing, as well as Engineering & Capital Improvement, Distribution System Operations, and Production Operations roles. While these similar structures suggest some level of redundancy in staffing, many of these functions will scale up with any larger, unified utility operation given the separate infrastructure components.

Noteworthy differences between the organizational structure of CWD and SSWD go beyond just scale. As a result of the size of the organization, there is a greater role specialization at SSWD relative to CWD. Rather than merely expanding the roster of generalists, a larger organization would have the capacity to hire more specialized staff. This also allows upward mobility for existing staff, as well as more opportunities to transfer to various departments.

One benefit of scale and specialization can be efficiency. Since labor is a significant cost input for utilities, labor efficiency can lead to more cost-efficient service as long as it does not result in declines in infrastructure reliability, an overworked staff, or other signs of an organization stretched thin.

The management and administration functions are the areas of the organizations that may present the largest potential overlaps in roles under a combined agency. However, any identified redundancies are likely best addressed over time to ensure a smooth transition and continuity to any new organizational framework due to challenges that might emerge when attempting such a transition.

In addition to opportunities to achieve leaner executive level staffing under a combined organization, management and administration functions may benefit from certain roles that currently do not exist, such as an office of strategic affairs, specialized assistant general manager roles.

Ultimately, it will be up to the new district Board and management to determine if available staff numbers are insufficient, adequate, or perhaps excessive in a given function. Current vacancies across the two organizations may be filled by existing staff as roles may change and as the synergies of the combined organizations become clearer.

Knowledge sharing between the staff of each district can ensure that best practices permeate each District. This can be accelerated further through joint training. The SSWD training facility is already an asset that presents regional training opportunities, but it can be exploited further should the agencies combine.

Equipment sharing and joint purchasing can also accelerate under a combined organization, particularly if joint facilities are invested in. For now, a centralized distribution deployment and warehouse facility is not contemplated as a near term priority for the combination effort, but over the longer term consolidated real estate could advance at the discretion of the new district's Board and management.

The field operations staff would likely maintain split roles in the interim structure before being combined into one deployable force with a single manager in the future. If teams dedicated to each service area are justifiable given the differences in the infrastructure and geography of the systems, the teams can be kept largely separate except where staff are exchanged to meet any periodic increased workloads or where staff are used to fill in during vacations or absences. This arrangement could be adjusted once more operational experience with the combined system is gained and particularly if infrastructure, expertise, and procedures begin to become more homogenous across the two service areas.

6 GOVERNANCE – BOARD OF DIRECTORS

6.1 Transition from 11 to 7 to 5

The initial Board of Directors of the combined district will have eleven members, composed of the members of the current Board of Directors of CWD and SSWD and one vacant seat. The terms of the office of Board members would be the same term of office that they are serving as of the effective date of the combination. The eleventh seat on the combined district would remain vacant as permitted by law. The number of seats on the Board of Directors of the combined district then would be reduced to seven for the general district election scheduled for November 2024 or 2026 depending on the timing of LAFCo approval of the consolidation or reorganization.

The Board of Directors of the combined district would be elected by and from divisions at the general district election in November 2024, unless there is a delay in the effective date of the combination which prevents the Board of Directors from establishing the boundaries of the divisions in time to provide the required notice to the Registrar of Voters. In this latter case, the first reduction to seven directors would occur at the November 2026 election.

6.2 Election Boundaries for Each Phase

To transition to a 5-member Board of Directors, a set of new voting division maps would be developed and approved by the Board of Directors of the combined district. For each of the two district general elections following approval of the combined district, staff must prepare a proposed voting division map depicting the recommended adjustments to the voting divisions for consideration by the Board of Directors, and for comment by the public. The population deviation (greatest relative difference in size between any two voting divisions) in the proposed voting divisions should be within the 10 percent deviation permitted under federal and state voting rights law. In addition, the board of the combined district must consider the following factors when adjusting voting division boundaries: (1) topography, (2) geography, (3) cohesiveness, contiguity, integrity, and compactness of divisions, and (4) community of interests of each division. The last factor, community of interest, may be an important consideration in drawing up the new voting division maps and in the ultimate size of the board as it would help ensure that former CWD ratepayers have adequate representation. The proposed division maps would be presented at a public hearing at two separate special board meetings before being adopted.

As advised by legal counsel, staff should consult with the Sacramento County Registrar of Voters' office to review the draft proposed voting division maps to ensure that they are in compliance with federal and state voting rights and election laws and consistent with the Registrar's requirements for administering special district elections.

6.3 Options for Advisory Committee

In the event a Board member wishes to voluntarily resign from the Board of Directors to ensure that there is an odd number of Directors, or a Board member does not get elected to the combined district, there could be options for the Board member to continue their community service. The Board of Directors of the combined District could consider forming a community advisory committee that would enable the Board to receive input from former Directors and other experienced community members.

7 LESSONS LEARNED FROM ARCADE/NORTHRIDGE CONSOLIDATION

A Consolidation Evaluation was conducted in 2001 for the purpose of consolidating the former Arcade and Northridge Water Districts. The purpose of the Consolidation Evaluation was to evaluate practices, policies, procedures, rates, financial status, and other factors that would be important to the policy makers to consider the benefits and risks of a consolidation. The Consolidation Evaluation report identified areas that were dissimilar for both agencies and should have been analyzed upon consolidation. Following the consolidation, effective February 1, 2002, the new Board of Directors and management refrained from conducting an analysis on all areas that were noted in the Consolidation Evaluation report. Below are examples of areas that should have been analyzed:

- A detailed assessment of total employee compensation and benefits was not conducted. Promotions and salary increases were given with no consideration of merit.
- There were noted differences in work rules and administrative policies and procedures mentioned in the report. Upon consolidation, management did not conduct an assessment to develop new/revised work rules and administrative policies and procedures.
- Cost of service and rate design principles were not developed.
- Asset management plans for distribution/transmission replacement, groundwater production facilities, buildings, meter retrofit, etc. were not developed.
- Arcade outsourced billing and Northridge conducted billing internally. No analysis was conducted on cost efficiencies regarding outsourcing or internal labor.
- A thorough analysis of staff utilization was not conducted. The Administration Building (3701 Marconi Avenue) was designated. However, there was no plan for utilizing various buildings for operational purposes or if any facilities were surplus.
- No assessment was conducted of vehicles and equipment. There was duplication of many small pieces of equipment and tools, but no plan to surplus redundant tools and equipment.
- No analysis on customer walk-ins, phone calls, operational issues, etc.
- No assessment on which billing software program was to be utilized for the new district.
- No assessment on which work order system should be utilized. One district utilized a vendor-supported system, while the other district sole sourced a one-person Disk Operating System program.
- Both districts had different retirement and post-retirement programs. A thorough analysis of options for combining the programs or operating them separately was not conducted.

It was noted in the report that initial start-up costs were expected to be significant. The report recommended that the first level of evaluation should have been legal fees, reorganization,

consumer education, office modifications and accounting systems. The only area initially addressed was the office modifications related to the designated Administration Building. If the Boards approve combining of the two districts, it is management's recommendation to conduct an analysis on each of the above items to ensure they are addressed appropriately and timely.

8 RECOMMENDATIONS OF THE 2X2 COMMITTEE

Based on the information provided to date, the 2x2 Committee makes the following recommendations:

- 1) **Combination Process:** To combine CWD and SSWD, the 2x2 Committee recommends the “consolidation” process where both districts dissolve and form a new water district with a new name.
- 2) **Type of New District:** The 2x2 Committee recommends that new district be a county water district organized under the County Water District Law, Water Code sections 30000 through 33901.
- 3) **Governance Body:** The 2x2 Committee recommends that the new district to have a Board of Directors with 11 directors elected from both districts and transition to a 5 Directors by 2028.
- 4) **Main Office:** The 2x2 Committee recommends that the new district’s new main office be located at 3701 Marconi Avenue, Sacramento, CA 95821.

The recommendations are suggestions for CWD and SSWD Boards to consider as both boards further discuss and consider the process and framework of combining the two entities. Each board would consider these recommendations for its own entity and accepting this report does not bind each board’s future actions on the items listed above.