Special District Perspective and Case Study

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Today’s Discussion

1) Background on IRWD
2) District Consolidations through LAFCO
3) Overview of the Los Alisos Water District & Irvine Ranch Water District Consolidation
4) Agencies/LAFCO Considerations
5) Breakout Session
6) Consolidation Results
7) Questions
Background on IRWD
A California Special District Serving Central Orange County

1961: District formation, began providing drinking water services.
1963: Added sewage collection and treatment services.
1967: IRWD initiated its recycled water program.
1997: District began treating urban runoff.
Our Four Lines of Service

- **IRWD Services and System Statistics:**
  
  ✓ **Potable Water:** Five treatment plants, 25 wells, over 1,900 miles of pipelines.
  
  ✓ **Sewage Collection:** Over 1,100 miles of sewage collection pipelines.
  
  ✓ **Recycled Water:** Two water recycling facilities (28 MGD + 5.5 MGD) and approximately 565 miles of recycled water pipelines.
  
  ✓ **Urban Runoff Treatment:** The San Joaquin Marsh and over 39 built and planned man-made wetland treatment sites.
About IRWD

- A special district governed by a publicly-elected board.

- IRWD customer base:
  - Residential population: 422,000
  - Daytime population: 600,000
  - Water service connections: 117,000

- IRWD service area:
  - 181 square miles (20% of Orange County)
  - All or part of six cities and unincorporated county:
    - Irvine
    - Lake Forest
    - Tustin
    - Newport Beach
    - Orange
    - Costa Mesa
• About IRWD

– District Organization:

- Board of Directors
- Legal Counsel
- Water Operations
- General Manager
- Recycling Operations
- Public Affairs
- Water Quality
- Customer Service
- Water Resources
- Finance and Treasury
- Human Resources
- Engineering
District Consolidations through LAFCO
District Consolidations through LAFCO

- Santa Ana Heights – 1997
- Carpenter Irrigation District – 2000
- Los Alisos Water District – 2001
- Santiago County Water District – 2006
- Orange Park Acres Mutual Water District – 2008
Overview of the Consolidation of Los Alisos Water District and Irvine Ranch Water District
**LAWD District Overview (2000):**

- Provided drinking water, sewage collection, and recycled water service to approximately 43,000 customers.
- Served customers in Lake Forest and unincorporated Orange County; located adjacent to IRWD.
- Governed by a five-member, publicly elected board of directors.
- Shared similar standards for planning, designing, and operating facilities with IRWD.
- Relied primarily on imported water supplies.
- Located mostly within San Diego Creek watershed.
Los Alisos Benefits:

- Enhances water supply reliability and lowers rates
- Confident that IRWD will manage combined district effectively
- IRWD recognized as leader - has lowest rates in County
- Voluntary, in best long-term interests of customers
Irvine Ranch Benefits:

• Creates economies of scale and spreads costs over an expanded customer base

• Consolidated agency will provide enhanced water service reliability for combined area

• Ability to partner on future capital projects that are mutually beneficial to both areas

• Will consolidate communities of like interest under single organization
Agencies / LAFCO Considerations
Key Considerations for a Successful Consolidation

1. **Making the Case.**
   - Both agencies developed a business-driven rationale for consolidation.
   - Customers in each area must benefit, but not at the expense of the other.

2. **LAFCO Role.**
   - Statutory oversight.
   - Appropriate community involvement.

3. **Community Outreach.**
   - Communicate value to customers.
   - Public hearings, community meetings, mailers; address concerns and incorporate community input.
LAFCO Requirements

Applying LAFCO requirements to the Consolidation:

1. Provide general information about the consolidation
2. Provide a description of the consolidated area
3. Provide changes to land use information for the consolidation
4. Provide changes to the plan of services for the consolidated area
5. Will a Special District need to be formed?
6. Is there an impact on other affected agencies?
### Assets

<table>
<thead>
<tr>
<th>CATEGORY (millions)</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cash</td>
<td>$ 5.3</td>
</tr>
<tr>
<td>2. FMV of real property assets*</td>
<td>88.2</td>
</tr>
<tr>
<td>3. Estimated Future Development Revenue (connection fees &amp; Property taxes)</td>
<td>25.9</td>
</tr>
<tr>
<td><strong>Total Assets</strong>:</td>
<td>$119.4</td>
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* Actual amount based upon independent appraised value of properties.
** Excludes FMV of existing infrastructure assets used to provide current services.
Liabilities

Existing Obligations:

• Debt of $5.0 million
• Non-PERS pension plan ($1.5 million), PERS buy-in ($10.0 million)
• No OPEB
• No lawsuits
• $0.5 million in leave accrual (vacation and sick)
Other Considerations

- No new services provided
- LAWD existing facilities exceed demands for water, sewer and recycled systems
- Current rate structure sufficient to support operating expenses – no reserves for infrastructure replacement
- Governance transition and Board compensation
- Los Alisos partially outside of OCWD groundwater basin
Consolidation Objectives

- Short term goals – immediate rate reduction to LAWD customers
- Long term goal – sale of land
  - Move LAWD to IRWD rate structure
  - Pay for infrastructure replacement
Breakout Session
• Identify transition of LAWD BOD to ensure fair representation for rate payers.

• How does the consolidated agency manage continued local governance?

• No current reserves for infrastructure replacement – how to provide?

• How to transition non-CalPERS pension into CalPERS?

• How can the consolidation provide a rate reduction without a change in the source of water?
Consolidation Results
First Step

• Both Boards executed a Pre-Consolidation Agreement establishing the terms and conditions of the proposed merger including:
  – Managing funds and facilities
  – Rates and charges
  – Governance
  – Personnel
  – Operations and
  – Miscellaneous

• Both Boards adopted resolutions of intent and filed similar proposals with LAFCO

• Proposed effective date of consolidation 12/31/00
Efficient Governance with Maintained Local Representation

• Former LAWD Board served as Management Committee
  – Oversaw the transition for three year period after effective date of consolidation

• Former LAWD Board members continued to receive compensation after the reorganization

• During term on the management committee, members were entitled to the same benefits and compensation as the consolidated board

• First election after consolidation, former LAWD customers were eligible to vote, and run for IRWD Board of Directors

• IRWD Board elected at large
Buy-in to Acquisition

Create an Acquisition Balance

• Tool to achieve equity and fairness between customers of both districts

• Method by which Los Alisos ratepayers fund their fair share of existing IRWD-funded water facilities

• Enables Los Alisos ratepayers to take advantage of new economies of scale

• Provides for a strategy to bring Los Alisos and Irvine Ranch Rate areas to rate parity
Steps taken to Simplify Transition

Adopt IRWD employee benefit programs prior to consolidation:

• Moved from previous pension plan to match CalPERS program
• Compensated absences (vacation and sick)
• Health care program
## Acquisition Balance (Buy-in)

<table>
<thead>
<tr>
<th>CATEGORY – Capital Investment (millions)</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Future Water &amp; Sewer Infrastructure</td>
<td>$20.2</td>
</tr>
<tr>
<td>2. Buy-in/Sinking Fund for IRWD Groundwater Infrastructure and Conveyance Facilities</td>
<td>56.0</td>
</tr>
<tr>
<td>3. Replacement Fund Contribution</td>
<td>34.7</td>
</tr>
<tr>
<td>4. PERs Liability and Employee Benefits</td>
<td>8.5</td>
</tr>
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**Total Estimated Buy-in:** $119.4
Rate Reduction

• The lower cost of water (10% initial reduction) achieved by the consolidation is not dependent upon increased groundwater production in IRWD. It results from:
  – Consolidation of the administrative functions (legal, accounting, engineering)
  – Operating efficiencies
  – Economies-of-scale
Consolidation Outcome

• Customers received an immediate 10% rate reduction
• Rate escalation was tied to cost of service
• Sewer service charge matched Irvine Ranch service area rates within 5 years
• Commodity rates are now uniform throughout the District as a result of the property sale
QUESTIONS