

Agenda Item: 5

Date: December 6, 2022

Subject: Combination Benefits – Rates, Costs, Operations

Staff Contact: Dan York, SSWD General Manager
Alan Gardner, DPMWD General Manager

Recommended Committee Action:

No action. Information only.

Discussion:

At the October 18, 2022, 2x2 Committee meeting, staff was directed to develop talking points related to the Combination discussions in regards to water rates, costs associated with a Combination, and operations. Below are talking points associated with those topics:

Revenues and Assets:

DPMWD and SSWD rates yield similar financial results based on the analysis reported at the September 2022 2x2 Committee meeting. Utilizing the facts and assumptions from the internal Financial Analysis, revised DPMWD revenue recalculated with SSWD rates would be approximately \$2,146,856, compared to \$2,014,464, an increase of approximately \$132,000 or 6.6%. The increase from September 2022 is related to additional details obtained for special flat rate accounts on twenty large residential flat rate parcels in DPMWD, which are between 32,000 – 87,000 Sq Ft.

Utilizing the SSWD calculated revenue number of \$2,146,856; the following results could potentially be realized:

1. DPMWD residential revenues are approximately \$1,329,000 annually compared to SSWD based revenues calculated at approximately \$1,463,000, a \$134,000 (10.0%) increase. As discussed below, residential revenues based on SSWD usage trends and rates should decrease as accounts transition to meters.
2. DPMWD non-residential revenues are approximately \$685,000 annually compared to SSWD based revenues calculated at approximately \$683,000, a \$1,800 (0.3%) decrease.
3. Approximately \$1,003,000 of DPMWD total water revenues will be available to cover CIP, meter capital and debt service costs. Debt service costs are scheduled to be approximately \$324,000 per year through 2040. This leaves approximately \$679,000 available for CIP and meter capital spending annually.

In addition, SSWD recalculated DPMWD's residential flat rate revenues (1,689 accounts) assuming ¾" meters and meter rates and using SSWD's 2021 average monthly usage for residential ¾" meters. This is to model what DPMWD residential revenue could look like when fully metered and on SSWD rates with SSWD's average consumption. The calculated metered residential revenue is approximately \$1,299,000 vs \$1,463,000 using SSWD's flat rates, a decrease of \$164,000.

DPMWD’s net capital assets are \$4,812,584 (\$2,680 per account) as of June 30, 2021, and have decreased 19% since June 30, 2015. SSWD’s net capital assets are \$309,062,185 (\$6,835 per account) as of December 31, 2021, and have increased by 9% since December 31, 2015.

DPMWD has higher per account investments (reserves) than SSWD (\$1,251 vs \$920). It’s assumed that most of this is related to DPMWD’s Maintenance Fund assets. As of June 30, 2021, there was approximately \$1.45 million in the DPMWD Maintenance Fund reserved for capital investment. Looking at operating reserves, the two districts are comparable, \$635 for DPMWD compared to \$658 for SSWD. The difference is approximately \$41,000.

Expenditures and Liabilities:

1. SSWD’s O&M ratio per account is lower than DPMWD’s (\$483 vs \$641) due to the larger account base in which to spread out O&M costs. Utilizing SSWD’s O&M expense ratio of \$483 per account, DPMWD’s annual O&M contribution would be approximately \$867,000, leaving approximately \$276,000 of surplus funds available for additional maintenance or CIP spending. Utilizing DPMWD’s O&M expense ratio, the annual O&M contribution would be approximately \$1,151,000, leaving an approximate \$6,700 deficit.
2. Approximate expenditure savings could be realized for the following DPMWD expenses. Portions, if not all, of certain expense amounts will be reduced.

Expense Type	2023 Amount	Budget
GM Salary/Benefits	\$118,000	
Insurance	\$47,000	
Audit	\$12,000	
Legal	\$236,000	
Association Dues	\$57,600	
Prof Admin/Regulatory	\$106,700	
Approximate Total	\$577,300	

3. DPMWD entered into a new office lease agreement in 2022, with a termination year of 2027. The annual cost for 2023 is approximately \$30,120, with a 5% annual escalation clause. Need to verify if there is a termination clause in the agreement.
4. Both DPMWD and SSWD are CalPERS members for pension. Both agencies have the CalPERS Classic 2.0% @ 55 and PEPR 2.0% @ 62 Miscellaneous Plans. DPMWD’s pension as of June 30, 2021 is ~77% funded compared to SSWD pension which is ~88% funded as of December 31, 2021. The difference in funding equates to approximately \$64,000.
5. Both agencies have OPEB plans. DPMWD only covers medical where SSWD covers medical, dental and vision. The vesting schedule is the same, 10 years required, 50% for 10 years, an additional 5% for each additional year of service up to 100%.

6. As of June 30, 2022, DPMWD has outstanding debt of \$4,347,000, or \$2,420 per account, and annual debt service of approximately \$324,000, or \$180 per account, fully amortized in 2040. SSWD has outstanding debt of \$53,345,000, or \$1,180 per account, and annual debt service of approximately \$7,000,000, or \$155 per account, fully amortized in 2031.
7. DPMWD Capital investment:
 - a. Meters - There exists approximately 1,689 flat rate accounts that will need to be metered by 2030. The range in cost is approximately \$5.0 million to \$6.0 million depending on condition of existing services and quantity retrofitted annually.
 - b. Main Replacement - Area 1 from the DPMWD Distribution System Risk Assessment – Indirect Method consists of 27,735 feet of distribution system (5.25 miles) that is predominantly 73 years old, and ranks higher than the number 1 SSWD-ranked main replacement area. This indicates some urgency in replacement timing. Current cost of main replacement projects of this size are approximately \$15.0 million.
 - c. Production Facilities – Additional information is needed to determine necessary rehabilitation or replacement. Pending condition assessment of production facilities.

Operational Benefits

Higher levels of customer service to DPMWD customers is anticipated by combining resources, allowing more specialization of staff, greater levels of scale efficiency, and new or expanded services. Larger agencies have more opportunities for specialized roles in the organization, whereas at smaller agencies employees have to wear many hats. For example, SSWD has role specialization in the following areas:

- Environmental and Environmental Compliance
- Human Resources
- Safety/Risk
- Finance
- Water Conservation
- Engineering
- Information Technology
- Geographic Information System
- Facilities and Fleet
- Purchasing and Inventory

Operational Scenarios

It is anticipated that if the two agencies combine, operation of the water systems would transition from operating independently to full integration over multiple years utilizing a phased approach.

Phase 1

Apply for a State Water Resources Control Board, Division of Drinking Water (DDW) Water Supply Permit amendment for SSWD to operate DPMWD independently. The three interties would remain in the closed position, and would only open automatically to deliver water in emergency situations based on loss of pressure.

Phase 2

The three interties would be opened to allow SSWD water to enter into the DPMWD system. This scenario would require another DDW Water Supply Permit amendment. The SSWD water delivered to DPMWD may be groundwater, surface water, or a blend of the two, depending on sources of supply at the time of delivery. SSWD's South Service Area is fluoridated. DPMWD's system is non-fluoridated. In the Phase 2 scenario, the water being delivered to DPMWD customers would be a blend of fluoridated and non-fluoridated water, considered "sub-optimal" fluoridation since it would be below the fluoride control range established by DDW. Serving customers water with "sub-optimal" fluoridation is allowed by DDW, but requires notification to the customers receiving the water.

Phase 3

This is the fully integrated phase, where both water systems are combined into a single system operating under a combined DDW Water Supply Permit. In addition to the three interties, additional connections would be made between the two water systems at select locations based on desired system hydraulics. If SSWD is providing fluoridated water to customers in the SSA at this time, DPMWD well sites would be retrofit to allow for fluoridation capabilities. It is anticipated that the combined water system would continue to practice conjunctive use, the coordinated management of surface water and groundwater supplies to maximize the yield of the overall water resource.