



**APRIL 2023**

# **ONE DISTRICT**

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QUARTERLY  
REPORT



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## One District Project Overview

Regional San and SacSewer (collectively, the Districts) are in the process of implementing a unique opportunity to better manage their labor, finances, and governance. By employing their own workforce, investing their own cash reserves, and implementing a legal merger, staff expects the combined District to emerge as a single, nimble, and more efficient organization, able to provide even better value to its customers. The combined initiatives, together referred to as “One District,” are expected to result in many benefits. On August 24, 2022, the Boards approved the recommendation from staff to:

1. Pursue implementation of a legal merger of Regional San and SacSewer
2. Proceed with Staffing Option 3
3. Establish an ad hoc Board Committee to recommend a governance structure for the merged entity
4. Provide quarterly status reports on the above efforts

Option 3 directed that all staff currently assigned to the Sanitation Districts Agency, plus Human Resources, would become District employees. All remaining services would be reviewed separately to determine where those services would reside. The Board Committee for the legal merger provided a forum to discuss and recommend a governance structure and naming convention to the Regional San Board. The Committee composition was designed to include representation from the County of Sacramento, the Cities, and a representative from Yolo County or West Sacramento.

This report summarizes the progress made since January 2023 on the One District Project and its initiatives. The report also includes schedules for the anticipated tasks to complete this project and an organizational structure chart (Exhibit A) envisioned after merging and transitioning staff and support services to the District.

**Legal Merger Initiative** – Regional San and SacSewer are independent, county sanitation districts, operating under authority of the County Sanitation District Act of the Health and Safety Code. The Districts provide complementary services in overlapping service areas, serve many of the same customers, and share some staff—including the same General Manager and nearly all of the executive staff. However, they are separate legal entities, maintain separate finances and rate structures, and are governed by different Boards of Directors. The current arrangement results from the historical evolution of the two organizations by circumstance. Rather than a strategically planned effort to provide the community with the most efficient and effective sewage collection and treatment service. The Legal Merger Initiative will legally combine SacSewer and Regional San into one District. The merged district name will be the Sacramento Area Sewer District, SacSewer for short, and will be governed by the 17-member Board of Directors currently governing Regional San.

A whole host of benefits are anticipated from legally merging the two districts. We expect the legal merger to broaden policy and leadership decision-making under a shared mission and vision, consolidate and streamline policy decisions under one Board, and establish a single service provider that will operate more efficiently. The legal merger will provide better clarity

for customers, solidify unity among the workforce and organizational culture, enhance the Districts ability to recruit the highest quality employees, and streamline and consolidate processes and documentation such as strategic plans, master plans, annual reports, hydraulic modeling, ordinances, permits, IT applications, and digital content management.

No organizational structure changes are contemplated as a part of the legal merger. However, the legal merger may facilitate future organizational structure changes advantageous to the Districts.

**Staffing & Support Services Initiative** – The County of Sacramento currently provides labor and many support services for the Districts. The County has a different scope of services and strategic direction, separate finances and revenue streams, and its unique set of challenges, all separate from the Districts. This situation, unique to any sanitation district in California, results in additional costs, a lack of control over quality of services the County provides the Districts, and has a profound impact on the Districts’ ability to cultivate an engaged workforce. Currently, the Districts have little control over labor negotiations, classification, compensation, and recruitment. Benchmarking indicates comparable sanitation districts with their own human resources functions can complete a host of HR transactions up to ten times faster than the County can provide the same service for the Districts.

The staffing services project is to transition staffing and some support services from Sacramento County to the Districts. There are many benefits to bringing services in-house, such as the following:

- Eliminate large, indirect costs, resulting in significant cost savings
- Enable the District to more clearly identify organizational culture, priorities, and mission independent from the County
- Allow staff to be recruited more efficiently to perform essential duties specific to the wastewater industry
- Enable the Districts to manage its full operations and future based upon policy decisions made by its Board
- Be able to attract and retain more qualified staff to perform essential duties specific to the wastewater industry
- Engage in more efficient employment practices that are on par with other public utilities and special/sanitation districts
- Eliminate confusion of identity among district staff that have to identify themselves as both district and county employees

Districts analysis, in coordination with the County, has identified that most of the services will transition in whole or in part to the Districts, which include real estate, construction management and inspection, human resources, legal counsel services, risk management, fleet, and environmental review. Districts plan to continue to receive CUBS, DTech and Clerk of the Board services from the County.

**Finance/Treasury Services Initiative (Designated Cash Reserves)** – The Districts’ cash balances (unreserved cash and designated cash reserves), currently over \$500 million, have been deposited with the County treasury and invested in the Sacramento County Pooled Investment Fund (County Pool) since the Districts’ inception. Although the County Pool is well managed, it

has different investment objectives and strategies, which are not aligned with the Districts objectives for the designated cash reserves. County Pool investments have average maturities under one year, whereas some of the Districts' cash reserves must be held for multiple decades. By withdrawing some of the Districts' cash reserves they can be invested outside the County Pool in longer term investments that can provide greater returns while prudently managing risk in compliance with all public finance laws.

The Finance/Treasury Services project aims to manage the transition of financial and treasury services from Sacramento County to the Districts. The County manages several finance and treasury functions on behalf of the Districts, including banking services, payroll processing, payment services and accounts payable, investments, bond-fiscal agent, revenue accounting and cashing, accounting software maintenance, and billing. At this time, billing services (CUBS) has been identified as remaining with the County, while investment services for designated cash reserves has been earmarked for transition to the Districts. Transition of the other finance and treasury services has not been determined yet and will largely be driven by how the Staffing Services initiative is implemented.

The Districts have determined that the investment objectives and liquidity needs for their designated reserve funds are different from the needs of the Sacramento County Pooled Investment Fund (County Pool) and would be better served if invested outside the County Pool. The benefit to the Districts is that, if invested outside the County Pool, an investment strategy with longer average maturities could be employed to achieve generally higher investment returns, while meeting the Districts' safety and liquidity needs.

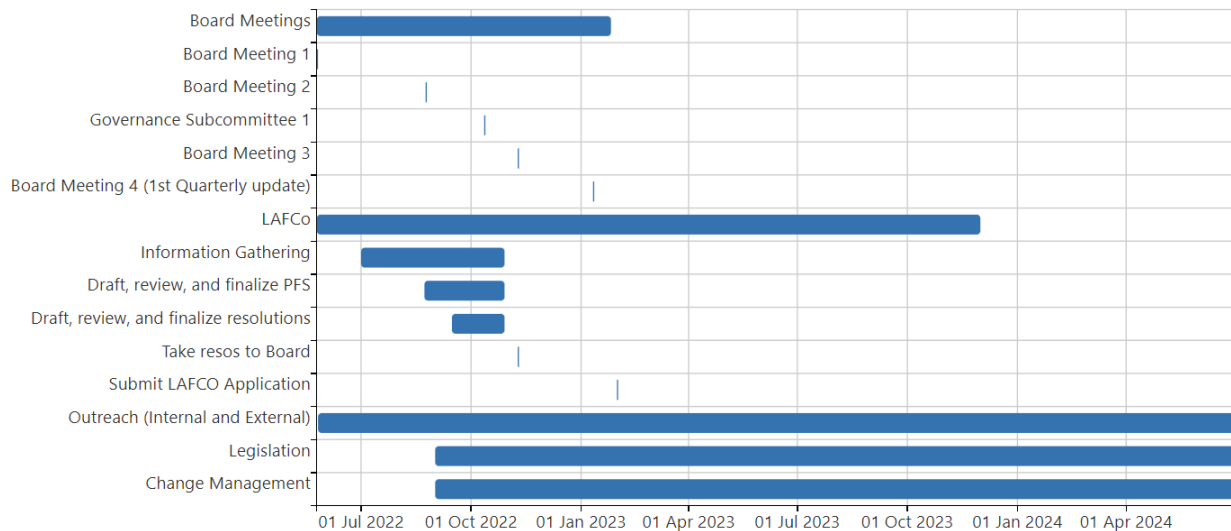
#### Merging and Debt Management

More directly related to the Districts merging is the fate of the Sacramento County Sanitation Districts Financing Authority (Financing Authority). The Financing Authority is a joint exercise of powers agreement (JPA) between SacSewer and Regional San to provide debt financing services for both Districts. Because the merger would eliminate one of the parties to the JPA, it would also entail the dissolution of the JPA. However, dissolution of the JPA is not a viable option since the Financing Authority still holds outstanding debt on behalf of the Districts. To ensure that the Financing Authority would survive the merger, a third entity had to join the JPA, so there would be at least two parties to the agreement after merging. Following a review of possible entities that could join the JPA, staff contacted Central Contra Costa Sanitary District (Central San), which also expressed interest in joining the Financing Authority. In January 2023, the Board of Directors of Central San voted to authorize its General Manager to execute the Financing Authority JPA with SacSewer and Regional San. Amendment of the Financing Authority JPA to include Central San is expected to be finalized in 2023.

# Legal Merger Initiative Update

## Legal Merger Schedule

Figure 1: Legal Merger Schedule



### Accomplishments since January 2023

- LAFCo** – A Plan for Service Application Package was submitted to LAFCo on January 31, 2023, and the Metes and Bounds Description defining the Districts service area boundaries was submitted in March 2023. Concurrently, a consultant is working with LAFCo to complete the Municipal Services Review, which is near complete. Collectively, the Plan for Service, Metes and Bounds Description, and the Municipal Services Review will go before LAFCo’s Commission for approval.
- Legislation** - Legislative language has been developed and reviewed by the Senate Governance and Finance Committee Consultant and the Office of Legislative Counsel. The proposed statutory amendments will be included in the Senate’s local government omnibus bill. The amendments will formally change the name of the Sacramento Regional County Sanitation District to the Sacramento Area Sewer District, maintain the existing governance structure of Regional San, and specify that these changes will only become effective upon LAFCo's approval of the reorganization. The proposed statutory amendments will be included in the Senate’s local government omnibus bill.
- Streamlining Process and Documentation** – Staff developed a list of items to be merged and reviewed processes, policies, and documents to determine what needs to be merged and when – pre-merger, within a year of merging, or more than a year after merging. From a legal perspective, there is no requirement to merge anything pre-merger. Although, consolidating processes, policies, and documents is encouraged to minimize confusion for both staff and external constituents.
- Employee & Stakeholder Communications** – Employees and stakeholders continue to hear from staff and our General Manager about the merger and how it will impact them.

Communications have gone out by video, email, intranet, and word-of-mouth by project sponsors. A list of change management techniques and strategies was created as a resource to help the Districts manage the people aspect of merging the Districts. Our Organization Development team is responsible for advising the project managers and team, and assisting in implementing any of the techniques and strategies if needed.

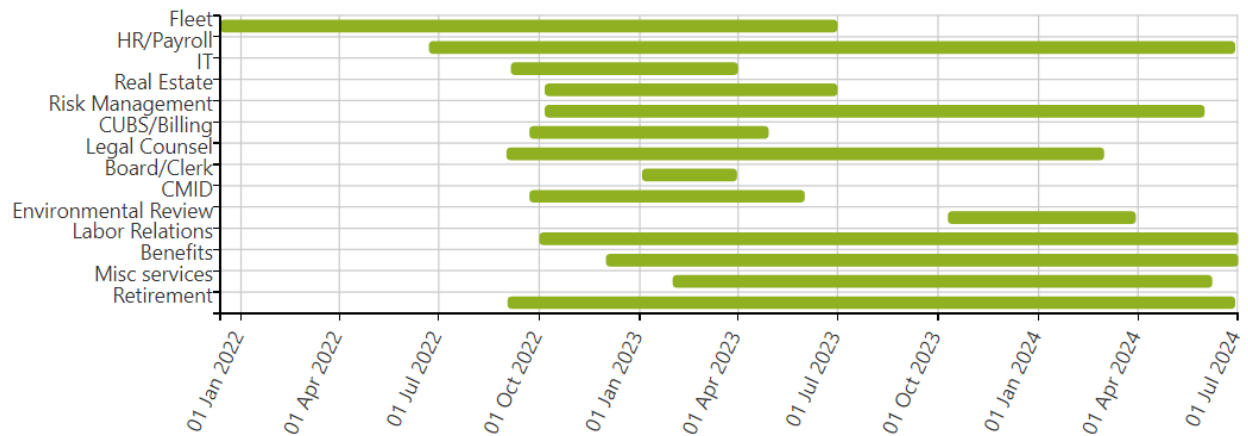
Looking Forward

- *LAFCo* –After completing the review process, the reorganization recommendation will go before the LAFCo Commission, which is expected in fall 2023. If LAFCo approves, a certificate of completion will be filed, and the Districts will act as one District with one Board.
- *Legislation* –Staff will begin meeting with local legislative representatives to brief them on the efforts to merge SacSewer and Regional San and the proposed amendments to be included in the local government omnibus bill.
- *Streamlining Process and Documentation* –Staff will continue working on the merger list, a living document, over the next couple of years. It will help the Districts prioritize items to be implemented and prevent them from being overlooked or forgotten.
- *Employee & Stakeholder Communications* – Our General Manager will continue updating the Cities, Counties, and other regional entities and regulating bodies. Additionally, ongoing internal communications are underway with staff explaining why we are merging the districts, addressing what will and will not change, surveying staff regarding their questions about changes, and proactively addressing questions in various communication mediums—including video, email, and intranet updates.

Staffing & Support Services Transition Initiative Update

Staffing Services Schedule

Figure 2: Staffing Services Transition Schedule



### Accomplishments since January 2023

- *Transition of Real Estate Services:* The Districts have engaged the real estate subject matter experts to transition this service. Subject matter experts have recommended continuing this service with the County and an extension to the current Memorandum of Understanding will be adopted.
- *Employee Communications:* Ongoing internal communications are underway with staff to explain why we are transitioning staff and some services from the County, addressing what will and will not change, surveying staff regarding what questions they have about these upcoming changes, and proactively addressing those questions in various communication mediums—including video, email, and intranet updates.
- *Transition of CMID Services:* The Districts have engaged the construction management and inspection subject matter experts. Subject matter experts reviewed the current service level agreement, past projects, and expenditures. Based on the review, subject matter experts recommended continuing this service with the County. District staff will initiate discussions with County CMID to develop a new service level agreement.
- *Additional Human Resources Staff:* The Districts requested three additional HR positions. These positions were slated for approval in March. However, the item was pulled from the County Board of Supervisors agenda. As a result, we are looking into alternate staffing options to ensure our transition timeline is not significantly delayed.
- *Human Resources Consultant:* The Districts have selected Regional Government Services (RGS) as our consultant to assist with the transition of human resources services. The Human Resources Manager is working to get the agreement finalized.
- *Retirement Specialist:* We have secured a retirement attorney to assist with the complex task of transitioning retirement (Sacramento County Employee Retirement System or SCERS) from the County to SacSewer. A future task will be to agree with the County on the distribution of retirement assets and liabilities.
- *Labor Relations:* The Districts have secured a consultant to assist with discussions with the current labor unions. A rough timeline of critical tasks and milestones has been established. The consultant and County Labor relations will help facilitate meetings with our unions.
- *Employee Benefits:* The Districts have initiated discussions with the County Benefits team to understand the options available to Districts.
- *Travel Services:* Districts are evaluating the travel service to ensure ease of travel and reimbursement for District employees.

### Looking Forward

In the remaining year, our focus will be to continue to evaluate the various County services infrastructure requirements and then transition various infrastructure internally so the transition

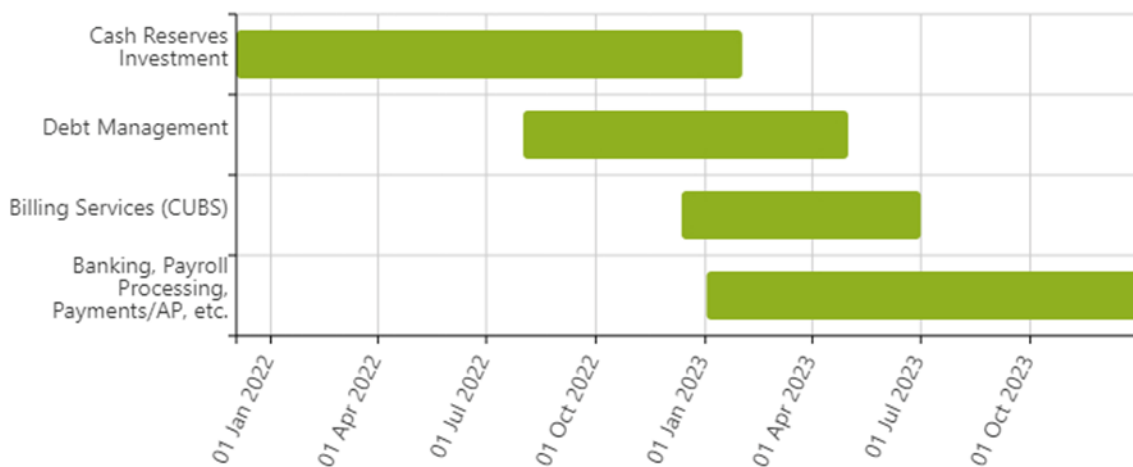


schedule can be accomplished with minimal impact to our day-to-day operations. We will also be working on finalizing Memorandums of Understandings with the County for the services we have identified as remaining with County, such as fueling services via Fleet, IT services via DTech, Clerk of the Board, CMID, and billing services via CUBS. The Districts are focused on labor relations to ensure a smooth transition of employees and their benefits. The Districts will also begin developing a compensation policy with the help of a consultant. The policy will establish the parameters for future salary surveys to establish the appropriate basis for employee compensation, and will be brought to the Districts’ Boards of Directors for approval.

## Finance/Treasury Services Transition Initiative Update

### Finance/Treasury Schedule

Figure 3: Finance / Treasury Transition Schedule



### Accomplishments since January 2023

- *Identification of governmental entity to join the Financing Authority JPA* – In January 2023, the Central San Board of Directors voted to authorize its General Manager to execute the Financing Authority joint exercise of powers agreement (JPA) with SacSewer and Regional San.
- *Transition of other finance and treasury services* – a budget of \$100,000 was included in the FY 2023-24 recommended budget to retain consultant support.

### Looking Forward

The following activities are envisioned for 2023:

- Make final withdrawals of designated reserves identified for withdrawal and complete investment of the funds in appropriate securities.

- Complete the revision of the Financing Authority JPA to include Central San. Obtain Board approval from Regional San and SacSewer and make the necessary filings with the Secretary of State to complete the amendment of the JPA.
- With consultant support, conduct an in-depth review of other finance and treasury services and determine how each service will be managed after the end of the MIA, and execute the necessary actions.