

Agenda Item: 3

Date: June 5, 2024

Subject: Reorganization Benefits, Advantages, and Disadvantages

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Recommended Board Action:

No action. Receive presentation and direct staff as appropriate.

Discussion:

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

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

Below are benefits, advantages, and disadvantages:

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

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

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

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

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

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

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

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

Potential Advantages for DPMWD

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

Potential Disadvantages for DPMWD

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