



AGENDA OF MAY 1, 2024

REGULAR MEETING

TO: Rich Desmond, Chair, and
Members of the Sacramento Local Agency Formation Commission

FROM: José C. Henríquez, Executive Officer

AGENDA ITEM #: Public Hearing to Consider and Adopt CEQA Statutory Exemption §15061(b)(3) and

- a) Adopt the Addendum to the Municipal Service Review for Del Paso Manor Water District (LAFCo Project #2022-01); and
- b) Approve a Resolution of Intent to Initiate Dissolution of Del Paso Manor Water District (LAFCo Project #2024-01)

RECOMMENDATION

Staff recommends that the Commission adopt Resolution LAFCo 2024-06 which:

1. Adopts CEQA Statutory Exemption §15061(b)(3) for the following two actions
2. Adopts the Addendum to the Municipal Service Review for Del Paso Manor Water District (LAFCo Project #2022-01); and
3. Serves as a Resolution of Intent to Initiate Dissolution of Del Paso Manor Water District. This resolution gives Del Paso Manor WD a 12-month remediation period during which the district may take steps to remedy the specified deficiencies. At the end of that 12-month period, the Commission may either approve the dissolution of the Del Paso Manor Water District in May 2025 or rescind the Resolution of Intent to Initiate Dissolution and no further action will be taken.

REASON FOR RECOMMENDED ACTION

Staff's recommendation to initiate dissolution of the Del Paso Manor Water District (District or DPMWD) is based on a preponderance of evidence that the District's service is not meeting industry standards or government regulations and is based on the 2021 Grand Jury report, the adopted LAFCo Municipal Service Review (MSR), including the recommended MSR Addendum, and independent studies and information provided by the District related to the current infrastructure. This recommendation is based on the further determination that the District's board is not actively engaged in efforts to remediate the documented service deficiencies.

BACKGROUND

The Del Paso Manor Water District supplies water to 1,864 residential and 111 commercial connections within its service area. The District has seven wells and utilizes groundwater as its source. In addition, it has 21 miles of water lines, with only one mile of those miles being new. The age of the water infrastructure is past its useful life. The overwhelming majority of those water lines are 60-70 years old and should be replaced within the next 20 years.

Municipal Service Review

In January 2021, the Sacramento County Grand Jury conducted an investigation of DPMWD that culminated in a report released on November 5, 2021. The report concluded that there were “serious concerns with the DPMWD’s operational safety and management practices” that were supported by a series of findings. The report recommended that the Commission complete a Municipal Service Review (MSR) of the District.

On December 7, 2022, Sacramento LAFCo adopted a MSR report for the DPMWD (LAFCo Project #2022-01). The MSR highlighted that some of the past agendas and minutes did not provide adequate information that was compliant with the Brown Act requirements. However, it was noted that the District was actively working to increase transparency by providing more detailed agendas, complete minutes, and recordings of meetings. The District since has resolved the majority of the governance issues identified in the Grand Jury report. As such, the aforementioned deficiency has been addressed and is no longer of concern.

In addition, the 2022 MSR assessed the present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies and made the following determinations on page 26:

- Since the District does not have water storage, current regulations require that there be enough capacity to provide for maximum daily demand and maximum fire flow demand. Currently, the District does not meet this requirement. However, once the emergency interties with Sacramento Suburban Water District (SSWD) are upgraded, even at 1/3 of their rated capacity and coupled with District Wells, fire flows should be met. It is anticipated that the Fire Department will again conduct tests to confirm this.
- The District’s system is aging, and several miles of water mains need to be replaced. Most notably, there is approximately 3,000 feet of mains that need to be upgraded to a minimum of 4” diameter, and approximately 2.9 miles of steel pipe that are prone to rapid erosion and leaks.
- There are known and unknown groundwater contamination sites surrounding the District. This contamination is currently affecting two of the district’s wells. The District is looking into potential carbon filtration to bring these wells back online. The MSR recommends that the district stay up to date on groundwater contamination in the area and investigate the possibility of additional well filtration systems to ensure adequate water quality for customers.

The 2022 MSR also evaluated the financial ability of agencies to provide services and made the following determinations:

- While the District has seen a net increase over the past three fiscal years reviewed, during that time little funding was provided for system repairs and replacements. As of March 2022, it was estimated that the district needs approximately \$52 million for well rehabilitation and water main replacements.
- Based on the amount of system repairs that are needed, the District currently does not have enough revenues to support their capital improvement program. However, the District has started a Proposition 218 process that, if successful, will provide additional funding to support capital improvements.
- Additional funding from grants and state loan programs will likely be needed to complete system improvements and help prevent major water main breaks or other system failures.

Related to the status of and opportunities for shared facilities the 2022 MSR included the following relevant determinations:

- DPWD has three interties with Sacramento Suburban Water District (SSWD) that are in the process of being upgraded to allow automatic connection when water pressure drops substantially. These interties will provide the necessary capacity to meet fire flow requirements for DPMWD.
- DPMWD and SSWD are currently holding 2X2 meetings to assess the potential for reorganization into a single District. This may provide several benefits to the DPMWD such as additional staff to support day to day operations, larger customer based for recruiting Board members, and increased source capacity. The Districts are encouraged to continue these discussions and keep LAFCO informed.

Conversation with Sacramento Suburban Water District (SSWD)

DPMWD began coordinating with Sacramento Suburban Water District (SSWD) in 2020 to discuss combining the two entities into one district, but the communication was paused by DPMWD. The talks resumed in 2021 soon after the aforementioned Grand Jury Report was released.

On June 30, 2022, the Directors of DPMWD authorized the initiation of a merger discussion with SSWD. On July 1, 2022, SSWD received a letter from DPMWD recommending that the SSWD Board of Directors approve and assemble a 2x2 Committee to discuss a potential merger between the two agencies. On July 18, 2022, SSWD's Board of Directors agreed to pursue merger discussions with DPMWD. Both districts appointed Board members to participate in the 2x2 Committee meetings. Directors Bob Wichert and Jay Boatwright were appointed to represent SSWD and Directors Ryan Saunders and Carl Dolk were appointed to represent DPMWD.

DPMWD began coordinating with SSWD to discuss the feasibility of combining the two districts into one district. The two districts held seven different meetings and continued coordination to consider the combination of SSWD and DPMWD. During the 2x2

meetings, the districts reviewed the integrity of the two districts' infrastructure, water rates, operations, and the current fiscal standing. The two districts last coordinated on May 22, 2023, at a joint board meeting.

At their October 2023 meeting, DPMWD pulled out of their discussions with SSWD, and instead provided direction to fund infrastructure improvements through an increase in water rates through Proposition 218, which was approved by DPMWD by resolution on September 18, 2023.

DEL PASO MANOR WATER DISTRICT CURRENT CONDITIONS

MSR Addendum Overview

Due to the changed circumstances and additional information and service problems, LAFCo staff initiated an update to the 2022 MSR. The Municipal Services Review for Del Paso Manor Water District Addendum – April 2024 (MSR Addendum) sets forth the updated information and determinations required for a municipal services review as well as certain findings and determinations regarding the chronic service deficiencies of the District.

The MSR Addendum provides updated and additional information regarding the District consistent with the requirements of Government Code section 56430 related to municipal service reviews and Government Code section 56375.1 related to the Commissions initiating dissolution of the District. According to the MSR Addendum the District owns and operates eight wells. The table below provides a summary of the groundwater wells. Original Well No. 1 was destroyed and replaced by Well No. 9 and original Well No. 6 was also destroyed and replaced by Well No. 6B. It is important to note that at the time the 2022 MSR was being prepared, there was contamination in Well No. 8 and Well No. 3 is only permitted for standby use, up to 15 days a year, due to 1,2,3 Trichloropropane (TPC) that exceeds allowable levels for regular use. These conditions have not changed. The 2022 MSR indicated that SSWD, Golden State Water Company, California American Water, City of Sacramento, and Sacramento County Water Agency were regional water purveyors who are alternate service providers.

DPMWD Independent Study – Well Conditions

The District has eight wells available to provide water to its rate payers. Currently there are three operational wells, with only two of the wells, Wells #5 and Well #9, available and online for immediate use. The following table, Table 2 from the MSR Addendum, identifies the current state of the DPMWD Groundwater Wells.

Table 2. DPMWD Groundwater Wells

Well No.	Year Built	Age in Years	Active Pumping Capacity	Well Status/ Comments
2	1948	76	--	Removed from service and capped.
3	1949	75	--	Permitted Use is Standby: 1,2,3 TCP MCL Exceeded.
4	1951	73	--	Complete motor failure in January 2024.
5	1955	69	460 gpm	Online.
6B	2014	10	1,100 gpm	Primary well with standby generator. Used during low winter demands (down to 100 gpm).
7	1956	68	--	At risk of contamination from Bridgestone plume. Unable to operate under OSHA regulations for confined spaces.
8	1977	47	--	PCE detected. Well offline. Expected complete loss.
9	2011	13	1,500 gpm	Primary well.

DPMWD Independent Study - Fire Flow

As set forth in the MSR Addendum, the District has a current capacity shortage for fire flow needs. Prior to the failure of Well 4 and based on the current infrastructure, there is a current fire flow shortage of 3,070 gal./min. Although the District has an existing intertie agreement with SSWD, by January 1, 2032, the District will need to have the capacity to meet fire flow and Maximum Day Demand (MDD) flow demands from within their own system, that is 6,630 gal./min. Currently the District can only legally produce 3,560 gal./min if Well 4 is repaired and becomes operational. If the contaminated wells were operating into the system, it would provide the District 5,240 gal./min. Even with all the District’s wells, the District can still not meet the requirements of Sacramento County to produce MDD and fire flows. The inability for the District to meet fire flows on its own and over reliance on interties to achieve it demonstrate not only a substantial deficiency but also a risk to public health and safety.

Infrastructure Needs

The 2022 MSR noted infrastructure needs and the needed repairs and replacement of existing pipelines and water distribution mains. These needs continue, and in addition, the MSR Addendum discusses the continued system leaks and infrastructure improvements and repair needs.

By January 1, 2032, the District will also need to install water meters for each service connection. The District currently manually checks production ground water levels but does not have an automated system for the older wells.

COST OF INFRASTRUCTURE

In 2021, it was estimated that to replace the 20 or so miles of water lines within DPMWD that were not new was approximately \$2 million a mile. Since the end of the pandemic, the cost of materials has increased significantly. Nevertheless, for discussion purposes, this memo will use the \$2 million estimate to calculate that the total cost of replacing all

of the water lines within the District will be at least an estimated \$40 million. This estimate does not include the necessary equipment replacement and repair for the wells, the drilling of new wells or include the cost of installing meters as mandated by the State.

The 2023 Prop 218 Vote

The District was successful in garnering support from its customers for a Proposition 218 vote to raise their rates. The rate study used to justify increasing the water rates categorized the list of capital projects that necessary for the effective functioning of the District's water facilities and the Board of Directors prioritized approximately \$9 million in capital infrastructure repairs and replacements. While the ratepayers supported the increase in rates, ultimately the amount of funding to be collected by the increased rate payments within the next 5 years is now less than a quarter of what is needed.

Near the end of 2023, the Board of Directors heard from several financing consultants about the options available to the District. The two most promising options were:

- A bond for \$9M that will cost \$18M to pay back with interest; or
- A loan for \$9M that will cost \$12M to pay back with interest.

For the District to self-finance a portion of the necessary repairs and infrastructure replacements will ultimately mean that the ratepayers will end up paying at least twice as much monthly for their water as other water districts in the county. Given the size, the demographics of the District's residents and the infrastructure needs, rates would have to increase considerably and indefinitely at rates that are unsustainable for the District to remain independent.

Available Funding from the State

According to the State Water Resources Control Board, Del Paso Manor WD is considered non-disadvantaged, but since the median household income (MHI) for the District is less than 150% of the statewide MHI (\$126,146), the area is eligible for grant/principal forgiveness (PF) funding. For non-disadvantaged communities with less than 150% of the statewide MHI, water systems that consolidate with other systems are eligible for up to \$60,000 per connection in grant funds, and this can potentially be raised to \$80,000 per connection with approval for good cause.

Due to this State Water Resources Control Board grant program funding, the District is eligible for at least \$111 million in State grants/PF funding if the District consolidates with another water agency, something the District was considering as recently as the summer of 2023. To qualify for the State funding, an engineering report and a consolidation feasibility study would have to be undertaken, and the State has indicated it can provide funding, wither fully or partially, for those two necessary reports to support a State-funded consolidation.

The availability of these funds, in addition to the chronic service issues and the new developments that add a substantial risk to the community, necessitated moving the MSR review up from the original 3 years.

LAFCO INITIATED DISSOLUTION

Resolution of Intent to Initiate Dissolution

There are several procedures set forth in Cortese-Knox-Hertzberg Act (CKH) for the Commission to initiate a dissolution of a special district by resolution of application pursuant to Government Code sections 56375(a)(2)(B), 56375.1, or 56879. Effective January 1, 2023, a new provision of CKH allows for the Commission to consider the initiation of dissolution of a district based in part on the determinations of MSRs. It is recommended that the Commission initiate dissolution proceedings pursuant to 56375.1 based on the MSR determinations, including the determinations set forth in the MSR Addendum. The MSR Addendum has been prepared in compliance with the requirements of 56375.1.

Based upon the aforementioned information, LAFCo has determined that the most logical path forward is for the Commission to implement a LAFCo initiated dissolution pursuant Government Code 56375.1 and protest thresholds under Government Code 57093.

Municipal Services Review Addendum – Chronic Service Deficiencies

Pursuant to Government Code 56375.1, a Commission may initiate a proposal for the dissolution of a district that is subject to a 25% protest threshold if at a public hearing the Commission approves, adopts, or accepts a MSR study prepared pursuant to Government Code 56430. Said study must demonstrate that there is a preponderance of evidence, that the district has one or more documented chronic service provision deficiencies that substantially deviate from industry or trade association standards or other government regulations and its board or management is not actively engaged in efforts to remediate the documented service deficiencies.

The November 2022 adopted MSR details several deficiencies of the District's infrastructure and financial concerns but does not discuss the deficiencies in the water flow. A study produced by the District in October of 2023 demonstrates the District is not meeting the fire flow requirements of Sacramento Metro Fire District. In addition, circumstances have changed since the November 2022 MSR was approved. In order to support the recommended Resolution of Intention to Dissolve the District, an updated Addendum to the District's MSR is presented for approval by the Commission which provides further information and determinations regarding the District's current state of chronic service provision deficiencies and that the District is not actively engaged in efforts to remediate the documented deficiencies.

Below is a summary of the deficiencies identified in Addendum to MSR

- There is estimated to be approximately 3,000 linear feet of pipeline that is less than three-inch diameter which does not meet current regulations for water distribution mains (Title 22 of the California Code of Regulations) which specifies that water mains must be at least four inches in diameter.
- DPMWD has documented numerous system leaks both in water mains and on the customer side of connections. The District stated a dramatic decrease in total leaks by lowering operating pressure and coordinating well operation to prevent pressure

spikes. Since the District neglected to invest in regular repair and maintenance of these facilities, several wells are currently offline.

- Since December 2022, additional wells have gone offline or are no longer useable due to contamination or OSHA regulations. There are known and unknown groundwater contamination sites surrounding the District. This contamination is currently affecting two of the District's wells. The District is looking into potential carbon filtration in order to bring these wells back online.
- In January 2024, the motor for Well #4 failed completely and now requires replacement. According to the District's 2009 Master Plan prepared by Kennedy Jenks, the pump for Well #4 was running above its service capacity since 1999.
- DPMWD does meet regulations pertaining to source capacity including California Code of Regulations Title 22, Section 64554(c) which requires that groundwater systems be able to meet their Maximum Daily Demand (MDD) with their highest-capacity source offline, and Section 64554(a) which requires that systems with 1,000 or more service connections be able to meet four hours of peak hourly demand with source capacity, storage capacity, and/or emergency source connections. Currently, with Well #9 offline, DPMWD can only produce 2,060 gpm, which is less than their MDD of 3,130 gpm.
- DPMWD is responsible for providing fire flows of 3,500 gal/min for the AT&T commercial building in addition to the District's regular MDD. Based on the District's current infrastructure, prior to the failure of Well #4, and legal production rate of 3,560 gpm, there is a shortage of 3,070 gal/min. Even if the District were to utilize all of its currently connected wells, there would not be enough water to meet Sacramento County fire flow standards. Additionally, the District would have to utilize contaminated water which may result in additional customer noticing.
- Currently, the District was able to meet fire flow requirements by relying on the interties with SSWD. California Water Code Section 10609.62 now requires a small water supplier to have source system capacity, treatment system capacity if necessary, and distribution system capacity to meet fire flow requirements by January 1, 2032.
- In order to increase water capacity for the District, existing wells would have to be refurbished or new wells would have to be drilled. As of October 2023, it was estimated that refurbishment of Well #2 would cost approximately \$837,000
- As of March 2022, it was estimated that the District needs approximately \$52 million for well rehabilitation and water main replacements not including the cost of meter installation and self-reliance for fire flows, as required by regulations.
- Meter replacement for the District is estimated at \$5 - \$6 million. The cost for increasing source capacity to meet fire flows is currently unknown but likely to cost several million dollars.

- DPMWD has been unsuccessful at obtaining grant funding to support infrastructure improvements. Based on the District's lack of consistent governance and management, and the level of neglect that has been exhibited over the last two decades, it is unlikely that they will be successful in obtaining grant funding in the future.
- While the District was able to successfully complete a Proposition 218 process in 2023, the rate increases only cover the cost of four capital improvement projects totaling \$9.23 million. A \$9 million bond measure could be utilized that would eventually cost \$18 million to pay back with interest, or a \$9 million loan that would cost \$12 million to pay back with interest.
- The resulting rate increases from the Proposition 218 process will increase residential rates by approximately 22% from November 2023 to July 2027.
- Due to the small size of the District and limited customer base, rates would have to be increased substantially above those of surrounding water providers in order to cover the costs of repair and maintenance for District infrastructure. This would place an unnecessary and avoidable burden on rate payers within DPMWD.

Remediation

For projects subject to dissolution, Government Code 56375.1 states that the Commission may adopt a resolution of intent to initiate dissolution based on chronic service provision deficiencies and provide a 12-month minimum remediation period to afford time to rectify the specified deficiencies. The Commission can also specify a date upon which the District shall provide a mid-point report on such remediation efforts.

The recent November 2022 MSR states that based on the current status of the District, an abbreviated MSR will be conducted in three years that focuses on system repairs and upgrades, financial status, and governance standing; giving the District a 36-month remediation period. The remediation period began in December 2022; this means the remediation period would end in December 2025. However, due to changed circumstances, and continued and additional service deficiencies staff directed an MSR Addendum be prepared to document the current service deficiencies and to allow for immediate action by the Commission to initiate dissolution and address the ongoing, serious chronic service deficiencies. The Addendum to the MSR sets forth the changed circumstances and revises the remediation period to be twelve months from this approval by the Commission for a period through May 2025. Upon the conclusion of the 12-month remediation period, the Commission shall take one of the following actions:

- **Rescission.** If the Commission finds the district has adequately remedied the deficiencies, the Commission shall rescind the notice of intent to initiate dissolution and no further action is required.
- **Dissolution.** If the Commission finds that the district has failed to remedy the deficiencies, the Commission may adopt a resolution to dissolve the district if the Commission also determines that the public service costs of the dissolution are likely

to be less than or substantially similar to the costs of alternative means of providing the service.

CONCLUSION

The District did make progress on addressing almost all of the governance concerns the Grand Jury had identified in the report. In addition, the Directors who have served on the DPMWD Board since 2021 should be proud that they have set the District on a more stable course even though some decisions were difficult. The successful Proposition 218 election paves the way towards beginning to fund necessary infrastructure maintenance, repair and installation. However, the number of infrastructure issues the District has, the significant issues with the groundwater wells and maintaining an adequate water supply and system capacity, the cost to address these necessary repairs and improvements, and the unsustainability of simply raising water rates to fund the necessary repair and replacement make the District's challenges daunting. As the 2022 MSR noted and reiterated in the MSR Addendum, the District is not viable as a stand-alone entity in the long term. With this in mind, now that the Proposition 218 rate increase is in place, the best course of action for the Board is to explore how to fund infrastructure repairs and replacement while protecting their ratepayers. Given the amount of money the State is willing to invest in the District should it consolidate, it is not an encouraging sign that the Board walked away from talks with SSWD.

LAFCo staff has worked with DPMWD to discuss a strategy to remedy the chronic deficiencies of the District. The Grand Jury Report, LAFCo's 2022 MSR, the MSR Addendum, and DPMWD independent studies demonstrate that the water infrastructure and the fire flow does not satisfy industry standards and California regulations. Since the District had been in discussions with SSWD, and those discussions were generally positive, LAFCo staff had hopes that DPMWD would work towards a mutually beneficial arrangement on its own. As noted earlier, the District's Board in October 2023 directed the discussions with SSWD to end. In LAFCo staff's opinion, this is a grave disservice to the District's customers given the numerous infrastructure challenges, the inadequate reliable water supply, and its finances are insufficient to make the District a stable standalone entity in the long run. As such, staff is recommending the Commission approve the MSR Addendum and the determinations and findings set forth in the MSR Addendum and adopt a resolution of intent to initiate dissolution of Del Paso Manor Water District. Attachment B of the staff memo provides an overview of the LAFCo process, including the protest thresholds that would if the Commission takes future action to dissolve the District following the 12-month remediation period.

At the DPMWD Board of Directors special meeting, held on April 16, 2024, LAFCo staff presented to the DPMWD Board on this item and what the Commission will consider at the May meeting. Near the conclusion of the special meeting, the DPMWD Board voted 3-1 to reinstate the discussions with SSWD about a possible joining of the two Districts.

CEQA

If the Commission approves staff's recommendation, it will approve the MSR Addendum and adopt a Resolution of Intent to Initiate Dissolution of the Del Paso Manor Water District. The Executive Officer is directed to file a Notice of Exemption based on the exemptions set forth in Sections 15306 due to information collection, and 15061(b)(3) the

common sense exemption. There will need to be a CEQA analysis with the dissolution action at the end of the remediation period should the Commission move forward with that option.

ATTACHMENTS

ATTACHMENT A	Municipal Service Review – Addendum
ATTACHMENT B	LAFCo’s ability to initiate dissolution subject to SB 938
ATTACHMENT C	Analysis of Statutory Considerations
ATTACHMENT D	Resolution LAFC-2024-06
ATTACHMENT E	CEQA – Draft Notice of Exemption

MUNICIPAL SERVICES

REVIEW for

DEL PASO MANOR WATER DISTRICT

ADDENDUM – MAY 2024



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Appendix A – Current DPMWD Rate Structure

1.0 INTRODUCTION

1.1 Role and Authority of LAFCo

Local Agency Formation Commissions (LAFCos) are independent regulatory commissions established by the State legislature in 1963 to encourage the orderly growth and development of local governmental agencies including cities and special districts. Today, there is a LAFCo in each of California’s 58 counties. Sacramento LAFCo is a seven-member commission comprised of two members of the Sacramento County Board of Supervisors, two City Council members (of which one seat is designated for the City of Sacramento), two Special District representatives, and one Public Member-At-Large. The Commission also includes one alternate member for each represented category.

LAFCo is responsible for implementing the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (“CKH Act”) (California Government Code Section 56000 et seq.) for purposes of facilitating changes in local governmental structure and boundaries that fosters orderly growth and development, promotes the efficient delivery of services, and encourages the preservation of open space and agricultural lands. Some of LAFCo’s duties include regulating jurisdictional boundary changes and the extension of municipal services. This includes city and special district annexations, incorporations/formations, consolidations, and other changes of organization. To help facilitate this role, LAFCo is also responsible for developing Municipal Service Reviews (MSRs) and Sphere of Influence (SOI) Updates.

Under the CKH Act, LAFCos are given a number of powers in order to conduct business and provide for the effective and efficient delivery of services. Specifically, under Government Code Section 56375(a)(2), LAFCo may initiate proposals by resolution of application for any of the following:

- (A) The consolidation of a district, as defined in Section 56036.
- (B) The dissolution of a district.
- (C) A merger.
- (D) The establishment of a subsidiary district.
- (E) The formation of a new district or districts.
- (F) The reorganization that includes any of the changes specified in (A) through (E).
- (G) The dissolution of an inactive district pursuant to Section 56879.
- (H) The dissolution of a district pursuant to Section 56375.1.

Further, under Section 56375.1(a)(1), the commission may initiate a proposal for dissolution of a district if at a public hearing for which notice has been published and posted, the commission approves, adopts, or accepts a study prepared pursuant to Section 56430 that includes a finding, based on a preponderance of the evidence, that one or more of the following conditions is met:

- (A) The district has one or more documented chronic service provision deficiencies that substantially deviate from industry or trade association standards or other government regulations and its board or management is not actively engaged in efforts to remediate the documented service deficiencies.
- (B) The district spent public funds in an unlawful or reckless manner inconsistent with the principal act or other statute governing the district and has not taken any action to prevent similar future spending.

- (C) The district has shown willful neglect by failing to consistently adhere to the California Public Records Act (Division 10 (commencing with Section 7920.000) of Title 1) and other public disclosure laws to which the agency is subject.
- (D) The district has failed to meet the minimum number of times required in its principal act in the prior calendar year and has taken no action to remediate the failures to ensure future meetings are conducted on a timely basis.
- (E) The district has consistently failed to perform timely audits in the prior three years, or failed to meet minimum financial requirements under Section 26909 over the prior five years as an alternative to performing an audit.
- (F) The district's recent annual audits show chronic issues with the district's fiscal controls and the district has taken no action to remediate the issues.

Further, Section 56375.1(a)(2) states: (A) At a public hearing for which notice has been published and posted, the commission adopts a resolution of intent to initiate dissolution based on one or more of the required findings in paragraph (1). The resolution shall provide a remediation period of not less than 12 months during which the district may take steps to remedy the specified deficiencies and also specify a date upon which the district shall provide the commission a mid-point report on such remediation efforts at a regularly scheduled commission meeting. (B) At the conclusion of the remediation period, at a public hearing for which notice has been published and posted, the commission shall take one of the following actions: (i) If the commission finds the district has adequately remedied the deficiencies, the commission shall rescind the notice of intent to initiate dissolution and no further action is required. (ii) If the commission finds that the district has failed to remedy the deficiencies, the commission may adopt a resolution to dissolve the district making the determinations in paragraph (1) and in subdivision (b) of Section 56881.

1.2 Purpose of MSR Addendum

A Municipal Service Review (MSR) was conducted in 2022 for the Del Paso Manor Water District (DPMWD or District) and adopted on December 7, 2022 in order to comply with a recommendation received as part of a Sacramento County Grand Jury investigation. The 2022 MSR documented a number of issues and concerns about the provision of water services and governance of the District including deferred maintenance and repair of infrastructure, lack of adequate funding to support the provision of services, and governance deficiencies. At the time, the District was working on these issues with the hope of improving water services and overall governance.

Since adoption of the 2022 MSR, additional information has been provided to LAFCo indicating that DPMWD has one or more documented chronic service provision deficiencies and is not actively engaged in efforts to remediate those deficiencies. This MSR Addendum is intended to further document District services, including any ongoing deficiencies, and make the required statement of determinations and findings under LAFCo law.

1.3 Environmental Review

The California Environmental Quality Act (CEQA, Public Resources Code §21000 et seq.) requires public agencies to evaluate the potential environmental effects of their actions. Municipal service reviews are intended to support sphere of influence updates, including the creation and amendment of SOI boundaries, as well as other government reorganization proposals. Such activities could influence future growth patterns, and, as such, are considered discretionary projects under CEQA. LAFCo has the principal responsibility for carrying out and approving this service review and, therefore, the principal responsibility for preparing CEQA documents as lead agency.

This service review addendum and determinations qualify for a statutory exemption as outlined in Public Resources Code §15061(b)(3). These activities are covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. This MSR Addendum has no possibility of causing a significant effect on the environment. Any future projects that make use of this service review and the information contained herein will be subject to separate environmental review under CEQA.

2.0 MUNICIPAL SERVICES

2.1 Agency Overview

The Del Paso Manor Water District (DPMWD or District) provides water services to the community of Arden/Arcade located in the area generally bounded by Marconi Avenue, Cottage Way, Eastern Avenue, and Watt Avenue. Del Paso Manor is largely a residential area but also includes Country Club Plaza and other shopping centers on its western edge in addition to AT&T corporate offices located on Kings Way. Most homes in the area were constructed in the early 1950s, which led to the establishment of DPMWD in 1956.

Table 1: Contact Information

Primary Contact	Adam Coyan, General Manager
E-mail	generalmanager@delpasomanorwd.org
Address	1817 Maryal Drive, Suite 200, Sacramento, CA 95864
Phone	(916) 487-8534
Website	www.delpasomanorwd.org

2.2 Water Services

The District obtains water from the Sacramento County North American Groundwater Subbasin (5-21.64). Within the District there are currently 1,798 residential and 100 commercial connections¹. There are no District storage facilities and the District does not treat groundwater that is pumped from the active wells. A small amount of chlorine is added to the system as a disinfectant and to prevent any potential contamination from transportation through the system.

Infrastructure

The water source and distribution infrastructure for DPMWD was constructed in the early 1950's. As such, much of the original infrastructure is at the end of or past its useful life. The 2022 MSR noted several ongoing service deficiencies including the following (please refer to the 2022 MSR – Section 3.1, pages 15-16):

- There is estimated to be approximately 3,000 linear feet of pipeline that is less than three-inch diameter which does not meet current regulations for water distribution mains (Title 22 of the California Code of Regulations) which specifies that water mains must be at least four inches in diameter².
- DPMWD has documented numerous system leaks both in water mains and on the customer side of connections. However, the District stated a dramatic decrease in total leaks by lowering operating pressure and coordinating well operation to prevent pressure spikes³.
- DPMWD remains largely unmetered since there are under 3,000 connections and is considered a small water supplier. Commercial and multi-family residential connections are metered while single-family residential services remain unmetered. Since the connections are not metered it is impossible

¹ HydroScience, TM - Section 1.2: Water Demands and Planning Criteria. May 26, 2021.

² HydroScience TM – Section 5.1: Water Main and Hydrant Existing Condition and Capacities. May 26, 2021.

³ DPMWD, General Manager, Personal Communication – Email. October 13, 2022.

to know whether there are leaks in the distribution mains and how much water is lost during transmission.

- Based on the District's firm yield and maximum daily demand and fire flow requirements, there is a water supply shortage of approximately 1,821 gallons per minute (gpm)⁴.
- Many of the District's wells were constructed in the 1940's and 1950's. As such, the system components are at or have exceeded their useful life and are at risk of failing.

Since December 2022, DPMWD has continued to experience system leaks including water main leaks. While regulating pressure may temporarily reduce stress on aging pipelines and reduce the number of leaks in the system, it is not a long term solution. The District will need to invest in substantial pipeline replacement projects to bring the system into good working order. Of particular concern is the area around Del Paso Manor Park which is reported to have 5.25 miles of steel pipeline which is at a high risk for corrosion, leaks, and failure⁵. At roughly \$2 million per mile for replacement, this would cost the District over \$10 million.

SB 552 passed on September 23, 2021 made several changes to requirements for small water suppliers as part of drought planning for small water suppliers and rural communities. The law now requires that small water suppliers, like DPMWD, install meters on all of their connections by 2032. It is currently estimated at \$5 - \$6 million for the District. This will be an added cost that was not accounted for in the 2022 MSR and adds additional financial burden to the District and its ratepayers. Alternatively, the District could choose to adopt and implement an Urban Water Management Plan (UWMP) per Water Code Section 10609.63.

Since December 2022, additional wells have gone offline or are no longer useable due to contamination or OSHA regulations (see Table 2). In January 2024, the motor for Well #4 failed completely and now requires replacement⁶. According to the District's 2009 Master Plan prepared by Kennedy Jenks, the pump for Well #4 was running above its service capacity since 1999⁷. This means that the pump has been running above its capacity for almost 25 years. This type of use puts added stress on the motor and shortens its overall useful life which ultimately led to its failure.

DPMWD also must meet regulations pertaining to source capacity including California Code of Regulations Title 22, Section 64554(c) which requires that groundwater systems be able to meet their MDD with their highest-capacity source offline, and Section 64554(a) which requires that systems with 1,000 or more service connections be able to meet four hours of peak hourly demand with source capacity, storage capacity, and/or emergency source connections. Currently, with Well #9 offline, DPMWD can only produce 2,060 gpm which is less than their MDD. Additionally, the peak hourly demand for the District is 4,700 gpm without fire flows. The District is unable to meet this demand with their source capacity and do not have any water storage⁸.

⁴ HydroScience TM – Section 4.1: Groundwater Supply. May 26, 2021.

⁵ Forsgren Associates Inc, Technical Memorandum, Distribution System Risk Assessment – Indirect Method, Pipe Damage Score – Area 1. November 30, 2022. The area around Del Paso Manor Park and Elementary School is demarked as Area 1 for the purposes of the technical memo.

⁶ DPMWD, General Manager, Personal Communication. January 23, 2024.

⁷ Kennedy Jenks, Del Paso Manor Water District Master Plan. Section 6.3.4 Well No. 4 (pg. 37). July 24, 2009.

⁸ DPMWD, Special Board Meeting Item 8.A – Sacramento LAFCo Formal Public Hearing Notice. April 16, 2024.

Table 2: DPMWD Groundwater Wells⁹

Well No.	Year Built	Age in Years	Active Pumping Capacity	Well Status/ Comments
2	1948	76	--	Removed from service and capped.
3	1949	75	--	Permitted Use is Standby: 1,2,3 TCP MCL Exceeded.
4	1951	73	--	Complete motor failure in January 2024.
5	1955	69	460 gpm	Online.
6B	2014	10	1,100 gpm	Primary well with standby generator. Used during low winter demands (down to 100 gpm).
7	1956	68	--	At risk of contamination from Bridgestone plume. Unable to operate under OSHA regulations for confined spaces.
8	1977	47	--	PCE detected. Well offline. Expected complete loss.
9	2011	13	1,500 gpm	Primary well.

Fire Flows

DPMWD is responsible for providing fire flows of 3,500 gal/min for the AT&T commercial building in addition to the District's regular Maximum Daily Demand (MDD) of 3,130 gpm¹⁰. Based on the District's current infrastructure, prior to the failure of Well #4, and legal production rate of 3,560 gpm, there is a shortage of 3,070 gal/min. Even if the District were to utilize all of its currently connected wells, there would not be enough water to meet Sacramento County fire flow standards. Additionally, the District would have to utilize contaminated water which may result in additional customer noticing. This is a continuing deficiency for DPMWD as noted by the 2022 MSR and special studies prepared for the District.

The previously adopted MSR stated that the District was able to meet fire flow requirements by relying on the interties with SSWD. However, SB 552 passed on September 23, 2021 made several changes to requirements for small water suppliers to reduce risks of inadequate water supply during water shortage events. California Water Code Section 10609.62 now requires a small water supplier to have source system capacity, treatment system capacity if necessary, and distribution system capacity to meet fire flow requirements by January 1, 2032. This means that the water system needs to be self-reliant for fire flows. As such, DPMWD will no longer be able to use additional water from SSWD to meet its fire flow requirements. As noted above, the District could alternatively implement an UWMP.

In order to increase water capacity for the District, existing wells would have to be refurbished or new wells would have to be drilled. As of October 2023, it was estimated that refurbishment of Well #2 would cost approximately \$837,000¹¹. This work may allow the well to produce up to 600 gpm but would not increase

⁹ HydroScience, Technical Memorandum (TM) for Del Paso Manor Water District – Table 4-1: Groundwater Supply and Active Pumping Capacity. May 26, 2021. Updated based on additional information from General Manager in March 2024.

¹⁰ DPMWD, Board Meeting Agenda Item No. 8.F Staff Report, October 2, 2023.

¹¹ DPMWD, Board Meeting Agenda Item No. 8.F Staff Report, October 2, 2023.

the original capacity of the well. Even with this work, the District would still be short roughly 2,400 gpm for fire flows.

3.0 GOVERNANCE AND FINANCE

3.1 Board of Directors

The Board of Directors adopted Resolution 23-1002-2 at the October 2, 2023 Board meeting to change the day and time of the regular Board meetings. Regular Board meetings are now held the first Tuesday of the month, beginning at 6:00pm at 1817 Maryal Drive, Suite 300, Sacramento, CA. Should a regular meeting fall on a holiday, that meeting would be held on the Tuesday immediately following the Monday holiday. The current roster of elected Board Members is provided in Table 3. There is one vacant position due to former Board President Ryan Saunders' resignation in February 2024.

Table 3: DPMWD Board of Directors April 2024

Board Member	Title	Term
Carl Dolk	Vice President	2022-2024
Robert J Matteoli	Director	2020-2024
David Ross	Director	2022-2026
Gwynne Pratt	Director	2022-2026
VACANT	Director	2022-2026

Over the last several years there has been a frequent turnover of the Board Members and staff. According to the 2021 Grand Jury report, over half of the Board resigned in September 2021. Prior to that there was one Board Member that resigned in November 2017. Additionally, the District has seen five General Managers in the span of four years with the prior General Manager leaving in February 2023^{12,13}. Inconsistent leadership within a district can lead to uninformed decision making, duplication of efforts when new staff comes on, and inefficient use of district funds. A high turnover of management personnel can also be an indicator of poor governance as employees may leave if they feel the governing body is making poor decisions relating to district infrastructure, finances, and/or communication.

3.2 Financial Overview

DPMWD has continued to adopt annual budgets and provide for regular audits of District finances. Table 4 below has been updated to include the most recent audit available on the District's website. In FY 2021-22, DPMWD saw a net gain of \$235,556 which is less than the previous year. This is due to a small decrease in water revenues and an increase in distribution, administrative, and depreciation costs. The District's overall net position also increased by \$222,603 from FY 2020-21 to FY 2021-22.

¹² Sacramento County Grand Jury, Del Paso Manor Water District Flooded with Public Safety Dangers. November 5, 2021.

¹³ DPMWD, Regular Meeting Minutes for February 21, 2023 – Items 12.A and 12.B.

Table 4: Audit Summary

Category	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
<i>Operating Revenue</i>						
Water Sales	\$1,389,987	\$1,403,722	\$2,090,168	\$2,019,838	\$2,025,800	\$2,010,070
Other Revenue	\$0	\$0	\$0	\$131	\$13,374	\$14,165
Total Operating Revenue	\$1,389,987	\$1,403,722	\$2,090,168	\$2,019,969	\$2,039,174	\$2,024,235
<i>Operating Expenses</i>						
Source of Supply	\$103,605	\$101,814	\$0	\$0	\$0	\$0
Water Treatment	\$5,250	\$4,488	\$0	\$0	\$0	\$0
Transmission and Distribution	\$297,616	\$306,820	\$265,398	\$360,646	\$297,845	\$310,472
Administration and General	\$589,925	\$669,346	\$651,676	\$636,620	\$657,392	\$963,263
Depreciation	\$219,899	\$214,429	\$212,081	\$211,550	\$200,526	\$217,217
Pumping	\$0	\$0	\$111,090	\$76,051	\$103,935	\$97,823
Water Purchases	\$0	\$0	\$5,738	\$5,942	\$6,168	\$6,371
Pension Expense Adjustment	\$0	\$0	\$43,582	\$98,044	\$63,418	\$18,877
Other Post-Employment Benefits	\$0	\$0	\$24,016	\$101,824	\$21,849	\$27,078
Total Operating Expenses	\$1,216,259	\$1,296,897	\$1,313,581	\$1,490,677	\$1,351,133	\$1,641,101
<i>Nonoperating Revenue (Expenses)</i>						
Interest Income	\$4,762	\$9,693	\$16,410	\$24,122	\$11,624	\$8,656
Gain on Sale of Assets	\$1,111	\$0	\$4,946	\$0	\$0	\$0
Interest Expense	(\$266,713)	(\$263,038)	(\$286,640)	(\$280,418)	(\$176,583)	(\$173,134)
Debt Issuance Costs	\$0	\$0	\$0	(\$91,500)	\$0	\$0
Donated Capital	\$0	\$0	\$0	\$0	\$0	\$16,900
Total Nonoperating Revenues (Expenses)	(\$260,840)	(\$253,345)	(\$265,284)	(\$347,796)	(\$164,959)	(\$147,578)
Net Gain/(Loss)	(\$87,148)	(\$146,520)	\$511,303	\$181,496	\$523,082	\$235,556

Rate Structure

DPMWD successfully conducted a Proposition 218 process in 2023 and implemented a new rate structure (Appendix A). However, the increase in rates will likely not provide sufficient income to fund necessary capital improvement projects. The rate study assumed a \$9.23 debt service in FY23-24 to fund urgent CIP needs. However, by FY2027-28, capital expenditures were estimated to only be \$270,000 per year¹⁴. Based on the documented needs of the District, this would be insufficient to implement a long-term CIP list and bring District infrastructure into good working order.

Capital Improvement Funding

Based on prioritized CIP projects provided by Forsgren Associates and potential ratepayer affordability, the DPMWD Board approved a list of priority CIP projects totaling \$9.23 million. These projects were used as the basis for the 2023 rate study and were anticipated to be funded with ratepayer revenue over a five-year period. These projects include:

¹⁴ Bartel Wells Associates, DPMWD Water Rate Study Draft Report. August 8, 2023.

- Well 7 Rehabilitation \$2,986,200
- Well 4 Rehabilitation \$958,000
- Hydraulic Model \$40,000
- 2D-3 Pipeline Replacement \$5,250,000

Since the District has so far been unsuccessful at obtaining grant funding to support capital improvement projects, two funding options have been presented to the Board for consideration in November 2023. A \$9 million bond measure could be utilized that would eventually cost \$18 million to pay back with interest, or a \$9 million loan that would cost \$12 million to pay back with interest. The District Board is considering pursuing the loan option but if DPMWD consolidates with another District, the potential grant funding for consolidation would not be allowed to cover the prior loan amount which would have to be paid back separately over time¹⁵.

The resulting rate increases from the Proposition 218 process will increase residential rates by approximately 22% from November 2023 to July 2027. However, these rates do not account for the additional infrastructure needs of the Districts including the meter and fire flow requirements set by SB 552. As of December 2022, there was an estimated cost of \$5 - \$6 million to install residential meters for DPMWD¹⁶. The cost to bring the District into compliance with fire flow requirements is unknown but could potentially cost millions of dollars in new or refurbished wells and pipeline replacements.

Due to the small size of the District and limited customer base, rates would have to be increased substantially above those of surrounding water providers in order to cover the costs of repair and maintenance for District infrastructure. This would place an unnecessary and avoidable burden on rate payers within DPMWD.

However, if DPMWD consolidates with another water service provider, they would be eligible for \$111 million in State grants and principal forgiveness funding. Additionally, the State would provide funding for an engineering report and consolidation feasibility study. As such, it is recommend that DPMWD pursue consolidation with an adjacent water service provider in order to obtain the necessary funding to repair water infrastructure and reduce the cost burden of ratepayers.

¹⁵ DPMWD, General Manager Personal Communication. April 8, 2024. Email.

¹⁶ SSWD-DPMWD, 2x2 Committee Meeting, Agenda Item 5 Staff Report: Combination Benefits – Rates, Costs, Operations. December 6, 2022.

4.0 DEL PASO MANOR MSR DETERMINATIONS 2024

As set forth in Section 56430(a) of the CKH Act- In order to prepare and to update the SOI in accordance with Section 56425, the commission shall conduct a service review of the municipal services provided in the county or other appropriate area designated by the commission. The commission shall include in the area designated for a service review the county, the region, the sub-region, or any other geographic area as is appropriate for an analysis of the service or services to be reviewed and shall prepare a written statement of its determinations. The previously adopted 2022 determinations have been updated, as provided below, to reflect new information and regulations.

(1) Growth and population projections for the affected area

- a) The 2020 population of DPMWD was estimated to be 4,854 based on decennial census data. As the District is substantially built-out, the population is not anticipated to increase substantially over the next five to ten years.

(2) The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence

- a) The Arden-Arcade CDP, which encompasses the District, can be considered a DUC with a reported 2020 MHI of \$78,672 which is 67% of the statewide MHI. Areas surrounding the District are adequately provided water service by SSWD and are unlikely to request service from DPMWD.
- b) Based on available block group income data for DPMWD, the MHI is estimate to be \$81,437 which is 103% of the statewide MHI. As such, the District does not qualify as a DUC.

(3) Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies

- a) The Average Day Demand is calculated at 698 gpm or 1.0 MGD and the Maximum Day Demand (MDD) has been calculated to be 1,396 gpm. Using the District's current capacity of 3,060 gpm,¹⁷ it can be estimated that the District is utilizing roughly 46% of its capacity during maximum daily demand.
- b) Since the District does not have water storage, State and County regulations require that there be enough capacity to provide for maximum daily demand and maximum fire flow demand which for DPMWD equals 6,630 gpm. As such, the District has a shortage of 3,070 gpm once Well #4 is repaired and an existing shortage of 3,570 gpm while Well #4 is out of service.
- c) The District's system is aging and several miles of water mains need to be replaced. Most notably, there is approximately 3,000 feet of mains that need to be upgraded to a minimum of 4" diameter, and approximately 2.9 miles of steel pipe that are prone to rapid erosion and leaks. Additionally, well infrastructure has been declining over the last two decades. Since the District neglected to invest in regular repair and maintenance of these facilities, several wells are currently offline. This neglect also resulted in the failure of the pump for Well #4 which had been running above capacity for almost 25 years.
- d) There are known and unknown groundwater contamination sites surrounding the District. This contamination is currently affecting two of the District's wells. The District is looking into potential

¹⁷ The 2022 MSR noted that the District's overall capacity was 3,773 gpm. The capacity has decreased due to the failure of Well #4 and the inability to use other wells due to contamination or OSHA constraints. This is explained in Section 2.2 on page 8, paragraph 3 of this Addendum. Table 2 provides a summary of the current capacity which is 3,060 gpm.

carbon filtration in order to bring these wells back online. However, rehabilitation of these wells will come at a great cost to ratepayers and may not provide enough source capacity to meet current State and County regulations.

(4) Financing ability of agencies to provide services

- a) The District currently adopts an annual budget and conducts annual audits in accordance with water district law.
- b) Over the last four fiscal years reviewed (FY2018-19 to FY 2020-21) the District saw a net gain of \$181,000 to \$523,000. Additionally, the District's overall net position increased \$222,603 from FY 2020-21 to FY 2021-22.
- c) While the District has seen a net increase over the last three fiscal years reviewed, during that time little funding was provided for system repairs and replacements. As of March 2022, it was estimated that the District needs approximately \$52 million for well rehabilitation and water main replacements. Since then, new regulations requiring meter installation and self-reliance for fire flows have been signed into law. Meter replacement for the District is estimated at \$5 - \$6 million and increased source capacity for fire flows is currently unknown but likely to cost several million dollars.
- d) Based on the amount of system repairs that are needed, the District currently does not have enough revenues to support a capital improvement program that will bring District infrastructure into good working order and meet current State and County regulations. While the District was able to successfully complete a Proposition 218 process in 2023, the rate increases only cover the cost of four capital improvement projects totaling \$9.23 million.
- e) DPMWD has been unsuccessful at obtaining grant funding to support infrastructure improvements. Based on the District's lack of consistent governance and management, and the level of neglect that has been exhibited over the last two decades, it is unlikely that they will be successful in obtaining grant funding in the future.
- f) Based on the available evidence, the District does not have the financial ability to provide adequate services to customers. The amount of rate increase that would be required to cover infrastructure needs would create an unnecessary and avoidable burden on rate payers.

(5) Status of and, opportunities for, shared facilities

- a) DPMWD has three interties with SSWD that have been upgraded to allow automatic connection when water pressure drops substantially.
- b) DPMWD and SSWD were previously holding 2x2 meetings to assess the potential for reorganization into a single District. However, the Board of Directors for DPMWD voted to end discussions with SSWD in order to pursue a Proposition 218 process and remain an independent district with hyperlocal governance.

(6) Accountability for community service needs, including governmental structure and operational efficiencies

- a) The District Board now participates regularly in ethics training (AB1234) and sexual harassment prevention training (AB1825). The Board has also participated in Brown Act training to help ensure transparency and accessibility while conducting District business.

- b) The District maintains a website in compliance with SB 929. This includes access to District budgets and audits, contact information, and Board meeting information, agendas, and minutes.
- c) The District previously responded to the Grand Jury Report and has taken steps to correct identified deficiencies and implement recommendations regarding transparency and governance.
- d) There has been a high turnover rate for the Board of Directors and upper management in the last several years with half of the Board resigning in September 2021, and the recent resignation of the Board President in February 2024. Additionally, the District has had five General Managers in the last four years. This has created instability for the District and is an indicator of poor governance.

(7) Any other matter related to effective or efficient service delivery

- a) Based on the documented ongoing deficiencies with the District including significant capacity and infrastructure needs, inability to finance services, and lack of sound governance, DPMWD's has chronic service deficiencies that substantially deviate from applicable government regulations and community standards for water districts providing residential and commercial water service within Sacramento County. Although the District's Board and upper management successfully advanced a Proposition 218 rate increase in 2023, there remains no viable plans or efforts to address the significant documented service deficiencies or to remedy all of the chronic infrastructure needs. As such, it is recommended that the District be dissolved and a successor agency be named to take over the provision of water services in the area.

APPENDIX A

DEL PASO MANOR WATER DISTRICT CURRENT RATES AND FEES

Water Rate Charges Approved 09/18/2023 (Effective 11/01/2023):

Single Family O&M Rate, \$ per Month	Current	11/1/2023	7/1/2024	7/1/2025	7/1/2026	7/1/2027
0 - 5,000 sq. ft. lot	\$26.90	\$41.70	\$43.78	\$45.97	\$48.27	\$50.68
5,001 - 8,000 sq. ft. lot	\$35.20	\$54.56	\$57.29	\$60.15	\$63.16	\$66.32
8,001 - 11,000 sq. ft. lot	\$41.40	\$64.17	\$67.38	\$70.75	\$74.28	\$78.00
11,001 - 14,000 sq. ft. lot	\$47.60	\$73.78	\$77.47	\$81.34	\$85.41	\$89.68
14,001 - 17,000 sq. ft. lot	\$53.80	\$83.39	\$87.56	\$91.94	\$96.53	\$101.36
17,001 - 20,000 sq. ft. lot	\$60.05	\$93.08	\$97.73	\$102.62	\$107.75	\$113.14
Over 20,000 sq. ft. lot	\$60.05	\$93.08	\$97.73	\$102.62	\$107.75	\$113.14
Per 1k sq. ft. of lot above 20k	\$2.07	\$3.21	\$3.37	\$3.54	\$3.71	\$3.90
Duplex/Multi-Family O&M Rate, \$ per Month	Current	11/1/2023	7/1/2024	7/1/2025	7/1/2026	7/1/2027
5,001 - 8,000 sq. ft. lot	\$56.90	\$88.20	\$92.60	\$97.23	\$102.10	\$107.20
8,001 - 11,000 sq. ft. lot	\$63.15	\$97.88	\$102.78	\$107.92	\$113.31	\$118.98
11,001 - 14,000 sq. ft. lot	\$69.35	\$107.49	\$112.87	\$118.51	\$124.44	\$130.66
Capital Improvement Plan Charge (CIP Charge)	Current	11/1/2023	7/1/2024	7/1/2025	7/1/2026	7/1/2027
Residential, up to 1"	\$23.05	\$23.05	\$44.17	\$44.17	\$44.17	\$44.17
Residential, 1.25"	\$28.81	\$34.58	\$66.26	\$66.26	\$66.26	\$66.26
Residential, 1.5"	\$34.58	\$46.10	\$88.35	\$88.35	\$88.35	\$88.35
Residential, 2"	\$46.10	\$73.76	\$141.36	\$141.36	\$141.36	\$141.36
Duplex	\$46.10	\$46.10	\$88.35	\$88.35	\$88.35	\$88.35
Residential over 1" (per 1")	\$23.05	\$23.05	\$44.17	\$44.17	\$44.17	\$44.17
Additional Connection. per 1"	\$23.05	\$23.05	\$44.17	\$44.17	\$44.17	\$44.17

Table 2. Proposed Commercial Service (Monthly Charges):

Flat Rate Commercial, \$ per Month	Current	11/1/2023	7/1/2024	7/1/2025	7/1/2026	7/1/2027
3/4" - 5/8"	\$45.50	\$70.53	\$74.05	\$77.75	\$81.64	\$85.72
1"	\$62.85	\$97.42	\$102.29	\$107.40	\$112.77	\$118.41
1 1/2"	\$90.90	\$140.90	\$147.94	\$155.34	\$163.10	\$171.26
2"	\$184.00	\$285.20	\$299.46	\$314.43	\$330.15	\$346.66
Volumetric Rate, \$ per CCF	Current	11/1/2023	7/1/2024	7/1/2025	7/1/2026	7/1/2027
\$ per 100 cubic ft	\$1.39	\$2.15	\$2.26	\$2.38	\$2.49	\$2.62
Meter Readiness-to-Service Charge, \$ per Month	Current	11/1/2023	7/1/2024	7/1/2025	7/1/2026	7/1/2027
5/8"	\$15.10	\$23.41	\$24.58	\$25.80	\$27.09	\$28.45
1"	\$37.80	\$58.59	\$61.52	\$64.60	\$67.83	\$71.22
1 1/2"	\$75.60	\$117.18	\$123.04	\$129.19	\$135.65	\$142.43
2"	\$120.95	\$187.47	\$196.85	\$206.69	\$217.02	\$227.87
3"	\$226.80	\$351.54	\$369.12	\$387.57	\$406.95	\$427.30
4"	\$378.00	\$585.90	\$615.20	\$645.95	\$678.25	\$712.17
6"	\$756.00	\$1,171.80	\$1,230.39	\$1,291.91	\$1,356.50	\$1,424.33
8"	\$1,209.60	\$1,874.88	\$1,968.62	\$2,067.06	\$2,170.41	\$2,278.93
10"	\$1,738.80	\$2,695.14	\$2,829.90	\$2,971.39	\$3,119.96	\$3,275.96
Capital Improvement Plan Charge (CIP Charge)	Current	11/1/2023	7/1/2024	7/1/2025	7/1/2026	7/1/2027
Commercial up to 1"	\$23.05	\$23.05	\$44.17	\$44.17	\$44.17	\$44.17
Commercial 1 1/2"	\$46.10	\$46.10	\$88.35	\$88.35	\$88.35	\$88.35
Commercial 2"	\$73.75	\$73.75	\$141.34	\$141.34	\$141.34	\$141.34
Commercial 3"	\$138.30	\$138.30	\$265.05	\$265.05	\$265.05	\$265.05
Commercial 4"	\$230.50	\$230.50	\$441.75	\$441.75	\$441.75	\$441.75
Commercial 6"	\$461.00	\$461.00	\$883.50	\$883.50	\$883.50	\$883.50
Temporary Construction Water, \$ per CCF	Current	11/1/2023	7/1/2024	7/1/2025	7/1/2026	7/1/2027
\$ per 100 cubic ft	\$1.43	\$2.15	\$2.26	\$2.38	\$2.49	\$2.62
Fire Sprinkler Readiness Rate, \$ per Month	Current	11/1/2023	7/1/2024	7/1/2025	7/1/2026	7/1/2027
4"	\$75.60	\$117.18	\$123.04	\$129.19	\$135.65	\$142.43
6"	\$151.20	\$234.36	\$246.08	\$258.38	\$271.30	\$284.87
8"	\$241.90	\$374.95	\$393.69	\$413.38	\$434.05	\$455.75
10"	\$347.75	\$539.01	\$565.96	\$594.26	\$623.97	\$655.17

COMPARISON OF PATHS FOR LAFCO TO INITIATE DISSOLUTION

	LAFCo Initiated Dissolution SB 938	LAFCo Initiated Dissolution (traditional statutes)					
Qualifier for Initiation	LAFCo Initiate dissolution if the Commission can demonstrate that the district has one or more documented chronic service provision deficiencies that substantially deviate from industry or trade association standards or other government regulations and its board or management is not actively engaged in efforts to remediate the documented service deficiencies. 56375.1(a)(1)	LAFCo initiates dissolution subject to 56375(a)(2)(B)					
Resolution of Application	Commission adopts resolution to initiate dissolution	Commission adopts resolution to dissolve					
Study Required	Requires approval at noticed hearing of study pursuant to 56430 (MSR) with above findings based on preponderance of the evidence of the chronic service provision deficiencies and that the district is not actively engaged in efforts to remediate the documented service deficiencies.	Requires initiation to be consistent with recommendation or conclusion of a study pursuant to 56378 (Commission study of existing services), 56425 (SOI review), or 56430 (MSR). 56375(a)(3)					
Remediation Period	<table border="1" style="width: 100%;"> <tr> <td colspan="2">Remediation Period <i>12 months afforded by statute</i></td> </tr> <tr> <td rowspan="2">Deficiency Remedied?</td> <td>Yes Dissolution Rescinded</td> </tr> <tr> <td>No Hearing conducted to consider dissolution</td> </tr> </table>	Remediation Period <i>12 months afforded by statute</i>		Deficiency Remedied?	Yes Dissolution Rescinded	No Hearing conducted to consider dissolution	No Remediation Period
Remediation Period <i>12 months afforded by statute</i>							
Deficiency Remedied?	Yes Dissolution Rescinded						
	No Hearing conducted to consider dissolution						
Hearing to Dissolve	LAFCo Hearing (21-day advanced notice required)	LAFCo Hearing (21-day advanced notice required)					
Required Dissolution Findings	<p>Requires renewed 56375.1(a)(1) determination of chronic service deficiencies.</p> <p>Requires determination that (1) public service costs of dissolution are likely to be less than or substantially similar to the costs of alternative means of providing the service 56375.1(a)(2)(B)(ii),</p>	Requires determination that (1) public service costs of dissolution are likely to be less than or substantially similar to the costs of alternative means of providing the service; and (2) the dissolution promotes public success and accountability for community services needs and financial resources. 56375(a)(3), 56881(b)					
Protest Hearing	Conducting Authority – 25% protest threshold	Conducting Authority – 10% protest threshold					
	57077.6(a)	57077.6(b)					

	<p>For any proposal that was initiated by the commission pursuant to Section 56375.1, the commission shall forward the change of organization or reorganization for confirmation by the voters if the commission finds written protests have been submitted that meet the applicable protest thresholds set forth in Section 57092.</p>	<p>For any proposal that was initiated by the commission pursuant to subparagraphs (A) through (G), inclusive, of paragraph (2) of subdivision (a) of Section 56375, the commission shall forward the change of organization or reorganization for confirmation by the voters if the commission finds written protests have been submitted that meet the applicable protest thresholds set forth in Section 57094.</p>
	<p>(a) In the case of inhabited territory, protests have been signed by either of the following:</p> <p>(1) At least 25 percent of the number of landowners within the affected territory who own at least 25 percent of the assessed value of land within the affected territory.</p> <p>(2) At least 25 percent of the voters entitled to vote as a result of residing within, or owning land within, the affected territory.</p> <p>(b) In the case of a landowner-voter district, that the territory is uninhabited and that protests have been signed by at least 25 percent of the number of landowners within the affected territory owning at least 25 percent of the assessed value of land within the affected territory. Section 57092</p>	<p>(a) In the case of inhabited territory, protests have been signed by either of the following:</p> <p>(1) At least 10 percent of the number of landowners within the affected territory who own at least 10 percent of the assessed value of land within the affected territory. If the number of landowners is less than 300, the protests shall be by at least 25 percent of landowners owning at least 25 percent of the assessed value of land within the affected territory.</p> <p>(2) At least 10 percent of the voters entitled to vote as a result of residing within, or owning land within, the affected territory. If less than 300 voters then 25 percent of voters entitled to vote</p> <p>(b) In the case of a landowner-voter district, that the territory is uninhabited and that protests have been signed by at least 10 percent of the number of landowners within the affected territory owning at least 10 percent of the assessed value of land within the affected territory. If the number of landowners is less than 300, the protests shall be 25% of the landowners entitled to vote. Section 57092</p>

ATTACHMENT C

DPMWD - LAFCo Initiated Dissolution
LAFCo Project No.: 2024-01
May 1, 2024

ANALYSIS OF STATUTORY CONSIDERATIONS

At a public hearing for which notice has been published and posted, the commission approves, adopts, or accepts a study prepared pursuant to Section 56430 that includes a finding, based on a preponderance of the evidence, that one or more of the following conditions is met: **[§56375.1(A)]** A commission may initiate a proposal for the dissolution of a district that is eligible for the protest threshold under Section 57093 if both of the following conditions are satisfied: . A definition of the metrics used to evaluate the factors is described below.

FACTOR	CONSISTENCY
<p>The district has one or more documented chronic service provision deficiencies that substantially deviate from industry or trade association standards or other government regulations and its board or management is not actively engaged in efforts to remediate the documented service deficiencies. [§56375.1(A)]</p>	<p>The 2022 MSR together with the MSR Addendum demonstrate that the district is deviating from industry standards and California regulations. This is also supported by other studies. The Board’s method of remediating the documented deficiencies has not adequately resolved the deficits.</p>
<p>The district spent public funds in an unlawful or reckless manner inconsistent with the principal act or other statute governing the district and has not taken any action to prevent similar future spending. [§56375.1(B)]</p>	<p>District is in good standing.</p>
<p>The district has shown willful neglect by failing to consistently adhere to the California Public Records Act (Division 10 (commencing with Section 7920.000) of Title 1) and other public disclosure laws to which the agency is subject. [§56375.1(C)]</p>	<p>District is in good standing</p>
<p>The district has failed to meet the minimum number of times required in its principal act in the prior calendar year and has taken no action to remediate the failures to ensure future meetings are conducted on a timely basis. [§56375.1(D)]</p>	<p>District is in good standing.</p>
<p>The district has consistently failed to perform timely audits in the prior three years, or failed to meet minimum financial</p>	<p>District is in good standing.</p>

ATTACHMENT C

DPMWD - LAFCo Initiated Dissolution

LAFCo Project No.: 2024-01

May 1, 2024

requirements under Section 26909 over the prior five years as an alternative to performing an audit. [\$56375.1(E)]	
The district's recent annual audits show chronic issues with the district's fiscal controls and the district has taken no action to remediate the issues. [\$56375.1(F)]	District is in good standing.
At a public hearing for which notice has been published and posted, the commission adopts a resolution of intent to initiate dissolution based on one or more of the required findings in paragraph (1). The resolution shall provide a [\$56375.1(2)(A)]	Commission Action Required



RESOLUTION NO. L AFC 2024-06

**THE SACRAMENTO LOCAL AGENCY FORMATION COMMISSION
*RESOLUTION OF INTENT TO INITIATE THE DISSOLUTION
OF THE DEL PASO MANOR WATER DISTRICT
(L AFC PROJECT #2024-01)***

WHEREAS, the Sacramento Local Agency Formation Commission (the "Commission") is responsible for regulating boundary changes affecting cities and special districts pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 ("Act"); and

WHEREAS, Del Paso Manor Water District ("Del Paso Manor WD," "DPMWD" or "District") is a single-purpose special district, formed in 1956 pursuant to the County Water District Law (Wat. Code §§ 30,000 *et seq.*) to provide municipal water services to the community located in the greater Arden/Arcade area, generally bounded by Marconi Avenue, Cottage Way, Eastern Avenue, and Watt Avenue; and

WHEREAS, Del Paso Manor WD's service area is largely residential, but it also includes the commercial areas of Country Club Plaza and other shopping centers. DPMWD encompasses 672 acres or 1,790 parcels; and,

WHEREAS, in January 2021, the Sacramento County Grand Jury conducted an investigation of Del Paso Manor Water District that culminated in a report released on November 5, 2021; and

WHEREAS, the report concluded that there were "serious concerns with the DPMWD's operational safety and management practices" that were supported by a series of findings. The report indicated that a Municipal Service Review should be conducted for the District; and

WHEREAS, the Sacramento Grand Jury encouraged the Commission to review DPMWD's governance, finances and its ability to provide services; and

WHEREAS, on December 7, 2022, Sacramento LAFCo adopted a municipal service review (MSR) report for the DPMWD which included identifying certain public infrastructure and facility needs and deficiencies; and

WHEREAS, the adopted 2022 MSR states that "an abbreviated MSR will be conducted in three years that focuses on system repairs and upgrades, financial status, and governance standing;" and

WHEREAS, that abbreviated MSR would take place on or around December 2025; and

WHEREAS, on June 30, 2022, the Directors of DPMWD authorized the initiation of a merger discussion with the adjacent Sacramento Suburban Water District. ("SSWD"). On July 1, 2022, SSWD received a letter from DPMWD recommending that the SSWD Board of Directors approve and assemble a 2x2 Committee to discuss a potential merger between the two agencies; and

WHEREAS, the 2022 MSR encouraged the District to continue its discussions with SSWD and keep LAFCO informed; and

WHEREAS, the LAFCo staff has worked with DPMWD to discuss a strategy to remedy the chronic deficiencies of the District; and

WHEREAS, at a District Board meeting held on October 2, 2023, DPMWD pulled out of their discussions with SSWD, and instead chose to fund infrastructure improvements through an increase in water rates through Proposition 218; and

WHEREAS, on September 18, 2023 DPMWD adopted a resolution to increase water rates consistent with Proposition 218 to raise funds for \$9 million in capital infrastructure repairs and replacements over a five-year period; and

WHEREAS, the DPMWD Board of Directors thereafter received financial consultation for two options available to the District to immediately finance a portion of the necessary infrastructure and facility needs which include a bond for \$9 million that will cost \$18 million to pay back with interest; or a loan for \$4 million that will cost \$9 million to pay back with interest; and

WHEREAS, it is estimated that the District's infrastructure needs in order to address existing service and infrastructure deficiencies and to meet California regulatory requirements is estimated to be at least between \$40-52 million, far exceed the amount of money that the District can currently finance independently; and

WHEREAS, DPMWD and its ratepayers are in an untenable financial position if Del Paso Manor WD were to finance all of its infrastructure needs and deficiencies on its own; and

WHEREAS, according to the State Water Resources Control Board indicated that the District is eligible for approximately \$111 million in State grants and Principal Forgiveness funding should DPMWD consolidate with another water agency; and

WHEREAS, pursuant to Government Code 56375.1, a Commission may initiate a proposal for the dissolution of a district if at a public hearing the Commission approves, adopts, or accepts a study prepared pursuant to Government Code 56430; and

WHEREAS, study must demonstrate that there is a preponderance of evidence, that the district has one or more documented chronic service provision deficiencies that substantially deviate from industry or trade association standards or other government regulations and its board or management is not actively engaged in efforts to remediate the documented service deficiencies; and

WHEREAS, the Commission evaluated updated and new information from the District and prepared an update to the District's 2022 MSR to reflect changed circumstances and increasing and ongoing deficiencies with service provided by the District;

WHEREAS, as set forth in the updated MSR the existing chronic service issues include the following:

- There is estimated to be approximately 3,000 linear feet of pipeline that is less than three-inch diameter which does not meet current regulations for water distribution mains (Title 22 of the

California Code of Regulations) which specifies that water mains must be at least four inches in diameter;

- DPMWD has documented numerous system leaks both in water mains and on the customer side of connections. The District stated a dramatic decrease in total leaks by lowering operating pressure and coordinating well operation to prevent pressure spikes. Since the District neglected to invest in regular repair and maintenance of these facilities, several wells are currently offline;
- Since December 2022, additional wells have gone offline or are no longer useable due to contamination or OSHA regulations. There are known and unknown groundwater contamination sites surrounding the District. This contamination is currently affecting two of the District's wells. The District is looking into potential carbon filtration in order to bring these wells back online;
- In January 2024, the motor for Well #4 failed completely and now requires replacement. According to the District's 2009 Master Plan prepared by Kennedy Jenks, the pump for Well #4 was running above its service capacity since 1999;
- DPMWD does meet regulations pertaining to source capacity including California Code of Regulations Title 22, Section 64554(c) which requires that groundwater systems be able to meet their Maximum Daily Demand (MDD) with their highest-capacity source offline, and Section 64554(a) which requires that systems with 1,000 or more service connections be able to meet four hours of peak hourly demand with source capacity, storage capacity, and/or emergency source connections. Currently, with Well #9 offline, DPMWD can only produce 2,060 gpm, which is less than their MDD of 3,130 gpm;
- DPMWD is responsible for providing fire flows of 3,500 gal/min for the AT&T commercial building in addition to the District's regular MDD. Based on the District's current infrastructure, prior to the failure of Well #4, and legal production rate of 3,560 gpm, there is a shortage of 3,070 gal/min. Even if the District were to utilize all of its currently connected wells, there would not be enough water to meet Sacramento County fire flow standards. Additionally, the District would have to utilize contaminated water which may result in additional customer noticing;
- Currently, the District was able to meet fire flow requirements by relying on the interties with SSWD. California Water Code Section 10609.62 now requires a small water supplier to have source system capacity, treatment system capacity if necessary, and distribution system capacity to meet fire flow requirements by January 1, 2032;
- In order to increase water capacity for the District, existing wells would have to be refurbished or new wells would have to be drilled. As of October 2023, it was estimated that refurbishment of Well #2 would cost approximately \$837,000;
- As of March 2022, it was estimated that the District needs approximately \$52 million for well rehabilitation and water main replacements not including the cost of meter installation and self-reliance for fire flows, as required by regulations;
- Meter replacement for the District is estimated at \$5 - \$6 million. The cost for increasing source capacity to meet fire flows is currently unknown but likely to cost several million dollars;

- DPMWD has been unsuccessful at obtaining grant funding to support infrastructure improvements. Based on the District's lack of consistent governance and management, and the level of neglect that has been exhibited over the last two decades, it is unlikely that they will be successful in obtaining grant funding in the future;
- While the District was able to successfully complete a Proposition 218 process in 2023, the rate increases only cover the cost of four capital improvement projects totaling \$9.23 million. A \$9 million bond measure could be utilized that would eventually cost \$18 million to pay back with interest, or a \$9 million loan that would cost \$12 million to pay back with interest;
- The resulting rate increases from the Proposition 218 process will increase residential rates by approximately 22% from November 2023 to July 2027; and
- Due to the small size of the District and limited customer base, rates would have to be increased substantially above those of surrounding water providers in order to cover the costs of repair and maintenance for District infrastructure. This would place an unnecessary and avoidable burden on rate payers within DPMWD;

WHEREAS, the Commission pursuant to Government Code Section 56375.1 may initiate the dissolution of Del Paso Manor Water District; and

WHEREAS, if dissolution is recommended by the Commission, Government Code 56375.1 provides that the Commission adopt a resolution to initiate dissolution with a remediation period of at least 12 months to afford time for the District to address the specified deficiencies; and

WHEREAS, the Executive Officer reviewed the MSR Addendum or the Resolution of Intent to Initiate Dissolution pursuant to the California Environmental Quality Act (CEQA), and recommended that the project is exempt from CEQA under §15061(b)(3) because it is covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA, and, based thereon, the Executive Officer prepared a Notice of Exemption; and

WHEREAS, the Executive Officer set a public hearing for May 1, 2024 for consideration of the approval of an updated MSR and a resolution of intent to initiate dissolution of the Del Paso Manor Water District and caused notice thereof to be posted, published and mailed at the times and in the manner required by law at least twenty-one (21) days in advance of the date; and

WHEREAS, on May 1, 2024 the municipal services review update came on regularly for hearing before LAFCO, at the time and place specified in the Notice; and

WHEREAS, at said hearing, LAFCo reviewed and considered the DPMWD MSR, and the Executive Officer's Report and Recommendations; each of the policies, priorities and factors set forth in Government Code Sections 56375.1 and 56430 et seq.; LAFCo's Policies, Standards and Procedures, starting with Policy V; and all other matters presented as prescribed by law; and

WHEREAS, the Executive Officer's report and recommendations on the proposal have been presented to the Commission in the manner provided by law; and

WHEREAS, at that time, an opportunity was given to all interested persons, organizations, and agencies to present oral or written testimony and other information concerning the proposal and all related matters; and

WHEREAS, the Commission received, heard, discussed, and considered all oral and written testimony related to the sphere update, including but not limited to protests and objections, the Executive Officer's report and recommendation, the environmental document and determinations and the service review; and

WHEREAS, if the Commission finds the District has adequately remedied the deficiencies, by May 1, 2025 the Commission shall rescind the notice of intent to initiate dissolution and no further action is required.

NOW, THEREFORE, IT IS HEREBY RESOLVED AND ORDERED by the Sacramento Local Agency Formation Commission does hereby find and resolve as follows:

1. The foregoing recitals are true and correct.
2. The Commission considered the Del Paso Manor Water District 2022 Municipal Service Review, the Del Paso Manor Water District Municipal Service Review Addendum April 2024 ("MSR Addendum"), the Executive Officer's Report and all referenced findings and determinations and hereby adopts such finding and determinations included in the Del Paso Manor Water District Municipal Service Review Addendum April 2024, the Executive Officer's Report and referenced attachments.
3. The Commission finds that the written determinations within the Del Paso Manor Water District Municipal Service Review Addendum April 2024 ("MSR Addendum") are complete and satisfactory and supported by substantial evidence, and hereby makes the determinations as set forth in the MSR Addendum and adopts and approves the MSR Addendum.
4. The Commission is in compliance with Government Code Section 56375.1, which allows the Commission to initiate dissolution.
5. The Commission considered all factors required by law under Government Code sections 56375.1, and all written and oral evidence presented to the Commission, and hereby adopts a Resolution of Intent to Initiate Dissolution of the District based on the following findings, which are consistent with Government Code 56375.1(a)(1)(A), that there is a preponderance of the evidence, that the District has one or more documented chronic service provision deficiencies that substantially deviate from industry or trade association standards or other government regulations and its board or management is not actively engaged in efforts to remediate the documented service deficiencies including the following:
 - There is estimated to be approximately 3,000 linear feet of pipeline that is less than three-inch diameter which does not meet current regulations for water distribution mains (Title 22 of the California Code of Regulations) which specifies that water mains must be at least four inches in diameter.

- DPMWD has documented numerous system leaks both in water mains and on the customer side of connections. The District stated a dramatic decrease in total leaks by lowering operating pressure and coordinating well operation to prevent pressure spikes. Since the District neglected to invest in regular repair and maintenance of these facilities, several wells are currently offline.
- Since December 2022, additional wells have gone offline or are no longer useable due to contamination or OSHA regulations. There are known and unknown groundwater contamination sites surrounding the District. This contamination is currently affecting two of the District's wells. The District is looking into potential carbon filtration in order to bring these wells back online.
- In January 2024, the motor for Well #4 failed completely and now requires replacement. According to the District's 2009 Master Plan prepared by Kennedy Jenks, the pump for Well #4 was running above its service capacity since 1999.
- DPMWD does meet regulations pertaining to source capacity including California Code of Regulations Title 22, Section 64554(c) which requires that groundwater systems be able to meet their Maximum Daily Demand (MDD) with their highest-capacity source offline, and Section 64554(a) which requires that systems with 1,000 or more service connections be able to meet four hours of peak hourly demand with source capacity, storage capacity, and/or emergency source connections. Currently, with Well #9 offline, DPMWD can only produce 2,060 gpm, which is less than their MDD of 3,130 gpm.
- DPMWD is responsible for providing fire flows of 3,500 gal/min for the AT&T commercial building in addition to the District's regular MDD. Based on the District's current infrastructure, prior to the failure of Well #4, and legal production rate of 3,560 gpm, there is a shortage of 3,070 gal/min. Even if the District were to utilize all of its currently connected wells, there would not be enough water to meet Sacramento County fire flow standards. Additionally, the District would have to utilize contaminated water which may result in additional customer noticing.
- Currently, the District was able to meet fire flow requirements by relying on the interties with SSWD. California Water Code Section 10609.62 now requires a small water supplier to have source system capacity, treatment system capacity if necessary, and distribution system capacity to meet fire flow requirements by January 1, 2032.
- In order to increase water capacity for the District, existing wells would have to be refurbished or new wells would have to be drilled. As of October 2023, it was estimated that refurbishment of Well #2 would cost approximately \$837,000
- As of March 2022, it was estimated that the District needs approximately \$52 million for well rehabilitation and water main replacements not including the cost of meter installation and self-reliance for fire flows, as required by regulations.
- Meter replacement for the District is estimated at \$5 - \$6 million. The cost for increasing source capacity to meet fire flows is currently unknown but likely to cost several million dollars.
- DPMWD has been unsuccessful at obtaining grant funding to support infrastructure improvements. Based on the District's lack of consistent governance and management,

and the level of neglect that has been exhibited over the last two decades, it is unlikely that they will be successful in obtaining grant funding in the future.

- While the District was able to successfully complete a Proposition 218 process in 2023, the rate increases only cover the cost of four capital improvement projects totaling \$9.23 million. A \$9 million bond measure could be utilized that would eventually cost \$18 million to pay back with interest, or a \$9 million loan that would cost \$12 million to pay back with interest.
- The resulting rate increases from the Proposition 218 process will increase residential rates by approximately 22% from November 2023 to July 2027.
- Due to the small size of the District and limited customer base, rates would have to be increased substantially above those of surrounding water providers in order to cover the costs of repair and maintenance for District infrastructure. This would place an unnecessary and avoidable burden on rate payers within DPMWD. There is estimated to be approximately 3,000 linear feet of pipeline that is less than three-inch diameter which does not meet current regulations for water distribution mains (Title 22 of the California Code of Regulations) which specifies that water mains must be at least four inches in diameter.
- DPMWD has documented numerous system leaks both in water mains and on the customer side of connections. The District stated a dramatic decrease in total leaks by lowering operating pressure and coordinating well operation to prevent pressure spikes. Since the District neglected to invest in regular repair and maintenance of these facilities, several wells are currently offline.
- Since December 2022, additional wells have gone offline or are no longer useable due to contamination or OSHA regulations. There are known and unknown groundwater contamination sites surrounding the District. This contamination is currently affecting two of the District's wells. The District is looking into potential carbon filtration in order to bring these wells back online.
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fire flow standards. Additionally, the District would have to utilize contaminated water which may result in additional customer noticing.

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 - Meter replacement for the District is estimated at \$5 - \$6 million. The cost for increasing source capacity to meet fire flows is currently unknown but likely to cost several million dollars.
 - DPMWD has been unsuccessful at obtaining grant funding to support infrastructure improvements. Based on the District's lack of consistent governance and management, and the level of neglect that has been exhibited over the last two decades, it is unlikely that they will be successful in obtaining grant funding in the future.
 - While the District was able to successfully complete a Proposition 218 process in 2023, the rate increases only cover the cost of four capital improvement projects totaling \$9.23 million. A \$9 million bond measure could be utilized that would eventually cost \$18 million to pay back with interest, or a \$9 million loan that would cost \$12 million to pay back with interest.
 - The resulting rate increases from the Proposition 218 process will increase residential rates by approximately 22% from November 2023 to July 2027.
 - Due to the small size of the District and limited customer base, rates would have to be increased substantially above those of surrounding water providers in order to cover the costs of repair and maintenance for District infrastructure. This would place an unnecessary and avoidable burden on rate payers within DPMWD. The Commission provides a remediation period of not less than 12 months during which Del Paso Manor WD may take steps to remedy the specified deficiencies.
6. The Executive Officer is directed to file a Notice of Exemption under §15061(b)(3) in compliance with the California Environmental Quality Act and local ordinances implementing the same.
 7. Del Paso Manor WD shall provide the Commission a mid-point report by November 1, 2024 on such remediation efforts by the District which report may thereafter be considered at a regularly scheduled Commission meeting.

- 8. At the conclusion of the 12-month remediation period, the Commission will consider at a noticed public hearing whether the District has remedied the identified deficiencies and whether the District shall be dissolved in accordance with Government Code Section 56375.1. If the Commission finds the District has adequately remedied the deficiencies, the Commission shall rescind the notice of intent to initiate dissolution and no further action is required.
- 9. The Executive Officer is hereby directed to take all further actions required by law and necessary to implement the intent of this resolution including filing a Notice of Exemption consistent with the California Environmental Quality Act.

BE IT FURTHER RESOLVED that Resolution No. *LAFC 2024-06* was adopted by the **SACRAMENTO LOCAL AGENCY FORMATION COMMISSION**, on the 1st Day of May, by the following vote, to wit:

	Motion	2nd								
Lindsey Carter			Aye	_____	No	_____	Absent	_____	Abstain	_____
Sue Frost			Aye	_____	No	_____	Absent	_____	Abstain	_____
Gay Jones			Aye	_____	No	_____	Absent	_____	Abstain	_____
Lisa Kaplan			Aye	_____	No	_____	Absent	_____	Abstain	_____
Chris Little			Aye	_____	No	_____	Absent	_____	Abstain	_____
Iva Walton			Aye	_____	No	_____	Absent	_____	Abstain	_____
Rich Desmond			Aye	_____	No	_____	Absent	_____	Abstain	_____

Commission Vote Tally Aye _____ No _____ Absent _____ Abstain _____
 Passed Yes _____ No _____

By: _____
Rich Desmond, Chair
SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

ATTEST: _____
Lorice Washington, Clerk of the Commission
SACRAMENTO LOCAL AGENCY FORMATION COMMISSION



Notice of Exemption

To: Office of Planning and Research
1400 Tenth Street, Room 121
Sacramento, CA 95814
 County Clerk
County of Sacramento

From: Sacramento LAFCo
1112 I Street, Suite 100
Sacramento, CA 95814

Project Title:

Addendum for the Municipal Service Review for the Del Paso Manor Water District (LAFCO Project #2022-01) and the Resolution of Intent to Initiate Dissolution (LAFCO Project #2024-01)

Project Location – Specific: Within the Arden Arcade Area, District is north of Rockwood Drive and bounded by Marconi, Watt and Eastern Avenues.

Project Location – City: N/A **County:** Sacramento

Description of Nature, Purpose, and Beneficiaries of Project:

Addendum to the Municipal Service Review for the Del Paso Manor Water District to update the infrastructure deficiencies and financial challenges and for the adoption of a Resolution of Intent to Initiate Dissolution of Del Paso Manor Water District.

Lead Agency Approving Project: Sacramento LAFCo

Exempt Status: *(check one)*

- Ministerial (Sec. 21080(b)(1); 15268);
- Declared Emergency (Sec 21080(b)(3); 15269(a));
- Emergency Project (Sec 21080(b)(4); 15269(b)(c));
- Categorical Exemption. State type and section number: 15319
- Statutory Exemptions. State code number: 15061(b)3

Reasons why project is exempt: This study is covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.

Lead Agency Contact Person: José C. Henríquez **Phone:** 916-874-6458

Signature: _____ **Date:** _____ **Title:** Env. Coordinator

Signed by Lead Agency

Date received for filing at OPR: NA