

Making Safe, Clean Affordable and Accessible Water a Reality through Governance and Service Delivery Solutions

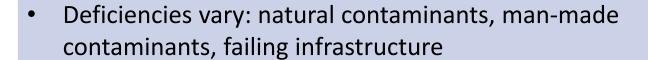
Regional Water Authority Symposium

March 15, 2018

## What is the Problem We're Trying to Solve?

#### **Problem and Root Causes**

 Approximately 329 systems in the State of California chronically serve contaminated water or cannot provide reliable water service due to unsound infrastructure/operations



- Majority are *very small* systems and small rate bases resulting in inefficient use of rate revenue
- Inability of system owners, managers and operators to implement complex solutions, repair infrastructure, or secure external funding
- Disadvantaged communities ratepayer affordability









# What are the Statistical Dimensions of the Statewide Challenge?

Non-compliant systems (Population)*	Number of Systems	Percent	
10,000 or greater	12	3%	83% of the non-compliant systems serve less than 1,000 people (~ 400 services)
1,000 to 9,999	46	14%	
100 to 999	150	46%	
Under 100	<u>121</u>	37%	
Total =	329		

<sup>\*</sup> SWRCB State Drinking Water Data Base, November 20, 2017 database

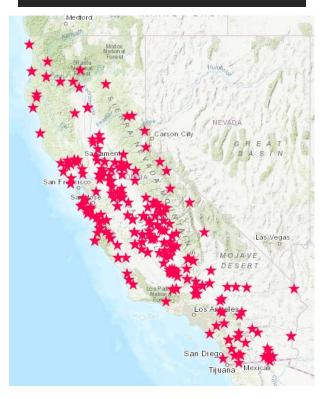
These non-compliant community water systems cross all sectors including public agencies and schools (~40%) and privately owned or mutual water companies (~60%)



# What are the Common Issues and Challenges with These Non-compliant Systems?

- Inadequate technical, financial and managerial staff
- Very high per-customer administrative overhead:
  - Overhead rates for systems serving less than 1,000 people can be > 60%
  - Systems 5,000 10,000 < **35**%
- Regionalization and mutual aid can be overly complex/costly
- Individual consolidations important tool but require compatible host agencies

Water Systems in California with Contaminant Exceedances



Reforming the service delivery and governance model is prerequisite to defining new long-term supplemental funding needs

### Legislative Proposal: AB 2050 (Caballero)

Co-sponsored by EMWD and the California Municipal Utilities Association - introduced February 6, 2018



Three main components:



Establish new type of public water entity ("Small System Water Authority") in the Water Code:



- Multiple non-contiguous systems
- Independent special district at county or sub-county level
- Appointed/elected Board
- Enhanced internal and external financial capabilities



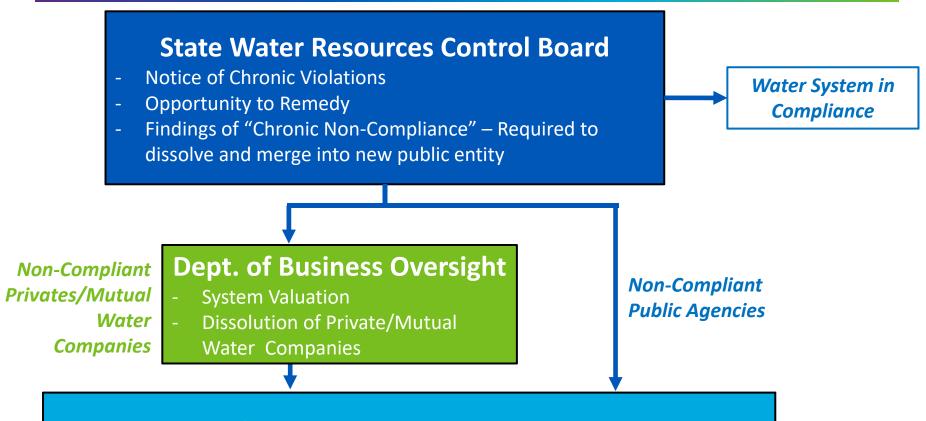
Specify process and timeline to equitably dissolve failing systems and form into newly defined public agencies that are viable and sustainable:



Sequential actions by State Board, Department of Business Oversight and LAFCOs



### Small System Water Authority Formation - AB 2050 (Caballero)



#### **Local Agency Formation Commission**

- Dissolution of public agencies
- Determine merged successor agency boundary comprised of former Public Agencies, Privates and Mutual Water Companies
- Consult with SWRCB-appointed Administrator on Plan for Service development
- Formation Proceedings for New Agency- Appoints Board of Directors





### Legislative Proposal: AB 2050 (Caballero)



#### **Provide Post-formation Oversight Process**

- Implementation of LAFCO Plan for Service and Board elections
- Net value compensation, as appropriate, to former Private/Mutual Owners
- State Board/Treasurer/LAFCO provides independent review of start-up and report to the legislature
  - Two years after formation
  - Recommendations for needed supplemental funding/sources









#### **Funding Availability**

#### **Capital Funding Sources**

- Voter approved Proposition 1 provides
  \$520 million in Safe Drinking Water and
  \$900 million in Groundwater clean-up with designated DAC funding
- Proposition 68 (qualified) provides
  \$250 million Safe Drinking Water and
  \$470 million Groundwater clean-up with designated DAC funding
- State Revolving Fund (SRF) No/Low-Interest Loans
- SRF Principal Forgiveness grants
- State General Fund with \$6.1 billion budget surplus (on top of \$10 billion "rainy day" fund)

#### **Operating Funding Sources**

- Significant revenue from consolidations through reduced overhead and economies of scale
  - Consolidation of managerial, financial, legal, compliance, etc.
- Example: reducing overhead from > 60% to < 35% of rate revenue for a 7,500 service system</li>
- Generates \$1.5 million/year<sup>1</sup> in additional operating revenue
- General Fund transfer to Safe Drinking Water Account



1. Assumes average Central Valley water bill of \$69/mo. per CPUC "Comparative Analysis of Utility Services and Rates in California", April 14, 2015.



## Summary - Fixing the Service Delivery Model

- Fixing the broken service delivery model for small failing water systems will lead to sustainable success
- Will require consolidation and reformation to eliminate hundreds of ultra-small failing systems
  - AB 2050 along with Public agency and PUC regulated utility consolidations
- Establishes staff with technical and managerial expertise
- Provides sustaining new operating revenue through economies of scale and elimination of overhead
- Facilitates access to ample capital funding to rebuild clean water infrastructure for all Californians

CALIFORNIA LEGISLATURE—2017—18 REGULAR SESSION

ASSEMBLY BILL

No. 2050

Introduced by Assembly Member Caballero

February 6, 2018

An act to add Division 23 (commencing with Section 78000) to the Water Code, relating to small system water authorities.

LEGISLATIVE COUNSEL'S DIGEST

AB 2050, as introduced, Caballero. Small System Water Authority Act of 2018.

Existing law, the California Safe Drinking Water Act, provides for the operation of public water systems and imposes on the State Water Resources Control Board various responsibilities and duties. The act authorizes the state board to order consolidation with a receiving water system where a public water system or a state small water system, serving a disadvantaged community, as defined, consistently fails to provide an adequate supply of safe drinking water. The act, if consolidation is either not appropriate or not technically and economically feasible, authorizes the state board to contract with an administrator to provide administrative and managerial services to designated public water systems and to order the designated public water system to accept administrative and managerial services, as

Existing law, the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, provides the exclusive authority and procedure for the initiation, conduct, and completion of changes of procedure to the annuaron, conduct, and comprehon or changes or organization and reorganization for cities and districts, except as





