

**SACRAMENTO LOCAL AGENCY FORMATION COMMISSION**

*1112 I Street, Suite #100*

*Sacramento, California 95814*

*(916) 874-6458*

**November 3, 2010**

**TO:** Sacramento Local Agency Formation Commission

**FROM:** Peter Brundage, Executive Officer

**RE: Rio Linda/Elverta Community Water District – Draft Municipal Service Review – (L AFC 07-10)**

**RECOMMENDATION:**

1. Confirm that the Rio Linda Elverta Community Water District (RLECWD) does not have an approved Municipal Service Review Plan and require RLECWD to provide the Commission with a compliance plan no later than February 1, 2011.
2. Require that the compliance plan submitted by RLECWD demonstrates satisfaction of the California Department of Public Health Compliance Orders and development of a long term operational and financial business plan that shows RLECWD can effectively and efficiently operate a sustainable water supply system.
3. Direct Staff to explore a possible reorganization of RLECWD with surrounding water providers, including the County of Sacramento Department of Water Resources to develop alternative service plans for Commission consideration in the event RLECWD does not meet the obligations of the submitted compliance plan.

**DISCUSSION:**

**EXECUTIVE OFFICER’S SUMMARY AND FINDINGS**

The Rio Linda Elverta Community Water District (RLECWD or District) has 4,616 metered customers and serves approximately 17.8 square miles in the north central portion of Sacramento County. The District was formed in 1948 and has continuously operated a water delivery system for the Rio Linda/Elverta Community.

RLECWD is currently subject to a building moratorium, two Compliance Orders issued by the California Department of Public Health (CDPH), and the subject of a recent Grand Jury Investigation. RLECWD, interested parties, CDPH, and the Sacramento Grand Jury report have provided information in this report.

Recently the District has made some progress in addressing the issues and concerns that are identified in this report as well as those identified by other investigations. Therefore, it is my opinion that the Commission should continue monitoring the RLECWD until it complies with the CDPH Compliance Orders and implements a sustainable business model to address capital improvements and operational issues. The District should submit a compliance plan to the Commission so that we can effectively track its progress. In the event the District does not complete the requirements of the compliance plan, as set forth in this report the Commission should explore the possibility of undertaking and initiating a Reorganization Study and proceedings pursuant to Cortese-Knox-Hertzberg Reorganization Local Government Reorganization Act of 2000 to ensure Rio Linda/Elverta community's health and safety and availability of a potable water supply.

Based on several outstanding issues outlined in this report, it is my opinion the Commission should not approve a Municipal Service Review for the District and should instead find that RLECWD does not have an approved Municipal Service Review.

### **CDPH Minimum Requirements to Address Drinking Supply Shortfall**

According to CDPH Compliance Orders, RLECWD must construct three wells to increase water supply by 1,060 to 1,900 gallons per minute to meet State Drinking Standards. The third well is a redundant well for back up supply and is required by CDPH.

RLECWD has estimated a cost of approximately \$7.5 million for the three wells.

CDPH has determined that the District will need to increase monthly rates by \$5.46 (\$10.92 bi-monthly) to qualify for a state loan in addition to a previously approved January 1, 2011 rate increase in the amount of \$4.00 bi-monthly.

CDPH has indicated that they will shortly issue a Notice of Application Acceptance (NOAA) to set aside \$7.5 million for the required capital improvements. A NOAA requires that the District comply with its terms and conditions including a rate increase prior to applying for funding.

CDPH has ordered Well 15 to be completed by June 1, 2011 based on an extension granted July 29, 2010.

CDPH has ordered Wells 16 and 17 to also be completed by June 1, 2011 based on an extension granted July 29, 2010.

## **BACKGROUND**

On November 19, 2007, CDPH issued Compliance Order 01-09-07-CO-004 ordering the RLECWD to resolve identified water pressure and supply problems that were identified. CDPH determined that RLECWD experienced low pressure in the water system which can result in infiltration and contamination of the potable water supply. In addition, adequate water supply is required to provide adequate pressure for fire protection.

The RLECWD is supplied by nine active wells. Two wells (Well 3 and Well 5) were removed from service in 2006 due to elevated arsenic levels. As a result, during 2007, the District failed to maintain adequate water pressure in its distribution system.

On September 16, 2007 CDPH and RLECWD met to evaluate what capital improvements would be required to correct the inadequate water pressure. RLECWD provided CDPH with an analysis of the water supply requirements. RLECWD's consulting engineer concluded that the District had a shortfall in reliable water capacity of 1,060 to 1,900 gallons per minute. In addition, the consulting engineer estimated that fire flow requirements amount to 4,000 gallons per minute. Furthermore, the District is required to maintain an operating pressure at all service connections of not less than 20 pounds per square inch.

Based on the District's inability to provide a reliable water supply and pressure based on these standards, the CDPH issued its Compliance Order requiring the District to correct the identified problems. In addition, CDPH determined that no new service connections (building moratorium) can be added until the water supply corrections are implemented.

On December 28, 2009, the CDPH issued a second Compliance Order 01-01-01-CO-004, reaffirming that RLECWD must comply with the first Compliance Order and requiring the District to comply with state water reporting requirements.

CDPH had recommended that three (3) new wells be constructed to address the water supply and pressure problems. On March 5, 2009, CDPH met with RLECWD and its consulting engineer to discuss compliance with the first Compliance Order. At the March 5, 2009, RLECWD proposed to construct a 1.5 million gallon storage tank and provide arsenic treatment at Well 14. CDPH also thought that the District would continue to follow the recommendation to construct three new wells.

On August 18, 2009 a meeting was held between CDPH and RLECWD to discuss the District's plan for complying with the Compliance Orders. Due to many delays by RLECWD to submit the Technical Report and schedule, it was no longer possible to meet the construction schedule set forth in the first Compliance Order. RLECWD abandoned arsenic treatment on Well 14 due to the high operation and maintenance costs and stated that it planned to construct three wells as recommended by the CDPH.

On October 30, 2009 the RLECWD submitted a final project schedule to construct the three new wells (15, 16, and 17) required by the CDPH, by January 1, 2011. CDPH is requiring that the District construct three new wells. Two wells are necessary to meet the minimum required

supply and the third well is a redundant well required in the event that wells are not available due to planned maintenance and/or unforeseen outages such as electrical outages, etc.

As a result of these meetings the CDPH issued the second Compliance Order which required RLECWD to meet the following schedule:

1. The District shall submit final design plans and specifications for Well 15 and well site for approval by CDPH by March 1, 2010.
2. The District shall submit final design plans and specifications for Well 16 and 17 and their respective well sites to CDPH for approval by May 1, 2010.
3. The District shall complete construction and have Well 15 in service by October 1, 2010.
4. The District shall complete construction and have Wells 16 and 17 in service by March 1, 2011.

The second Compliance Order also provides:

If the District is unable to comply with this Order due to occurrence of any event(s) or situation(s), whether within or beyond its control, the District shall notify CDPH in writing within five days after occurrence of any such event or situation. Upon request from the District, CDPH may, in its sole discretion, extend the time for District's compliance with the directives of this Order. The District's failure to fully and timely comply with any directive shall be deemed a violation of this Order and may result in additional enforcement action against the District, including but not limited to, civil penalties.

On May 10, 2010, CDPH issued a citation for RLECWD for cross connection, sampling and reporting violations.

On July 28, 2010, RLECWD requested a time extension for Directives 3 and 4 of the second Compliance Order based on delays in securing environmental clearance from the Army Corps of Engineers on potential wetland issues and also from the State Historic Preservation Office on potential impacts to historic or cultural resources. There were also delays in securing a well site for Well 17.

On July 29, 2010, the CDPH granted RLEWD an extension related to Directives 3 and 4 of the second Compliance Order. Compliance for Directives 3 and 4 was extended to June 1, 2011.

On September 1, 2010, RLECWD's consulting engineer provided a cost estimate \$7.5 million to construct the three wells to the District. Water quality testing was completed on Well 15 during December 2009 which indicates that the water quality would probably not require treatment. The engineering report also indicates that Well 16 is located in a zone know for good water quality and treatment is not anticipated, however, a test well has not been drilled yet. Well 17 has the potential for poor water quality. In the event that water quality is not adequate, the District could treat the water or construct a storage tank in-lieu of the well.

On October 5, 2010, the CDPH issued a letter to the RLECWD summarizing the financial requirements necessary for the RLECWD to obtain a Safe Drinking Water State Revolving Fund loan from the CDPH. The CDPH with assistance from the Department of Water Resources has evaluated RLECWD's financial records to determine if the district is eligible for a low interest loan. The CDPH, together with DWR, have determined that the RLECWD has sufficient Technical, Managerial, and Financial capacity to undertake the project, complete construction and operate the facilities required by the Compliance Orders.

- The financial analysis considered whether the District has sufficient revenues to pay for:
- Existing operations and maintenance costs;
- Reserves required for capital improvements and cash flow;
- Payments on existing debt;
- Principal and interest payment for the new State Revolving Fund (SRF) loan;
- Reserve requirements for the SRF loan; and
- Any other financial obligations of the District

The CDPH and the California Department of Water Resources have determined that RLECWD will need to increase rates by \$5.46 (\$10.92 bi-monthly) per service connection per month in order to qualify for the SFR loan.

The CDPH is preparing to issue a Notice of Application Acceptance (NOAA). This notice provides specific terms and conditions that must be complied with in order to receive the State Revolving Funding Agreement. The NOAA is not a guarantee of funding, but sets aside SRF funds for the RLECWD proposed project to construct three wells.

The NOAA will require that the RLECWD increase revenues before CDPH will issue the Funding Agreement. The rate increase must comply with all applicable State laws such as Proposition 218. (Note: Actual revenue collection does not need to begin until 24 months after the funding agreement is signed).

As discussed above, construction of three wells is required to satisfy the two Compliance Orders issued by the CDPH. In the interim, the District has entered into an agreement with Sacramento Suburban Water District for water if the RLECWD's water pressure is too low as long as it does not impact Sacramento Suburban Water District's pressure. In addition, the RLECWD may operate two closed wells in the event of an emergency to maintain water pressure; typically this would occur during the summer months in the event of a fire. (Note: The interagency agreement between the RLECWD and Sacramento Suburban Water District must be renewed annually. Renewal of the interagency agreement is subject to approval by the Board of Directors of Sacramento Suburban Water District, is not automatic, and could be problematic).

To date, the CDPH has been very cooperative with the RLECWD to assist in resolving the water supply and pressure issues. The CDPH acknowledges that there may have been some misunderstanding during discussions between CDPH and the District during the last several years. However, the RLECWD has also complicated the matter because it has had four General Managers during this period. Part of the RLECWD's delay in complying with the Compliance Orders may be attributed to this high turnover rate.

Note: the RLECWD has acquired three well sites and completed one test well as mentioned above. During this time period, the District also had drilled a high capacity well (Well 14) that produced 1,500 gallons of water per minute; however, this well was not usable due to high arsenic levels. Well 14 may have satisfied the minimum flow requirements but was insufficient to meet the redundant supply requirement.

There is sufficient ground water supply within the District to meet its current demand and address the water supply requirements set forth under both CDPH Compliance Orders.

As discussed above, the RLECWD must increase rates to qualify for the SRF Loan. The District is not required to use State funds; however, SRF loan has a very favorable interest rate (2.5 +/- percent). Any long term funding will require sufficient rates to cover the principal, interest, and reserve requirements established by institutional lenders and the bond market. The RLECWD has approved several rate increases (Ordinance No. 2003-02 and Ordinance No 2009-03) to address the anticipated capital construction costs needed to satisfy the two CDPH Compliance Orders.

This is a summary of approved rate surcharge for capital construction projects:

Effective May 19, 2009	\$10.00 bi-monthly
Effective January 1, 2010	\$ 5.00 bi-monthly
Effective January 1, 2011	\$ 4.00 bi-monthly

The State financial analysis indicates that the District will need an additional rate increase of \$5.46 per month per customer connection or \$10.92 bi-monthly per connection.

Finally, the CDPH has ultimate authority to initiate receivership proceedings. Receivership requires State approval to commence court proceedings. A court would ultimately have to determine if another agency should operate the District. Additionally, The Commission is able to initiate reorganization proceedings pursuant to Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000.

### **Recent District Issues and Developments**

On October 14, 2010, the District appointed its legal counsel as the Acting General Manager. The District is in the process of hiring a new General Manager. Until the new General Manager is hired, the District is using both the Acting General Manager and its consulting engineers to provide day-to-day management and oversight including compliance with CDPH Compliance Orders.

On October 20, 2010, the District's legal counsel/Acting General Manager met with your Executive Officer and Commission Counsel to discuss the issues facing the District. I believe this meeting with representatives of the District was very useful and I believe and I believe future meetings would also be useful. We are attempting to try to assist the District to help them meet their obligations, however, we recognize that the District is responsible for making the necessary changes to operate and maintain a water system that meets safe drinking standards.

I also transmitted a letter to the District on October 22, 2010, requesting additional information regarding the District, its operations, and its finances. A copy of the letter is included in the attachments.

### **DETERMINATIONS AND BENCH MARKS**

As set forth above, the Rio Linda Elverta Community Water District has not complied with the CDPH Compliance Orders. During periods of high water demand the District may not have adequate water supply. However, the District has entered into an agreement for a backup water supply via an interconnection with Sacramento Suburban Water District for additional water. In addition, the District may utilize two of its standby wells in the event of an emergency to meet fire flow requirements.

#### **Concerns**

- The inability of the RLECWD's Board of Directors (past and present) to act in a timely manner to provide safe and adequate water supply to its customers.
- The District appears to lack organizational stability based on the turnover of General Managers during the last several years. However, the District has used and is using engineering consultants to provide technical assistance and oversight when needed.
- Based on comments from the CDPH, the high management turnover may have negatively impacted the District's ability to comply with the CDPH Compliance Orders in a timely manner.
- The financial integrity of the District appears to be questionable because there appears to be inadequate operating reserves to meet unbudgeted repairs and equipment replacement in addition to the funding that is required to construct three new wells. Based on the 2009 audited financial statements, the District has no general reserves.
- The District's rates and charges are inadequate to borrow funds to construct the required improvements to the water system as identified by the CDPH. The District has not yet approved a rate increase nor has it proceeded with the Proposition 218 process to obtain approval for a rate increase.
- The June 30, 2009 Audited Financial Statements also indicate that "there is doubt about the District's ability to continue as a going concern" due to operating losses and the deterioration of Working Capital.

- The District may not be able to provide adequate water pressure for fire protection without the use of standby wells and the interconnection agreement with Sacramento Suburban Water District.
- The District does not have a long term sustainable business plan that addresses the required capital improvements for distribution and transmission line replacement, and storage capacity to ensure a safe water supply.
- The District does not have a collective bargaining agreement with its employees. Note: the District has made its last and final best offer and is attempting to resolve this issue through the Public Employee Relations Board (PERB).
- Employee morale is low.

Due to the significant amount of capital improvements required, the financial uncertainty, the track record of unmet deadlines, management turnover, and the fact that a significant amount of work has to be done with little margin of error, there is potentially significant risk to the community. Based on the number of outstanding issues, the District appears to have placed itself in a very fragile situation.

### **Compliance Plan Requirements**

1. LAFCo will monitor compliance with the CDPH Compliance Orders.
2. The RLECWD should establish adequate rates in order to obtain funds to construct three wells and appurtenances as well as other required capital improvements that have been identified in its Master Plan to meet water supply demands and state drinking water standards.
3. The RLECWD should fully implement its Cross-Connection Control Program and address sampling and reporting violations established by CDPH Compliance Orders.
4. The RLECWD should develop and implement a long term sustainable business plan that addresses future capital improvements including the replacement of distribution and transmission pipelines, storage tank capacity, and other improvements needed to provide reliable and safe drinking water to the Rio Linda Elverta community.

In the event the District does satisfy these requirements, the Commission may initiate a Reorganization Study pursuant to Government Code Section 56375. In addition, statutes provide the following methods to initiate reorganization proceedings.

### **Reorganization Methods**

Cortese-Knox-Hertzberg provides the following four methods to reorganize an Independent Special District:



1. The Commission may adopt a Resolution to Reorganize an Independent Special District.

If such a resolution is adopted, the Commission is required to make the following findings:

- a. Make any of the findings or determinations authorized or required pursuant to Government Code Section 56375.
- b. For any proposal initiated by the Commission pursuant to subdivision (a) of Section 56375, make both of the following determinations:

*(1) Public service costs of a proposal that the Commission is authorizing are likely to be less than or substantially similar to the costs of alternative means of providing the service.*

*(2) A change of organization or reorganization that is authorized by the Commission promotes public access and accountability for community services needs and financial resources.*

2. Registered Voters may sign a petition requesting that LAFCo Reorganize an Independent Special District. Such a petition requires that 5 percent of the registered voters within the affected territory sign and submit the request to LAFCo.
3. The Board of Supervisors may adopt a Resolution Making Application to Reorganize or dissolve an Independent Special District.
4. An Affected Independent Special District may adopt a resolution Making Application to Reorganize an Independent Special District.
5. The California Department of Public Health may also initiate a court action to place the RLECWD in Receivership. Basically, this is a legal action that requires court approval directing the California Department of Public Health to find an interim service provider such as the Sacramento Suburban Water District, the County of Sacramento, or other qualified water service provider.

## **PROCESS FOR DISSOLUTION OF RIO LINDA /ELVERTA WATER DISTRICT**

### **LAFCO-initiated<sup>1</sup>**

1. LAFCO has the power to initiate a proposal for the dissolution of a district.
2. LAFCO may initiate dissolution proceedings only if it is consistent with a recommendation or conclusion of a study of existing governmental agencies, a sphere of influence or a service review of municipal services in preparation for a sphere of influence.

### **County-initiated**

1. A proposal for a change of organization (including dissolution) may be made by the adoption of a resolution of application by the Board of Supervisors.
2. At least 21 days before the adoption of the resolution, the Board of Supervisors may give mailed notice of its intention to adopt a resolution of application to LAFCO and to each subject agency (the District) and each interested agency (each local agency that provides facilities or services in the affected territory that the District would provide). The notice must generally describe the proposal and the affected territory (the territory for which the dissolution is proposed or ordered, i.e. the District).
3. A resolution of application must contain the following: state that the proposal is made pursuant to the Local Government Reorganization Act, state the nature of the proposal and list all proposed changes of organization, set forth a description of the boundaries of the District territory accompanied by a map showing the boundaries, set forth any proposed terms and conditions, state the reason(s) for the proposal, request that proceedings be taken for the proposal pursuant to the Local Government Reorganization Act, the names of the officers or persons, not to exceed three, who are to be furnished with copies of the report by LAFCO's executive officer and who are to be given mailed notice of the hearing, and state whether the proposal is consistent with the sphere of influence of any affected city or district).
4. A resolution of application must be submitted with a plan for services. The plan for providing services within the District territory must include all of the following information and any additional information required by the LAFCO executive officer: an enumeration and description of the services to be extended to the District, the level and range of those services, an indication of when those services can feasibly be extended to the District territory, an indication of any improvement or upgrading of water facilities or other conditions that the County would impose or require within the District territory if the dissolution is completed, and information as to how those services will be financed.

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<sup>1</sup> For resident voter districts such as the District, resident voters may also petition for dissolution.

5. After receipt of an application and prior to issuance of a certificate of filing, LAFCO's executive officer must give mailed notice that the application has been received to each interested agency and the District, the county committee on school district reorganization, and each school superintendent whose school district overlies the subject area. Such notice is not required if the County has already given the 21 day notice described above.

6. LAFCO's executive officer shall not accept an application for filing and issue a certificate of filing for at least 20 days after giving the above mailed notice. If the County has given the 21 day notice described above, this requirement does not apply.

7. An application is deemed accepted for filing if no determination has been made by the executive officer within the 30-day period. The executive officer must accept for filing and file any application submitted in the form prescribed by LAFCO and containing all of the information and data described above. If the application is determined not to be complete, that determination must be immediately transmitted to the applicant.

8. When an application is accepted for filing, the executive officer must immediately issue a certificate of filing to the applicant which specifies the date on which the proposal shall be heard by LAFCO. The date of hearing shall not be more than 90 days after issuance of the certificate of filing, or after the application is deemed to have been accepted, whichever is earlier.

### **Election Requirements for Dissolution of District**

1. LAFCO must order the change of organization (dissolution) subject to confirmation of the voters unless otherwise stated in the formation provisions of the enabling statute of the district or as specified below.

2. The change of organization (dissolution) may be ordered without an election if it meets certain requirements.

a. No election is required if LAFCO makes findings on one or more of the following:

1) The corporate powers have not been used (i.e. during certain time periods, there has not been a duly selected and acting quorum of the district's board of directors; the board of directors has not furnished or provided services or facilities of substantial benefit to residents, landowners, or property within the district, or the board of directors has not levied or fixed and collected any taxes, assessments, service charges, rentals, or rates or expended the proceeds of those levies or collections for district purposes; or b) a quorum of the duly selected and acting board of directors has not met to transact district business; or c) the district had no assets, other than money in the form of cash, investments, or deposits) and there is a reasonable probability that those powers will not be used in the future;.

2) The district is a registered-voter district and is uninhabited:

3) The board of directors of the district has, by unanimous resolution, consented to the district's dissolution: or

4) LAFCO has authorized, consistent with statutory requirements, the dissolution of the district without an election.

b. LAFCO can order dissolution without an election, except that an election is required if there are written protests as follows:

1) Where the proposal was not initiated by LAFCO and the district has not objected by resolution to the proposal, but written protests have been submitted that meet certain statutory requirements (petition requesting submittal to confirmation by the voters);

2) Where the proposal was not initiated by LAFCO and the district has objected by resolution to the proposal, but written protests have been submitted that meet certain statutory requirements (petition requesting submittal to confirmation by the voters); or

3) Where the proposal was initiated by LAFCO and regardless of whether the district has objected to the proposal by resolution, a written protest has been submitted that meets certain statutory requirements (petition requesting submittal to confirmation by the voters).

### **Termination of Dissolution Proceedings**

1. If proceedings for dissolution are terminated, either by majority protest or by failure of a majority of voters to confirm the dissolution, no substantially similar proposal for a dissolution of the same or substantially the same territory may be filed with LAFCO within one year after the date of the certificate of completion adopted by LAFCO.

2. LAFCO may waive this requirement on a finding that it is detrimental to the public interest.

### **Effect of Dissolution**

1. On effective date of dissolution, it is dissolved and all of its corporate powers cease except for the purpose of winding up affairs.

2. If the territory of a dissolved district is located entirely within the unincorporated territory of a single county, the county is the successor.

3. Control over all of the moneys or funds and all property, real or personal, of the dissolved district is vested in the successor for the purpose of winding up the affairs of the district.

4. Any moneys and funds of the dissolved district must be used for the payment of principal and other amounts then or thereafter due on account of any outstanding bonds and other contracts or obligations of the dissolved district.

## **CONCLUSION**

The RLECWD has been granted an extension by the CDPH to complete construction of three wells by June 1, 2011. This is a very tight timeline and it may be difficult to complete the three wells by this deadline. There is little to no margin of delay in implementing the required rate increase in order for the District to qualify for the SFR loan. Also there is little to no margin for delays to commence construction. Under ideal conditions, it would be difficult to meet this construction deadline.

Based on the concerns and issues identified in this report, the Commission should direct staff to initiate discussions with water providers and develop reorganization options including proposed service plans for Commission consideration in the event the District fails to comply with the compliance plan submitted to the Commission or if the current status continues to deteriorate. The submitted compliance plan must include the requirements listed above and address the identified concerns of the District. Should the District fail to satisfy its duties, the preliminary analysis would assist the Commission in initiating reorganization proceedings in a relatively short time frame. This analysis is dependent upon the cooperation, willingness, and resources of potential water service providers to prepare service plans that would be evaluated by LAFCo. (Note: Pursuant to Government Code Sections 56378 and 56386 LAFCo may request this information).

## **SACRAMENTO LOCAL AGENCY FORMATION COMMISSION**

Respectfully Submitted;

Peter Brundage  
Executive Officer

**DRAFT**

**RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT**

**MUNICIPAL SERVICE REVIEW  
AND  
SPHERE OF INFLUENCE UPDATE**

**August 2010**

Sacramento Local Agency Formation Commission  
1112 I Street, Suite #100  
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## **SACRAMENTO LOCAL AGENCY FORMATION COMMISSION**

### **COMMISSIONERS**

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Christopher Tooker, Public Member, Vice Chair  
Jimmie Yee, County of Sacramento Member  
Susan Peters, County of Sacramento Member  
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Charles T. Rose, Special District Member  
Gay Jones, Special District Member

### **ALTERNATE COMMISSIONERS**

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Gene Resler, Alt. City of Sacramento  
Robert King Fong, Alt. City of Sacramento Member  
Leo A. Fassler, Alt. Public Member  
Jerry Fox, Alt. Special District Member

### **STAFF**

Peter Brundage, Executive Officer  
Donald J. Lockhart, Assistant Executive Officer  
Diane Thorpe, Commission Clerk  
Nancy Miller, Commission Counsel

## **DISTRICT SUMMARY PROFILE**

Date: November 3, 2010

District: Rio Linda/Elverta Community Water District  
Location: 730 L Street  
Rio Linda, California 95673

Telephone: (916) 991-1000  
FAX: (916) 991-6616  
e-mail Address:  
Website: [www.rlecwd.com](http://www.rlecwd.com)

Administrator: Ravi Mehta, Interim General Manager  
Staffing: Seven Full Time Employees  
Two Part Time Employees

Service Provided: Water and Associated Services

Service Area: Northwest Sacramento County

Sphere of Influence: Coterminous with Existing District Boundary

Population: 14,750

Registered Voters: Approximately 9,850

Date of Formation: 1948

Governing Body: Five Member Board of Directors

Latent Powers: Fire Protection, Parks and Recreation, Sewers, and Public Works

Total Budget: \$1,777,000 FY 2010-2011 (Attached)

Primary Revenue Source: Water Sales and Related Services

Water Source: 9 Wells and 1, 8-inch Intertie with Sacramento Suburban Water District



### Summary of Rio Linda/Elverta Community Water District Information

Population	14,750
Area Served	17.8 square miles
Number of Connections	4,616
Number of Water Meters	4,616
Percent of Connections Metered	100%
Fluoridate Water	No
Water Supply Source(s)	
% groundwater	100%
% surface water	
Total Annual Water Consumption	910.6 Million Gallons
	Acre feet
Average Monthly Consumption	75.8 mg per month/2.53 mg per day
Average Demand (Gallons per Minute-gpm)	6,800 gallons
Average Peak Demand-gpm	10,200 gallons
Average Use per Meter/connection	548 gallons per day
Miles of Distribution Lines	58.82 miles
Average Age	35 years
Miles of Transmission Lines	0.5 mile
Average Age	25 years
Number of Wells	9 active wells, 2 inactive wells
Average Age	30 years
Number of Storage Tanks	1 elevated steel tank (125,000 gallons)
Average Age	60 years
Total Storage Capacity	125,000 gallons
Water Treatment Facilities	None
Average Water Pressure	52 psi
Average Revenue per Meter/Customer	\$39.00 per month
Debt Service per Customer	\$4.33 per month
Annual Revenue	\$1,740,800

10-year average rate increases	
Annual Surcharge Revenue	\$526,224
Annual Operation and Maintenance Costs	\$1,640,000
Annual Average Capital Costs	\$80,000
Annual Miles of Pipeline Replacement	
Average Annual Operating Reserve	
Annual Number of Leaks per Mile	
Average Surplus Production Capacity	
Compliance with CDPH Standards	

## **INTRODUCTION**

### **Background Information**

The Rio Linda/Elverta Community Water District (District) was established in 1948 for the purpose of providing domestic, irrigation and fire protection water to a portion of unincorporated residents of Rio Linda. The District grew over the years to include Elverta and operates as an independent special district that serves approximately 17.8 square miles.

### **Mission**

The District's Mission is to serve our customers, provide clean, safe drinking water, install, improve, operate and maintain the public water system in Rio Linda and Elverta.

### **Setting**

Located in Northwest Sacramento County, the District represents a small community of nearly 15,000 residents.

*Please see Attachment 'A' - Map of District Boundary*

### **Services Provided**

The Rio Linda/Elverta Community Water District provides water service and related consumer services to customers within the District.

### **Management, Consultants, and Staffing Structure**

*Please see Attachment 'B' - Organization Chart*

Management Structure: One General Manager, and one part-time Assistant General Manager

Employee Structure:

The District employs seven (7) full time positions. In addition, the District employs on average two (2) part-time positions.

Please see the attached Organization Chart which includes Board representatives.

Much of the technical and engineering resources are provided by consulting firms working through Master Service Agreement contracts for the District. For engineering, two firms are currently under contract, and for Information Technology Network Service, one consultant has a monthly service contract with the District.

Additionally, California 'A' licensed contractors are hired to perform emergency repairs and/or specialty work, such as main breaks, building repairs and well maintenance. The work is

generally assigned on an as-needed basis with competitive bidding based on the circumstances. All public works construction and/or repairs are through solicitation or check bids.

District staff performs routine daily duties and manages the majority of all tasks necessary to operate the District. The areas of responsibility include, but are not limited to:

- Business Administration
- Field Operations and Maintenance
- Board of Directors Admin Support
- Customer Service
- Billing and Collections
- Accounting
- Engineering Management
- Community Outreach
- Conservation

The District is currently undergoing an organizational restructuring to reduce operating costs. Salaries were evaluated to eliminate three step (15%) reductions in the wage. Even with the pay and benefit cuts they still results in a very competitive wage package for the District employees. Supervisory positions were eliminated, as the District was paying supervisors the kind of wages and benefits that supervisor in other district who supervises 20, 50 and sometimes more than that, and that is not the case here. The District's position was to eliminate those positions as they were supervising only two employees. The proposal did not elect to lay off any employees. The medical benefits contribution of the District would still be sustainable, and hourly wages were reduced to save money.

On April 22, 2010 The Brotherhood of Teamsters, Local 150 proposed a tentative Memorandum of Understanding (MOU) to the District negotiators. Subsequently, the Board of Directors held a special session on April 26, 2010 where a consensus was reach to accept the terms and conditions of the April 22<sup>nd</sup> negotiation. On May 4, 2010 the proposal was presented to the members that have yet to be ratified. As this report is being prepared, the negotiations continue with optimism that an agreement will be reached soon.

Wages and salaries are comparable to regional standards, although less than paid prior to November 2009. The District medical benefits contribution of the District would still be a substantial benefits package.

We currently employ five certified Distribution Operators of varying levels, with Treatment certifications as their backup. Additionally, our staff includes a certified Conservation Specialist that oversees the water conservation program, and we have two certified Backflow Prevention Specialists to manage our Cross Connection Control and backflow prevention programs.

Various free training programs are offered to staff as available. Each employee is required to maintain contact hours in their respective areas of expertise, although a formalized program has not been implemented. As a budgetary consideration, employees are required to pay for any training requiring tuition.

RLECWD serves a small community, so the business practices and organizational structure are akin to a small town atmosphere with fewer provisions than other large service providers in the area. In contrast, however, the District manages its operations in conformance with all regulatory agencies, even though the small distribution system requires less maintenance and repairs than larger municipalities.

## **MUNICIPAL SERVICE REVIEW INFORMATION AND DETERMINATIONS**

### **Growth and Population Projections**

The District currently services a population of approximately 14,750 residents through 4,616 residential and commercial water meters from a distribution system that exceeds 61.2 miles of pipeline infrastructure. Our maximum day demand is approximately 6,800 gpm with a peak hour demand at approximately 10,200 gpm.

RLECWD serves the District with 9 active wells that produce approximately 5,900 gpm, and a 125,000 Gallon Water Tower. We are currently in the design and development phase to construct 3 new high capacity wells to increase source capacity within the next two years. To supplement capacity, an intertie with Sacramento Suburban Water District was put into service through an Interim Supply Agreement between the agencies in July 2007. The intertie is seldom utilized and generally only on exceptionally warm days or when a RLECWD well in the vicinity is being serviced.

Due to a California Department of Public Health (CDPH) moratorium that was implemented in November 2007 because of inadequate water supply issues, the District is unable to install new services until our source capacity has been increased to sufficient levels to meet peak hour demand. Several large subdivisions are proposed, with Elverta Villages being the largest with a projection of 4,950 dwelling units at build out. California American Water Company will service a small percentage of the connections in Elverta Villages, but the larger portion will be serviced by RLECWD. Plans are currently being engineered with both agencies providing oversight.

Other infill projects are proposed throughout Rio Linda and Elverta to be developed upon lifting of the moratorium in Spring/Summer 2011.

The District was recently granted a conditional waiver from CDPH to allow 36 new residential connections to be built in the meantime because the applicants had met all capacity fee issues prior to the implementation of the moratorium.

### **LAFCo MSR Determination**

*RLECWD currently does not have the ability to meet its current growth and population projections.*

## **Facilities**

### ***Summary of Facilities***

*Please see Attachment 'C' - Facilities Map*

### ***Present and Planned Capacity of Public Facilities***

RLECWD's current service capacity includes:

- 3,637, 5/8-inch Metered Connections
- 26, 3/4-inch Metered Connections
- 696, 1-inch Metered Connections
- 22, 1 1/2-inch Metered Connections
- 22, 2-inch Metered Connections
- 8, 3-inch Metered Connections
- 5, 4-inch Metered Connections
- 15, Private Fire Service Connections of varying sizes

As previously explained, the District has been unable to install new services until source capacity has been increased to sufficient levels to meet peak hour demand of 10,200 gpm. Several large subdivisions are proposed within the District's service boundaries, with Elverta Villages being the largest with a projection of 4,950 dwelling units at build out. California American Water Company will service a small percentage of the connections in Elverta Villages, but the larger portion will be serviced by RLECWD.

Other infill projects are proposed throughout Rio Linda and Elverta to be developed upon lifting of the moratorium in Spring/Summer 2011.

The District was recently granted a conditional waiver from CDPH to allow new 28 residential connections to be built by Beazer Homes for Fox Hollow Subdivision, and 8 additional residential services by other developers in the meantime because the applicants had met all capacity fee issues prior to the implementation of the moratorium. Beazer Homes has announced commencement of construction is underway.

### ***Infrastructure Needs or Deficiencies/Capital Improvement Program***

The District is currently being closely monitored and supervised by CDPH under Compliance Order 01-09-09-CO-004 to increase Source Capacity and build redundancy by spring 2011. RLECWD has been working very diligently with CDPH oversight to design and construct three (3) wells to meet peak demand requirements as necessary to comply with state regulations. In order to finance the engineering, construction, and activation of the wells and infrastructure improvements, the District is in the final stages of state review for SRF Loan funding. The Fiscal Services Unit has completed its review and determined the District will need to implement an additional rate increase to qualify for the State Loan. To provide advance engineering and project development funding, the District has implemented a 3 Phase Surcharge program that

went into effect in May 2009. The Surcharge will also be used to repay SRF funding for 20 years upon completion of the project which is scheduled for winter 2011, or early spring 2012.

Beyond the immediate Source Capacity CIP, the District has the following projects to complete within 5 years:

- Build an 800,000 gal. steel reservoir for additional fire storage
- Replace approximately 1.5 miles of aging or undersized distribution mains and valves
- Place two wells back into emergency standby service due to them having high arsenic levels
- Install 2 additional power generators at existing wells for emergency backup power
- Install a new radio read antenna and retrofit 1678 meters with radio read equipment
- Provide additional SCADA improvements and upgrades
- Install surveillance equipment at the office and each well
- Effectively reactivate the District's Developer Services Unit to potentially double the number of service connections due to large development projects in the region.

*Please see Attachment 'D' - 5 year Capital Improvement Plan Budget*

### **Summary of Programs**

**Water Conservation Program:** The District actively participates in Water Forum Conservation practices with rebates and public outreach programs in effect. The District reimburses customers for water efficient toilet replacements, as well as water conservation washing machine rebates. The District also provides educational programs and public workshops on conservation through a link on our webpage. Staff conducts routine patrols to promote water conservation as well.

**Backflow Prevention Device Testing Program:** The District maintains an annual backflow prevention device testing program that is monitored by CDPH. We currently test 411 devices annually through a fee schedule that is included in our bimonthly billing to customers owning Backflow Prevention Devices. All reports are furnished to the appropriate regulatory agencies.

**Cross Connection Control Program:** Water audits and site surveys are conducted periodically to ensure District operations are not affected by cross connections or unprotected loops through private plumbing. The Cross Connection Control Program follows CDPH guidelines and annual reports are provided to the department.

### **LAFCo Determination**

*Currently RLECWD does not have adequate infrastructure to satisfactorily provide water service to its customer base. Compliance with CDPH Compliance Orders will help resolve water supply issues identified by CDPH. However, RLECWD will also need to develop a pipeline replacement program based on its aging infrastructure.*

**FINANCIAL INFORMATION**

***Budget***

*Please see Attachment 'E' – Operating Budget Profit Loss 10/11 Forecast*

***Revenue***

- Revenue primarily comes from water sales, administration fees, and associated services. Additional revenue derives from leases, taxes, developer fees, grants and miscellaneous non-operating sources as shown on the attached ***Operating Budget Profit Loss 10/11 Forecast***

***Rates, Fees, Charges, and Assessments***

**Water Rates (effective January 1, 2010 – Service Charges / per Ordinance 2009-02)**

Water Service – Fees for water service from the District Water System are as indicated below based upon meter size servicing the premises and includes 600 cubic feet of water:

<u>Meter Size</u>	<u>Bi-Monthly Service Charge</u>	<u>+</u>	<u>Capital Improvements Surcharge</u>	<u>=</u>	<u>Total Bi-Monthly</u>
5/8"	\$29.00		\$15.00		\$44.00
3/4"	\$34.80		\$15.00		\$49.80
1"	\$52.50		\$15.00		\$67.50
1-1/2"	\$101.50		\$15.00		\$116.50
2"	\$162.40		\$15.00		\$177.40
3"	\$304.50		\$15.00		\$319.50
4"	\$507.50		\$15.00		\$522.50

Plus any usage over 600 cubic feet, charges per 100 cubic feet or portion thereof as follows:

<u>Meter Size</u>	<u>Cubic Feet Used</u>		
<u>Rate Per 100</u>	<u>\$0.43</u>	<u>\$0.54</u>	<u>\$0.68</u>
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>
5/8"	601 – 2,600	2,601 – 15,600	15,601+
3/4" – 1-1/2"	601 – 5,800	5,801 – 44,800	44,801+
2" – 4"	601 – 55,200	55,201 – 286,000	286,001+



***Rates, Fees, Charges, and Assessments (cont.)***

The bi-monthly service charge for Standby Fire Protection Services shall be \$10.00 per inch diameter for the service pipe.

<u>SVC Code</u>	<u>Charge</u>
FP4 = 4"	\$40.00
FP6 = 6"	\$60.00
FP8 = 8"	\$80.00
FP12 = 12"	\$120.00
FP14 = 14"	\$140.00

Rates are set based on comparative regional criteria and rate study evaluations. California Proposition 218 Analysis and Public Notifications precede public hearings to quantify and establish appropriate rate adjustments prior to Board approval and/or issuing constraints. The District conducts rate studies when necessary and remains abreast with current market analysis.

***Expenditures***

RLECWD service levels and cost of services are comparable to regional industry standards and fair market schedules. The District expenditures are reported to its Board during monthly meetings to maintain oversight and management meet budgetary expectations throughout the year.

***Assets, Liabilities, Debt, Equity, and Reserves***

*Please see Attachment 'F' – Profit-Loss Statement for 09-10FY*

**LAFCo Determination**

*RLECWD does not appear to be financially sound based on the FY 2009 Audited Financial Statements. The District does not maintain an adequate reserve. Also, in order to qualify for State Revolving Funds, the District will need to increase rates by \$5.46 per month in order to make the debt service payments to repay the State Loan and provide a financial reserve pursuant to the loan terms.*

## **STATUS OF AND OPPORTUNITIES FOR INNOVATION AND SHARED FACILITIES**

The District does not currently share facilities, infrastructure, or staff with other agencies. However, as previously mentioned and further described below, an intertie with Sacramento Suburban Water District (SSWD) supplements RLECWD's ability to maintain adequate system pressure during peak demand or operational maintenance outages for well repairs, etc.

RLECWD has three neighboring water districts; the City of Sacramento on the South side, SSWD on the East side, and California American Water (Cal-Am) at the extreme Northeast corner of the District. In addition, the County of Sacramento Department of Water Resources could potentially be a water provider to the RLECWD service area.

Due to place of use issues, the City of Sacramento does not appear to be a feasible consolidation alternative because it does not provide for satisfactory results without considerable pipeline improvements to facilitate the expansion. The cost of the improvements may outweigh the end result without providing suitable reliability, so it may not be a viable consolidation option. Additional analysis would be required.

An 8-inch intertie with SSWD is utilized as an emergency backup supply for the East side of the District's service area. The intertie can be enlarged in the future, but consolidation with SSWD may be a more expensive alternative than installing new wells due to the cost of water added to the infrastructure required to support this option.

This alternative would not significantly improve conditions in the Central and Western portions of the District's distribution system, where the majority of the District's customers are located. Consolidation was considered in the Engineering Report by Montgomery Watson Harza entitled "Evaluation of Source Capacity and Compliance Plan", completed in January 2008, but this option was found not to be feasible.

Reorganization with Cal-Am may not be feasible because it may amplify the circumstances described in both scenarios above, along with adding additional costs for transmission facilities that do not presently exist.

The District has completed numerous engineering and modeling studies to overcome its source capacity limitations and improve the flow characteristics in the distribution facilities to move more water throughout the system. Consolidation to the South, the East, or Northeast would defeat the impetus of developing more source from within, so the feasibility of consolidation is dramatically diminished and not subject to consideration without significant infrastructure improvements and less cost effective means than developing high-production wells. It is because of these factors, consolidation may not be cost effective, however, reorganization should resolve issues related to District stability and water supply issues.

While the reorganization options might not provide the most cost effective solution for RLECWD rate payers, it may be necessary to investigate alternative service providers given the issues identified in this report.

### **LAFCo Determination**

*The District does not participate in a conjunctive water use program that would minimize impacts to its and surrounding aquifers (groundwater basins). RLECWD does have an eight (8) inch connection with Sacramento Suburban Water District in the event that the District's wells are not able to meet the District's water demand. This connection is only used as needed and only if Sacramento Suburban Water District has excess supply. Also, the District may use two standby wells in event it needs additional water supply during periods of high water demand.*

*The Commission should direct staff to explore reorganization options with water purveyors and if possible develop alternative service plans to provide the RLECWD service area with a sustainable water supply. The service plans would also evaluate the rate structures of the proposed service plans.*

### **ACCOUNTABILITY FOR COMMUNITY SERVICE NEEDS, INCLUDING GOVERNMENTAL STRUCTURE AND OPERATIONAL EFFICIENCIES**

The RLECWD Board of Directors has five seats that are currently filled. The length of term is normally 4 years unless a vacancy occurs creating a 2 year seat.

Appoints are a result of a vacancies, all other officials are voted into office during a General Election.

Each candidate must reside within Rio Linda or Elverta Community Boundaries.

Board Compensation includes:

- \$100.00 per Public Board Meeting
- \$100.00 per Water Affiliation Meeting – Designated Representative Only
- Board members are not provided post-term allowances in any form

The Board holds Regular Board Meetings on the third Monday each month and Special Sessions are scheduled as the needs arise. It is the intent of the Board that meetings shall remain as informal as reasonably possible consistent with business needs of the District. The Board President or a majority of the Board may invoke formal proceedings pursuant to Robert's Rules of Order should action be deemed necessary. The Board may discuss and take action on any item listed on the agenda. The Board may also listen to other items that do not appear on the agenda, but the board will not discuss or take any action on those items, except for items determined by the Board pursuant to State law to be of an emergency or urgent nature requiring immediate action. Copies of the agenda are posted 72 hours in advance at the Community Center, the District Office and on the District's Web Site at <http://www.RLECWD.com> .

The Public attends meetings and are given the opportunity to directly address the Board on each listed item during the Board consideration of that item. An opportunity for public comment on other items within the jurisdiction of the Board is offered under the item "Public Comment" and such comments are welcomed. Reasonable time limitations may be imposed on each speaker by

the Board President. The meetings are conducted following the Brown Act and the public participates in the discussions, evaluations, and presentations, etc.

Public participation is welcomed in a public forum and encouraged by filling out speaker cards.

The District has begun using the forum framework for public outreach, educational workshops, and water industry presentations.

The Board and the public receive Expenditures, Budget Statements, and Operations Reports along with viewing Minutes from previous meetings during Regular Sessions.

Community members can access public documents through the District by filling out Public Records Requests (PRR) or viewing information at the office counter when appropriate. All PRRs are reviewed and approved by the General Manager prior to release. The General Manager, in turn, seeks legal advice from General Counsel prior to releasing sensitive documents. As a rule, documents are redacted when necessary.

### **LAFCo Determination**

*The RLECWD is an Independent Special District with five Board of Directors. The District meets regularly to conduct its business. The District has made progress at addressing immediate needs as identified by CDPH, however, it should develop a long range sustainable business plan to address construction of new facilities and replacement of aging infrastructure to meet population growth.*

### **ISSUES, CONCERNS AND OPPORTUNITIES**

RLECWD is diligently working with CDPH and Sacramento County Public Works agencies to comply with all compliance and reporting rules and regulations as necessary. Currently, the focus is to increase source capacity through funding by the State Revolving Fund process, and to that end, CDPH is monitoring the District in all areas of regulatory compliance.

Concurrently, new management practices are being instituted to remain in compliance with local Public Works codes and reporting rules by following the standards set forth in the Sacramento County Standards and Specifications.

The District is actively and effectively restructuring its financial, operational, and regulatory practices to adequately meet industry and regional requirements. At issue, however, is the speed and effectiveness to overcome deficiencies previous RLECWD administrations created. Not only does the District recognize the importance to meet all health and safety standards, better business practices are beginning to emerge to increase and promote better community outreach, public relations, and customer service for greater effectiveness overall. With these, the opportunities are boundless, especially in increasing and improving infrastructure to serve our customers. As we move forward with complete awareness and continued support by CDPH and other regulatory agencies, Rio Linda/Elverta Community Water District can only continue to improve over time.

**LAFCo Determination**

*The district needs to stabilize its organizational structure and practices for the benefit of its customers and to meet CDPH Compliance Orders.*