

JAN. 2023

ONE DISTRICT

**QUARTERLY
REPORT**



Table of Contents

One District Overview 3
Legal Merger Initiative Update..... 6
Staffing & Support Services Transition Initiative Update 8
Finance/Treasury Services Transition Initiative Update..... 10

One District 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

This report summarizes the progress made through 2022 on the One District effort 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 transition 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 support staffing—including the same General Manager and nearly all of the same executive staff. However, they are separate legal entities, maintain separate finances and rate structures, and are governed by separate Boards of Directors. The current arrangement is the result of a historical evolution of the two organizations by circumstance rather than a strategically planned effort to provide the most efficient and effective sewage collection and treatment service to the community. 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 the merged district will be governed by a 17-member Board of Directors identical in structure to that which is currently governing Regional San.

A whole host of benefits are anticipated from legally merging the two districts. The legal merger is expected 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 is also expected to 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 own 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 purpose of 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 in a more efficient manner 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, have 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 are required to be held for periods of multiple decades. By withdrawing some of the Districts’ cash reserves they can then 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 purpose of the Finance/Treasury Services project is 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 cashiering, 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 in large part 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.

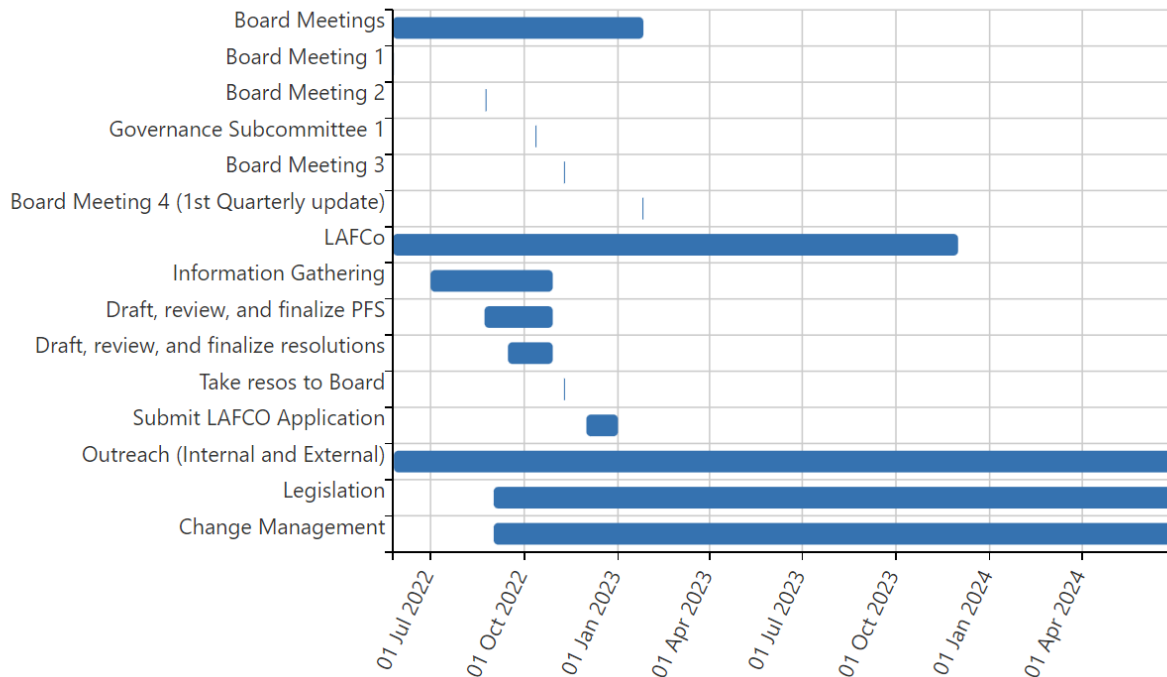
Merging and Debt Management

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 on behalf of 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, such that there would be at least two parties to the agreement after merging. Following a review of possible entities that could join the JPA, staff reached out to Central Contra Costa Sanitary District (Central San) who also expressed interest in joining the Financing Authority. Currently, District staff and Central San staff with support from the Districts' Bond Counsel are working on revising the JPA agreement to include Central San.

Legal Merger Initiative Update

Legal Merger Schedule

Figure 1: Legal Merger Schedule



2022 Accomplishments

- Research and Evaluation* – The Districts brought on a consultant in 2018 to analyze the advantages and disadvantages of legally merging Regional San and SacSewer. Per the consultant’s findings, their recommendation was to merge the Districts. Staff re-started efforts to evaluate legally merging in January 2022. The legal merger was prioritized in order to simplify the transition of County staff to District staff, rather than moving staff into two Districts and combining later. In early 2022, staff met with the consultant, the LAFCo Executive Officer, legal counsel, and Regional Water Quality Control Board staff to understand and discuss the logistics of merging. LAFCo’s Executive Officer provided a detailed memo describing merger options, pros and cons, milestones, potential issues, and a recommendation.
- Approval to Continue Pursuing Legal Merger* - At the May 25, 2022, Board Meeting, staff discussed the potential merger of the Districts. The Board was supportive of potentially moving forward with a merger and requested staff report back with an evaluation of how merging could help streamline work.
- Approve Initiating a Legal Merger* - On August 24, 2022, the Board directed staff to pursue implementing a legal merger, establish an ad-hoc Board Committee (Committee), and provide quarterly reporting. The two most critical and lengthy parts of the legal

merging process is obtaining LAFCo approval and completing legislation. Both processes required determining the new name and governance structure for the merged District.

- *Recommend Governance Structure and Name* - The Committee, consisting of representation from Yolo County, the County of Sacramento, and the City of Citrus Heights, was formed to discuss options and recommendations for the legal name and governance structure for the merged district. Staff met with the Committee in October 2022, and the Committee agreed with the Districts' recommendation on the naming and governance structures. Staff was instructed to proceed with a recommendation to the Regional San and SacSewer Boards.
- *Approve Governance Structure and Name* - Staff brought the governance structure and legal naming recommendations to the Board on November 9, 2022. The recommendations were to (1) approve maintaining a 17-member Board and population-based governance structure and (2) approve the reorganized district's legal name to be the Sacramento Area Sewer District (SacSewer). The Board approved both recommendations.
- *LAFCo* – Following the Board's direction, staff immediately began working on the necessary documentation required by LAFCo to evaluate the proposed legal merger—a process LAFCo refers to as a “reorganization.” The documentation includes completing a Plan for Service, a Metes and Bounds Description, and a Municipal Services Review. These items will be brought to LAFCo's Commission Meeting for approval.
- *Legislation* - Staff also began working with District Counsel on developing language for the legislation and started engaging with advocacy consultants for guidance on the legislative process and input on who should author the Bill.

Looking Forward

- *LAFCo* – LAFCo will have the reorganization material to begin reviewing in January 2023. After completing the review process, the reorganization recommendation will go before the LAFCo Commission, which is expected in the first half of 2023.
- *Legislation* – There have been significant changes to the Sacramento region's state legislative representatives due to re-districting and term limits. Staff will start meeting with local legislative representatives to secure a Bill author. Staff will also meet with the Senate Governance and Finance Committee Consultant to receive their input on the proposed Bill language and the Committee process. The goal is to have a Bill request submitted to the Office of Legislative Counsel by the January 20, 2023, deadline.
- *Streamlining Process and Documentation* – There are processes and documents that will be consolidated upon the Districts legally merging. Staff is still in the process of reviewing processes and documents to determine the best timing—ranging from immediately to updating through attrition. Over the next few months, staff will begin

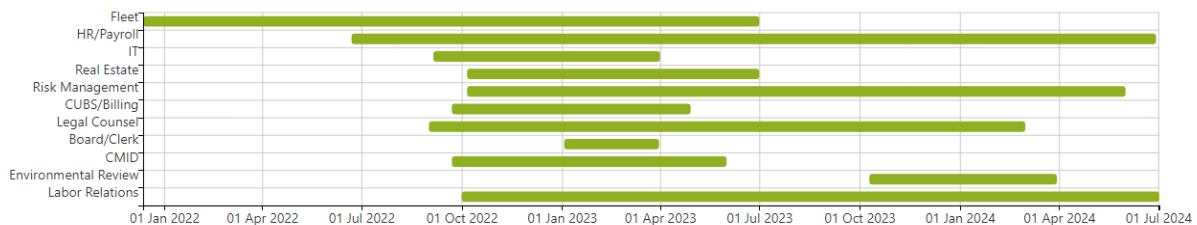
developing a list of various documents that will need merging and the estimated timeline will outline when they are expected to merge.

- *Employee & Stakeholder Communications* – Our General Manager will continue updating the Cities, Counties, and other regional entities and regulating bodies and will be asking for support letters in early 2023. Support letters provide legislators greater confidence and willingness to author a Bill for the legal merger. Additionally, ongoing internal communications are underway with staff explaining why we are merging the districts, addressing what will and won't change, surveying staff regarding what questions they have about upcoming changes, and proactively addressing those 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 in 2022

- *Approval to Continue Pursuing Staffing Transition* - At the May 25, 2022, Board meeting, recommendations were presented on transition County staff to the Districts. Three alternatives were presented for the transition, and the Board approved staff's recommended option—where all staff currently assigned to the Sanitation Districts Agency, plus Human Resources, will become District employees. It was determined that the Districts and County would jointly review remaining support services and functions currently provided by the County to determine if, and how, those services would be provided in the future. If either party is unwilling to proceed with a Service Level Agreement for continued support services, the Districts would obtain those services either through additional Districts staffing or through a contract with a third party.
- *Initiation to Staffing Transition* - In 2022, based on the Board's direction, we initiated the analysis of the various services the Districts receive from the County, such as legal counsel, human resources, real estate, risk management, construction and inspection, labor relations and retirement services. For these services, we are in process of identifying the detailed lists of tasks provided by County; develop an MOU for the tasks that will be continued with County; and a transition plan for Districts to take on the remaining services.

- *Employee Communications:* Ongoing internal communications are underway with staff to explain why we are transition staff and some services from the County, addressing what will and won't 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.
- *Hiring Human Resources Manager II* – Districts have hired a human resources manager.
- *Procured an Enterprise Resource Planning (ERP) consultant-* Districts issued Requests for Proposals and awarded the contract to Soft Resources Inc. for assistance in procuring an ERP consultant. An ERP refers to a type of software that organizations use to manage day-to-day business activities such as accounting, procurement, project management, risk management, and regulatory compliance. The District currently utilizes the County's Platform, COMPASS, and having an internal ERP infrastructure in place is necessary to take on various services in-house.
- *Procured Fleet Management Plan Consultant* - Districts issued an RFP and awarded contract to Mercury Associates to aid in development of fleet management plan.
- *Procured Fleet Repair and Maintenance Consultants* - Districts issued and RFP and awarded contracts to two vendors, Superior Equipment Repair and Superior Truck Fleet Services.
- *Human Resources Consultant* – RFP was released December 9th for Human Resources consultant services. A human resources specialized consultant will assist with the transition of the more complex human resource disciplines such as class studies, labor relations, and the identification of the appropriate human resources infrastructure based on benchmarking of similar districts and industry standards. The RFP for HR services closes January 6th, 2023.
- *Retirement Specialist* - Secured a retirement attorney to assist with the complex task of transitioning SCERS retirement from the County to SacSewer. The plan is to negotiate with the County on the retirement assets and liabilities.

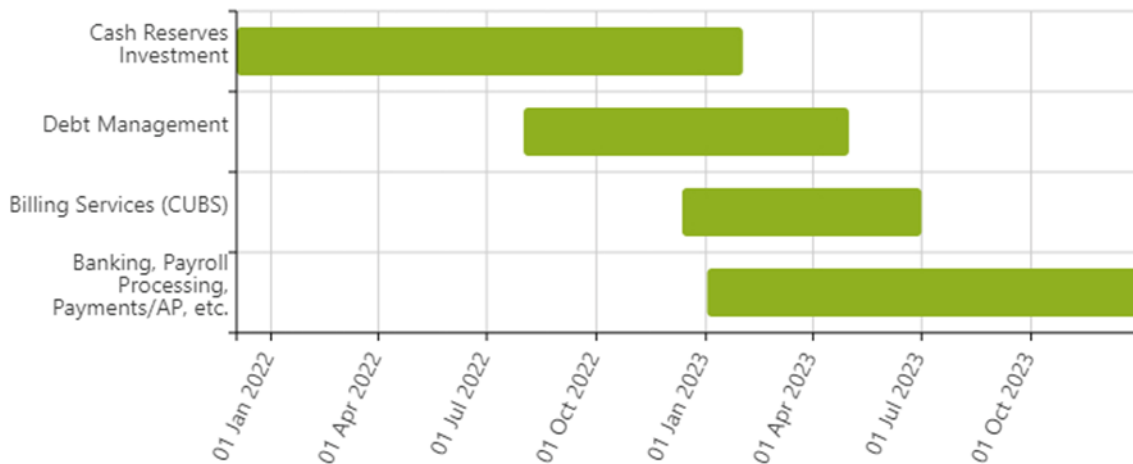
Looking Forward

In 2023, our focus will be 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, and billing services via CUBS. In early 2023, the Districts will also start the negotiations with County on retirement assets and liabilities.

Finance/Treasury Services Transition Initiative Update

Finance/Treasury Schedule

Figure 3: Finance / Treasury Transition Schedule



Accomplishments in 2022

- *Selection of Investment Advisor* – In January 2022, the Districts boards approved a contract with Chandler Asset Management to provide investment management services for the Districts’ cash reserves.
- *Selection of Custodian Bank* – In April 2022, the Districts boards approved a contract with US Bank to provide custodial banking services for the Districts’ cash reserves.
- *Memorandum of Understanding (MOU) between the Districts and the County* – District staff worked collaboratively with County staff over the first half of 2022 to reach agreement on an MOU, which defined the terms governing the withdrawal of designated reserve funds from the County treasury to US Bank for investment outside the County’s Pooled Investment Fund. The MOU was approved by the Districts Boards and by the County Board of Supervisors in August 2022.
- *Withdrawal and Investment of Reserves outside County Pool* – In collaboration with County staff, the Districts developed a monthly schedule to gradually withdraw reserve funds from the County treasury over a period of several months. On September 15, 2022, the first withdrawal of \$53 million of designated reserves was executed. As of December 1, 2022, a total of \$198 million had been transferred to US Bank and has been invested by Chandler Asset Management in securities with longer maturities.

- *Identification of governmental entity to join the Financing Authority JPA* – District staff and Central San staff established mutual interest between the organizations and began working together to revise the JPA agreement to include Central San. Successful amendment of the agreement to include Central San will ensure the continued existence of the Financing Authority post-reorganization.
- *Establishment of ad-hoc Investment Advisory Committee* – The Committee, made up of three Board members, the District Engineer, and the Chief Financial Officer was formed and met twice in 2022. The Committee provides oversight for the Districts’ investment advisor and makes investment policy recommendations to the full Boards of Directors.

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 with Central San. Obtain Board approval from all entities involved and make the necessary filings with the Secretary of State to complete the amendment of the JPA.
- Develop and execute an agreement or MOU with the County for the continuation of billing services by CUBS following the end of the MIA.
- 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.

Merged District Organizational Structure Short-Term (2-3 Years)

