

**SACRAMENTO LOCAL AGENCY FORMATION COMMISSION**  
**1112 I Street, Suite #100**  
**Sacramento, California 95814**  
**(916) 874-6458**

November 3, 2004

TO: Sacramento Local Agency Formation Commission

FROM: Peter Brundage, Executive Officer

RE: Sacramento Suburban Water District Request to Amend Resolution No. LAFC 1237

**RECOMMENDATION**

**Amend Resolution No. LAFC 1237<sup>1</sup> by making the following changes:**

Delete Section 1, Subdivision (b) (1) (i): ~~**all bonds, certificates of participation and similar indebtedness, including any refunding thereof,**~~

Add Section 1, Subdivision (c) (1): All contracts, debts and liabilities of the respective districts, **including contingent liabilities, and any refunding of the former districts' bonds, certificates of participation and similar indebtedness other than those** identified in or pursuant to section 4(e), **1 (b)**

**DISCUSSION**

On January 17, 2002, the Commission approved the consolidation of the Northridge Water District and the Arcade Water District. The consolidation created Sacramento Suburban Water District.

LAFCo imposed several terms and conditions on the successor district, Sacramento Suburban Water District. A complete copy of Resolution No. LAFC 1237 is attached. Essentially, the terms and conditions consolidated operations but required the new district to set up two separate zones (service areas) within the district, the Arcade Service Area and Northridge Service Area for accounting and rate setting purposes. Initially, the consolidated district was required to maintain separate records for each of the service areas **for up to three years and for so long thereafter as the Board of Directors shall determine.**

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<sup>1</sup> Conducting Authority Resolution of the Sacramento Local Agency Formation Commission for the Northridge Water District/ Arcade Water District Consolidation. Please see page 6.

**The proposed change basically shifts an existing term and condition from a long term requirement to a limited term requirement.**

The Resolution also provided the following condition which was long term and not subject to the three year period. [Original language - bold highlights the concern raised by Sacramento Suburban Water District Bond Counsel.]

- 1 b. Upon and after the consolidation, the following conditions shall apply to and bind the Board of Directors of the consolidated district:
  - (1) The following contracts, debts and contingent liabilities of the respective districts, although to be assigned to the consolidated district shall, nonetheless, continue to be the exclusive responsibility of the ratepayers within the respective service areas of Arcade and Northridge until paid in full (i) all bonds, certificates of participation and similar indebtedness, **including any refunding thereof**, (ii) any other debt respecting real estate (including office buildings and other structures, pump stations and well sites), exclusive of such other debt respecting transmission and distribution system facilities, easements and rights-of-way, (iii) liability respecting any claims that have not been asserted in writing as of the effective date of the consolidation, and (iv) any contracts, debts or liabilities, contingent or otherwise, specified in essentially parallel resolutions adopted by the Boards of Directors of both districts prior to the effective date of the consolidation ;

The attached Amended Resolution shows the proposed additions and deletions to eliminate this accounting requirement only if the bonds are refinanced. The District will be required to maintain separate accounting statements until the existing debt is paid off in full per the terms of bond covenants.

**ISSUE**

Conditions of the existing debt covenants require the District to separately account for revenue, expenses and capital items until the debts are fully paid off at their current maturity date or earlier if defeased. However, the phrase, "**or any refunding thereof**," requires the District to continue such accounting even though a refunding extinguishes the accountability covenants in the existing Arcade and Northridge debt obligations.

This phrase creates a serious constraint on the District's ability to fund its long term capital improvement program because it requires the District to continue approaching the capital markets with three different collateral revenue streams. The bond market would have to evaluate the Arcade Service Area, the Northridge Service Area, as well as the consolidated Sacramento Suburban Water District. This is not only costly to the District but it complicates the District's ability to borrow money for new capital improvements.

## ANALYSIS

The intent of Resolution LAFC 1237 was to require Sacramento Suburban Water District to maintain separate service areas (Arcade Service Area and Northridge Service Area) for a minimum of three years from the effective date of the consolidation (Paragraph 1 c). This condition was imposed because of concerns raised by ratepayers within the Arcade Service Area.

The District now requests that LAFCo amend Resolution LAFC 1237 so that if the District should refund its debt, it would not be subject to additional reporting requirements after the initial three year period. This will eliminate the administrative requirement to maintain separate accounting records for each service area if the District refinances its long term debt. Nonetheless, this reporting requirement remains in place for at least three years and is consistent with the intent of the original Resolution.

The three year period ends in February, 2005. The District is in the process of issuing subordinate debt (\$42,000,000) but someday, if market conditions are favorable, the District may refund or refinance all of its debt and it does not want to be subject to an on-going reporting requirement that requires to maintain separate accounting statements when new bonds are issued for the consolidated district.

The District has estimated that it will incur additional administrative costs including external audit fees of approximately \$500,000 to \$1,000,000 over the next 24 years. During the last three years, the District has worked to unify policies, finances, staffs and operations to consolidate operations of two independent districts. The District commissioned the Reed Group, a respected rate consultant, to conduct a comprehensive study of the Arcade and Northridge rate structures.

The rate study led to the development of a new rate structure that conforms to industry standards. The Reed Group study determined that the Arcade service area and the Northridge service area operations and maintenance costs are approximately equal. However, the Northridge service area has a slightly higher debt service cost per customer. A comparison of rates between the two service areas reflects this difference. During the last several months, the Sacramento Suburban Water District Board has held five public meetings on the proposed rate structure. The District has adopted the new rate structure in accordance with Proposition 218. The reserves of Arcade and Northridge at the time of consolidation will be used to benefit the respective service areas and these funds will not be commingled. Rates will be brought to parity over the next three years except for this difference related to debt service.

**Outstanding Debt**

The Sacramento Suburban Water District has outstanding debt of \$76,382,120. This debt is allocated as follows:

Northridge Service Area	\$35,742,120	46.7%
Arcade Service Area	<u>\$40,640,000</u>	<u>53.2%</u>
	\$76,382,120	100.0%
New Debt	<u>\$42,000,000</u>	
New Total	\$116,382,120	

The new debt will be used to benefit both service areas equally.

**RESOLUTION NO. LAFC 1237**

The proposed additions and deletions to Resolution No. 1237 are highlighted on the attached copy. [Noted on page 6.] I recommend your Commission make the changes I have proposed to your Resolution No. LAFC 1237.

Respectfully submitted,

**SACRAMENTO LOCAL AGENCY FORMATION COMMISSION**

Peter Brundage  
Executive Officer

PB:Maf  
Attachment  
(Sac Suburban Water)

RESOLUTION NO. LAFC 1237  
RESOLUTION OF THE SACRAMENTO LOCAL AGENCY  
FORMATION COMMISSION AS CONDUCTING AUTHORITY FOR PROTEST  
HEARING FOR THE NORTHRIDGE WATER DISTRICT / ARCADE WATER  
DISTRICT CONSOLIDATION

WHEREAS, Northridge Water District and Arcade Water District adopted Resolutions Making Application to the Sacramento Local Agency Formation Commission For Consolidation (the “proposal”), and

WHEREAS, LAFCo’s Executive Officer set the proposal for hearing and gave notice pursuant to Government Code section 57025, and

WHEREAS, the protest hearing on the proposal was held by the commission on the date and at the time specified in the notice given, and

WHEREAS, at the protest hearing, prior to the consideration of protests, the Commission’s Resolution Making Determinations was summarized, and

WHEREAS, the Commission heard and received oral and written protests, objections, or evidence made, presented or filed, and

WHEREAS, upon the conclusion of the protest hearing the Commission determined the value of the protests made and not withdrawn, and

WHEREAS, the value of the protests made and not withdrawn were not enough to terminate the proceedings and/or to force an election on the matter, and

WHEREAS, LAFCo has evaluated the proposal and found it to be consistent with LAFCo standards, policies and procedures,

NOW THEREFORE, the SACRAMENTO LOCAL AGENCY FORMATION COMMISSION HEREBY RESOLVES AND DETERMINES AS FOLLOWS:

1. The proposed consolidation of Northridge Water District and Arcade Water District is approved subject to the following conditions:
  - a. The effective date of the consolidation shall be December 5, 2001, or as soon as possible thereafter.
  - b. Upon and after the consolidation, the following conditions shall apply to and bind the Board of Directors of the consolidated district:
    - (1) The following contracts, debts and contingent liabilities of the respective districts, although to be assigned to the consolidated district shall, nonetheless, continue to be the exclusive responsibility

of the ratepayers within the respective service areas of Arcade and Northridge until paid in full: ~~(i) all bonds, certificates of participation and similar indebtedness, including any refunding thereof,~~ (i) any other debt respecting real estate (including office buildings and other structures, pump stations and well sites), exclusive of such other debt respecting transmission and distribution system facilities, easements and rights-of-way, (ii) liability respecting any claims that have not been asserted in writing as of the effective date of the consolidation, and (iii) any contracts, debts or liabilities, contingent or otherwise, specified in essentially parallel resolutions adopted by the Boards of Directors of both districts prior to the effective date of the consolidation; and

- (2) The following assets of the respective districts, although to be assigned to the consolidated district shall, nonetheless, permanently inure to the exclusive benefit of the ratepayers within the respective service areas of Arcade and Northridge: (1) all cash and investments, water sales receivable, and accrued interest receivable as of the effective date of the consolidation, and (2) the equity in real estate (including office buildings and other structures, pump stations and well sites), exclusive of transmission and distribution system facilities, easements and rights-of-way held by the respective districts as of the effective date of the consolidation.
- c. Upon the consolidation and for three years following the effective date of the consolidation and for so long thereafter as the Board of Directors of the consolidated district shall determine, the following conditions shall apply to and bind the Board of Directors of the consolidated district:
- (1) All contracts, debts and liabilities of the respective districts, including contingent liabilities, **and any refunding of the former districts' bonds, certificates of participation and similar indebtedness,** ~~other than those~~ identified in or pursuant to section 4-(e), **1 (b)** although to be assigned to the consolidated district shall, nonetheless, continue to be the exclusive responsibility of the ratepayers within the respective service areas of Arcade and Northridge rather than the consolidated district;
  - (2) Previously-authorized charges, fees, assessments and taxes of Arcade and Northridge, which have been determined by the Boards of Directors of each respective district to properly allocate the costs incurred among its ratepayers, shall continue to be applied within the affected territory of each district, and any changes made to such charges, fees, assessments and taxes shall be governed by the same principles determined by the Board of Directors of each respective district, unless the Board of Directors of the consolidated district specifically determines that different principles shall apply;

- (3) To the maximum extent allowed by law, funds derived from the respective Arcade and Northridge water systems be accounted for separately, so that the ratepayers benefiting from a water system bear the cost of operation, maintenance, repair, replacement, improvement and bonded debt or other debt of that water system;
  - (4) The territory within Arcade as of the effective date of the consolidation shall be designated the “Arcade Service Area” following the consolidation;
  - (5) The territory within Northridge as of the effective date of the consolidation shall be designated the “Northridge Service Area” following the consolidation;
  - (6) The Board of Directors of the consolidated district shall determine from time to time which funds derived from the operation of the Arcade Service Area water system and the Northridge Service Area water system shall be used to pay the cost of administration of the consolidated district, and other costs of activities of the consolidated district that benefit the consolidated district as a whole; and
  - (7) All previously-authorized improvement districts within Northridge shall continue in existence within the Northridge Service Area following consolidation, except as they may be modified from time to time by the Board of Directors of the consolidated district.
- d. Subject to the foregoing, all assets, revenues, funds on deposit, rights and liabilities under contracts, liabilities for payment of principal and interest on contractual obligations for real property, furnishings and equipment, operating expenses, supplies, licenses and permits, and any contingent liabilities for existing civil litigation shall accrue to the consolidated district.
  - e. Dewight F. Kramer, Sr., the current General Manager of Northridge, shall serve as the General Manager of the consolidated district under an employment agreement assumed by the consolidated district.
  - f. As of the effective date of the consolidation, all of the respective employees of Arcade and Northridge shall become employees of the consolidated district. To the extent practical, every attempt will be made to maintain such employees in the same or similar positions of authority and responsibility with the consolidated district. The compensation, benefits and other terms and conditions of employment of all of the respective employees of Arcade and Northridge shall not be reduced by virtue of their becoming employees of the consolidated district. These provisions shall not limit the authority of the General Manager of the consolidated district to exercise his discretion with respect to rights of assignment, transfer, discipline and discharge of

employees in accordance with the County Water District Law and other provisions of law.

- g. As of the effective date of the consolidation, the current employees of Arcade shall continue to be covered by the Arcade defined contribution retirement program if they so elect, and the current employees of Northridge shall continue to be covered by the Northridge CalPERS retirement program. Thereafter, non-electing Arcade employees and all newly-hired employees of the consolidated district shall be covered by the CalPERS retirement program.
  - h. In accordance with the provisions of Water Code section 30500.1 and subsection (n) of Government Code 56886, the composition and election of the Board of Directors of the consolidated district shall be as follows:
    - (1) The initial Board of Directors of the consolidated district shall consist of eleven members, composed of the existing five members of the Board of Directors of Arcade and the existing five members of the Board of Directors of Northridge, each of whom shall serve the same term of office that he was serving as of the effective date of the consolidation. The eleventh seat on the Board of Directors of the consolidated district will be vacant. The Board of Directors of Arcade and Northridge have recommended that the Board of the consolidated district vote to eliminate the eleventh seat on the Board. Directors of the consolidated district shall be elected by and from divisions, as set forth below.
    - (2) The number of seats on the Board of Directors shall be reduced to seven for the general district election of the consolidated district to be held in November 2002.
    - (3) The Board of Directors of the consolidated district shall be elected by and from divisions within the consolidated district at the general district election in 2002, provided that, in the event that there is a delay in the effective date of the consolidation that prevents the Board of Directors of the consolidated District from establishing the boundaries of divisions in time to provide the notice required by Elections Code section 10522 (125 days prior to the general district election), then the Board of Directors shall be elected at large in 2002, and by and from divisions at the general district election in 2004.
  - i. The consolidated district shall continue to provide any health benefits to current and retired members of the respective Board of Directors of Arcade and Northridge that were provided prior to the effective date of consolidation, in accordance with the provisions of Government Code section 53201.
2. The name of the consolidated water districts shall be "Sacramento Suburban Water District."



3. The Sphere of Influence for Sacramento Suburban Water District will be conterminous with the exterior boundaries of the Spheres of Influence of the Northridge Water District and the Arcade Water District. The Northridge Water District's and the Arcade Water District's Spheres of Influence will be combined into one Sphere of Influence for the Sacramento Suburban Water District. The Sphere of Influence will not extend beyond existing district boundaries.
4. The consolidation of the Northridge Water District and the Arcade Water District improves the efficiencies of the districts and eliminates overlap and duplication of administrative and governance costs.

On a motion by Commissioner Lauren Hammond, seconded by Commissioner William Porter, the foregoing Resolution was passed and adopted by the **SACRAMENTO LOCAL AGENCY FORMATION COMMISSION**, State of California, this 17th day of January, 2002, by the following vote to-wit:

AYES: Elliot Mulberg, William Porter, Roberta MacGlashan, Illa Collin,  
Muriel Johnson, Lauren Hammond, Christopher Tooker.

NOES: -0-

ABSTAIN: -0-

ABSENT: -0-

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/s/  
Christopher Tooker, Chair  
**SACRAMENTO LOCAL AGENCY FORMATION  
COMMISSION**

ATTEST:

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Marilyn Ann Flemmer  
Commission Clerk

(CA Reso 1237)