

EXECUTIVE SUMMARY

“A New Governance Model for a New Era in Santa Clarita Valley Water Management”

Introduction

Residents and businesses of the Santa Clarita Valley are served by several separate water suppliers. It is a fragmented structure that has from time to time resulted in redundancies, interagency conflict and barriers to integrated regional water management. While the region’s water suppliers continue to provide reliable and cost-effective water service, there is strong consensus that even greater efficiencies, effectiveness and enhanced regional water management can be achieved on behalf of the Valley’s 350,000 residents and thousands of businesses. This fundamental truth is the basis for the exploration of creating a new public water district for the region.

Regional Water Service

Newhall County Water District (NCWD) serves residents and businesses in the communities of Castaic, Newhall, Saugus, Pinetree and other areas. Castaic Lake Water Agency (CLWA) is the region’s wholesale water provider, responsible for importing domestic water supplies, among other responsibilities. CLWA also operates Santa Clarita Water Division (SCWD) and owns the stock of Valencia Water Company (VWC), both of which provide retail water service. Collectively, NCWD and CLWA participate in 90 percent of retail water service in the Valley.

Moving From Local Conflicts to Regional Solutions

Over several decades, the two agencies have generally enjoyed a collaborative and productive relationship. However, in recent years, conflicts have arisen on issues including governance, rates, transparency and other matters. This conflict has led to several lawsuits or regulatory challenges between the two agencies.

NCWD and CLWA had a breakthrough in late 2015 when, as part of settlement negotiations related to litigation between the two, a bold idea was brought forward to create a new public water district. Leaders from both NCWD and CLWA agreed that the best path forward would be to explore this idea, study its benefits and challenges, and seek guidance from the public on the future of water governance in the Santa Clarita Valley.

This new public water district could create significant economies of scale, reduce costs, and improve integrated regional water management while saving millions of dollars. There would also be governance benefits. A system where directors would be elected by division would ensure compliance with the California and Federal Voting Rights Acts; be easier for residents and voters in the new district to understand; and offer the strongest opportunity for different regions of the new jurisdiction to obtain a strong voice on the new elected leadership.

The 3E's: Foundational Strengths of a New Public Water District

The purpose of this Study is to identify the opportunities and challenges of creating a new public water district in the Santa Clarita Valley. Both NCWD and CLWA have focused on three fundamentals – the “3E's” – as part of this exploration. They are:

- **Economics:** Fundamentally, any new water district must make economic sense for customers. This report identifies millions of dollars in one-time and ongoing savings. Structurally, a new water district could substantially reduce the cost of water management across the Santa Clarita Valley.
- **Efficiencies & Effectiveness:** Customers are at the heart of this process. Any new district would be required to maintain the same or higher level of customer service currently enjoyed by customers. This Study analyzes the opportunities of maintaining and expanding on the current level of service.
- **Enhanced Water Management:** While the Valley is a relatively tight-knit community, its water management is fragmented across several separate providers. The State and local communities are moving towards more integrated regional water management in order to leverage economies of scale, planning resources and strategies, and to improve water service delivery. Just as important, the scale of effective water resources management in the Santa Clarita Valley is tied to the scale of elements such as the groundwater basin and the surface stream network, as well as the future regional recycled water system. Each of these span more than one agency's geographic boundary. The river connects everyone in the valley and, rather than being a basis for division, should be a unifying force for managing the water supply. This report analyzes the potential of a new district to enhance regional water management. This could result in new sources of water supply (e.g. recycled, groundwater recharge, etc.), a stronger voice in Sacramento and Washington, D.C., and a locally representative, but regionally integrated board of directors.

The Challenges and Opportunities of Creating a New Public Water District

A summary of the challenges and opportunities of forming a new public water district are presented in the **Table 1-1** below.

Table 1-1 New District Formation Challenges and Opportunities	
Challenge	Opportunity
Changes NCWD's and CLWA's current board system to a more regionally integrated board	Improve on current structure to provide a more effective, locally representative and regionally integrated voice for water governance
Maintain high level of customer service	Improve on current customer service models and achieve efficiency through economy of scale
Ensure that ratepayers from one entity are not unfairly burdened with obligations of the others	Create a financial structure that accounts for existing debts, liabilities and assets and provides for a fully transparent and accountable system which shares gained efficiencies
Maintain high level of operations and infrastructure management	Improve on current level of operations and infrastructure management by fully integrating distribution networks and resources
Keep pace with an ever changing environment impacting water resource development and planning	Provide a single forum to debate and set policy to achieve the most effective way to develop and manage water resources

Conclusions and Recommendations

In general, creating a new public water district provides an opportunity to capitalize on economies of scale and reduce operations, maintenance and capital costs while enhancing integrated resource management, thereby saving customers money while at the same time improving service delivery. More specifically, this Study uncovers opportunities in the areas of governance, organizational efficiency, finances, operations and infrastructure, and the future of water resource management.

Governance:

Division based governance would provide the community with a more direct regional representation and oversight of water resources. A commitment to a reasonably sized governing body will help maintain adequate stakeholder representation, while continuing

the philosophy of streamlined policymaking and nimble and responsive operations. The proposed divisional governance structure provides for increased local publically elected representation.

Organizational Efficiency:

*The creation of a new district would provide the ability to optimize service to the unified service area and leverage the combined organization to reduce operating costs. The new public water district has the potential to save a total of **\$2,752,000** over a three-year period with an ongoing savings of up to **\$1,619,000** per year primarily through retirement, attrition and reduction of outside service contracts without a reduction in the level of service.*

Finances:

Enterprise accounting provides a framework that addresses stakeholder concerns related to fairness and equity, so that obligations of one enterprise will not become the responsibility of the other.

Operations and Infrastructure:

Both agencies have similar infrastructure and operations. Relying on the strengths of each organization can provide resources and support to reduce costs and improve efficiencies, while reducing redundant operations. The new district would result in the integrating and coordinating of operations and infrastructure to ensure increased efficiency. Specifically, creating a new district would allow for the opportunity to sell or sublease certain real estate assets while integrating others to provide for strategically located facilities to improve customer service and operational efficiency.

Water Resource Management:

A combined new district would be better positioned to take a regional perspective to address opportunities such as conjunctive use and recycled water use expansion.

The foundational efficiencies and cost savings uncovered by this Study would be significant benefits of a new public water district. While there would also be a number of one time transition costs, the ongoing savings would continue to accrue to the benefit of the community.

Moving forward, both NCWD and CLWA will share and seek feedback on this Study's findings. The decision to move ahead will require legislative action as well as involvement from other local government agencies. This process will be – and has always been – about public engagement and consensus. The two agencies look forward to bringing forth new and bold ideas to better serve Santa Clarita Valley's residents and businesses.

1.0 INTRODUCTION

1.1 Background

California has a unique history in how water has been governed since its inception. The Santa Clarita Valley is no different: it has its own history, driven by the needs of the community. The SCV, at one time a miniature snapshot of the Wild West, has flourished into a beautiful residential community filled with homes, businesses and growing families. Water has been an essential part of the history, growth and stability of the ever-changing and ever-growing population of the area.

Representatives of NCWD and CLWA began meeting in 2015 with the purpose of finding common ground to settle litigation between the two agencies. As those talks evolved, leaders from both sides saw merit in discussing the possibility of combining the two agencies into a new public water district. As the talk's progressed, common goals and the following guiding principles were ultimately established:

- Take a leadership role in creating a long-term integrated water resource strategy for the Santa Clarita Valley.
- Value an inclusive, open and transparent public process for water resource management.
- Make ratepayer value and multiple stakeholder benefits a priority.
- Listen to each other and work collaboratively; seek to understand opinions especially opposing points of view.
- Identify and prioritize issues, which are important and worthy to address first.

These principles have steered the process as the two agencies explore the possibility of creating a new, single public water district to better serve the valley's water customers. Since early 2016, the two Boards have hosted several public workshops, conducted extensive public outreach, conducted public policy research and continued to study the proposal while meeting with various community, business and civic groups and organizations.

In general, creating a new public water district provides an opportunity to capitalize on economies of scale and reduce operations, maintenance and capital costs while enhancing integrated resource management, thereby saving customers money while at the same time improving service delivery. In this case, there are other compelling benefits for water management, allowing the area to better manage and address challenges and opportunities such as recycled water, conservation and water use efficiency, groundwater management and conjunctive use. Key determining factors to success, include transparency, governance, technical and financial analyses.

While this Study is evaluating the challenges and opportunities revolving around the creation of a new water district through combining CLWA, SCWD and NCWD, there are currently two other retail water providers in the Santa Clarita Valley: Valencia Water

Company (VWC) and Los Angeles County Waterworks District No. 36 (LACWD). The principles evaluated in this Study could apply to the inclusion of VWC and LACWD in the new entity if in the future such an effort were undertaken. Currently, Valencia Water Company is a water utility corporation and CLWA is its sole shareholder, having acquired the stock of VWC in 2012. The acquisition of VWC by CLWA has been challenged in court and cases are pending. If all legal issues are resolved and impediments removed, the new public water district could decide to integrate VWC. The community served by LACWD would need to determine if there was sufficient interest to be considered for integration. For these reasons, VWC and LACWD are identified, but not included in the specific evaluation as part of this Study.

1.2 Purpose

The purpose of this study is to evaluate the following proposal:

“To create a new public water district through combining the strengths of NCWD and CLWA”

Specifically, this Study serves to analyze governance, financial, operating, and other data to provide recommendations regarding the creation of a new public water district. It presents information on the challenges and opportunities. Independent consultants were engaged to evaluate certain feasibility aspects of creating a new water district. These include National Demographics Corporation to evaluate governance options and Mike Whipple and Associates to evaluate finances (copies of their full reports can be found in **Appendix A and B**, respectively).

The Study is organized in the following objective areas:

Section 1.0	Introduction
Section 2.0	Description of Current Water Providers
Section 3.0	Governance Evaluation
Section 4.0	Organizational Analysis
Section 5.0	Financial Analysis
Section 6.0	Operational and Infrastructure Assessment
Section 7.0	Water Resource Management
Section 8.0	Conclusions and Recommendations

1.3 Public Engagement

NCWD and CLWA recognized that the concept of a new water district required extensive public engagement. The districts launched what has become among the Santa Clarita Valley’s most robust, local government-led outreach process to inform customers, seek guidance and priorities, then incorporate feedback into the planning process. In fact, this Study is a direct result of the feedback received from the process. It is designed to analyze

the various subject areas of importance as identified by the public and provide the reader with specific information regarding the proposal, to create a new public water district. The following outlines the public engagement efforts.

Workshop Series: The central component to the engagement process has been community forums and workshops. This series was designed as a progressive process – each workshop builds off the next to provide an escalating amount of detail based on public feedback and studies conducted by both the districts and independent experts. The sequence follows:

Workshop #1: Introduction & Feedback

- **Date:** February 4, 2016
- **Attendance:** 150 (approx.)
- **Recap:** This workshop served as an introduction to the concept and the broad issues needing to be studied as part of the process. It included brief presentations from the general managers of both NCWD and CLWA, then a robust public comment and question and answer session.
- **Result:** Questions and issues were documented and incorporated in future planning and studies.

Workshop #2: Priority Setting

- **Date:** May 16, 2016
- **Attendance:** 90 (approx.)
- **Recap:** This workshop focused on learning community priorities of a potential new water district. The agencies re-introduced the concept, challenges and opportunities. A representative from LAFCO outlined general governance matters in the region. Residents were then asked to rate their priorities on matters related to governance, service and finance.
- **Result:** More than 50 priority cards were submitted. See **Appendix F** for results.

Workshop #3: Governance: How Could a New District be Governed?

- **Date:** June 6, 2016
- **Attendance:** 50 (approx.)
- **Recap:** Based on priorities set by the community, a study was conducted and released to the public on potential governance structures. The public was invited to weigh in on matters like size of potential board, election, California Voting Rights Act, specific boundaries and other governance matters.
- **Result:** The Boards of both NCWD and CLWA received considerable public feedback on potential entity governance structures, including a division-based structure and the size of the new board.

Workshop #4: Comprehensive Formation Study Review

- **Date:** Scheduled for November 16, 2016

Joint Board Meeting: Consideration of Settlement Agreement

- **Date:** Scheduled for December 13, 2016

Community Outreach: Early on, NCWD and CLWA committed to a principle of meeting with anyone interested in this process and potential outcome. To date, the agencies have held dozens of briefings with individuals and organizations in the region. The following outlines these meetings.

- Building Industry Association of LA/Ventura Counties
- Canyon Country Advisory Council
- Castaic Town Council
- City of Santa Clarita
- Democratic Party of Los Angeles County
- KHTS 1220AM on-air interview
- Ms. Christie Smith
- Mr. Steve Fazio
- Mr. Henry Stern
- Office of Assemblyman Scott Wilk
- Office of Congressman Steve Knight
- Office of Senator Fran Pavely
- Office of Supervisor Michael Antonovich
- Santa Clarita Chamber of Commerce
- Santa Clarita Lincoln Club
- Santa Clarita Rotary Club
- Santa Clarita Rotary Sunrise Club
- Santa Clarita Valley Economic Development Corporation
- Southland Association of Realtors
- Tesoro del Valle HOA
- The Santa Clarita Valley Signal Editorial Board
- Valley Industrial Association

Public Information Materials: Clear and visually oriented educational materials have been an important element of the public engagement effort. NCWD and CLWA have produced a number of engagement materials in a variety of formats (print, digital, online, email, web, video, etc.) to ensure we can reach the broadest possible audience.

Additionally, media relations has been an important part of the educational outreach efforts. NCWD and CLWA have placed five columns outlining the potential challenges and benefits of a new district. They have also participated in two editorial board meetings and numerous articles on the process. The goal has been to provide open and transparent access to the press and public as this process moves forward.

Public Opinion Research: As with any important public policy matter, scientific research is important to determine opinions of customers. The districts conducted a Valley-wide public opinion survey following the launch of the public engagement effort. The following outlines general findings of this research. The summary of the survey report is included as **Appendix E** and the complete report is available at yourscvwater.com.

- Water and drought is the top issue on the minds of local residents, followed by jobs/economy and public safety
- A plurality (49.3%) of residents preferred the idea of merger without any background information; a minority (15.7%) of residents did not prefer the idea of a merger without any background information; the balance (35%) was unsure
 - *Top priorities for those that prefer merger (49.3%): Efficiencies, directly elected representation, better customer service*
 - *Top priorities for those that did not prefer merger (15.7%): Unaware or needed more information, one regional district, rates*
- A majority (61.7%) of residents preferred a merger after being presented both challenges and opportunities; a minority (25%) of residents did not prefer the idea of a merger after being presented both challenges and opportunities; the balance was unsure (13%)
- Over three-quarters of residents (78%) would prefer that a new water district reflect the best attributes of current water providers
- Over three-quarters of residents (76%) preferred a new water district if it meant all residents would elect their water representatives
- Customers are most concerned with fair rates, ratepayer protections and transparency

NCWD Advisory Questionnaire: A few NCWD customers voiced questions of benefits for District customers. The District opted to canvass all its customers to obtain priorities and opinions. Each customer was provided a questionnaire and asked to return it. An impressive 500+ cards were returned.

In total, a plurality (45 percent) of respondents wanted to explore potential benefits of a new district. About one-quarter (24 percent) needed more information and one-third of customers (33 percent) did not favor exploration of a new water district. These results supplement the scientific survey conducted in the spring that showed roughly 60 percent support for a potential new district, with 24 percent opposed.