



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
- Deficiencies vary: natural contaminants, man-made contaminants, failing infrastructure
- 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%
1,000 to 9,999	46	14%
100 to 999	150	46%
Under 100	<u>121</u>	37%
Total =	329	

83% of the non-compliant systems serve less than 1,000 people (~ **400 services**)

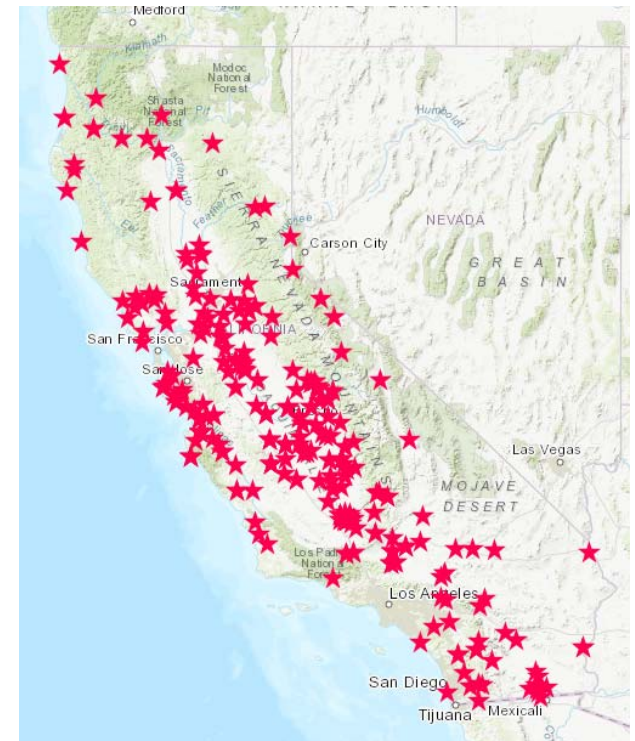
* SWRCB State Drinking Water Data Base, November 20, 2017 database

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:



1. 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

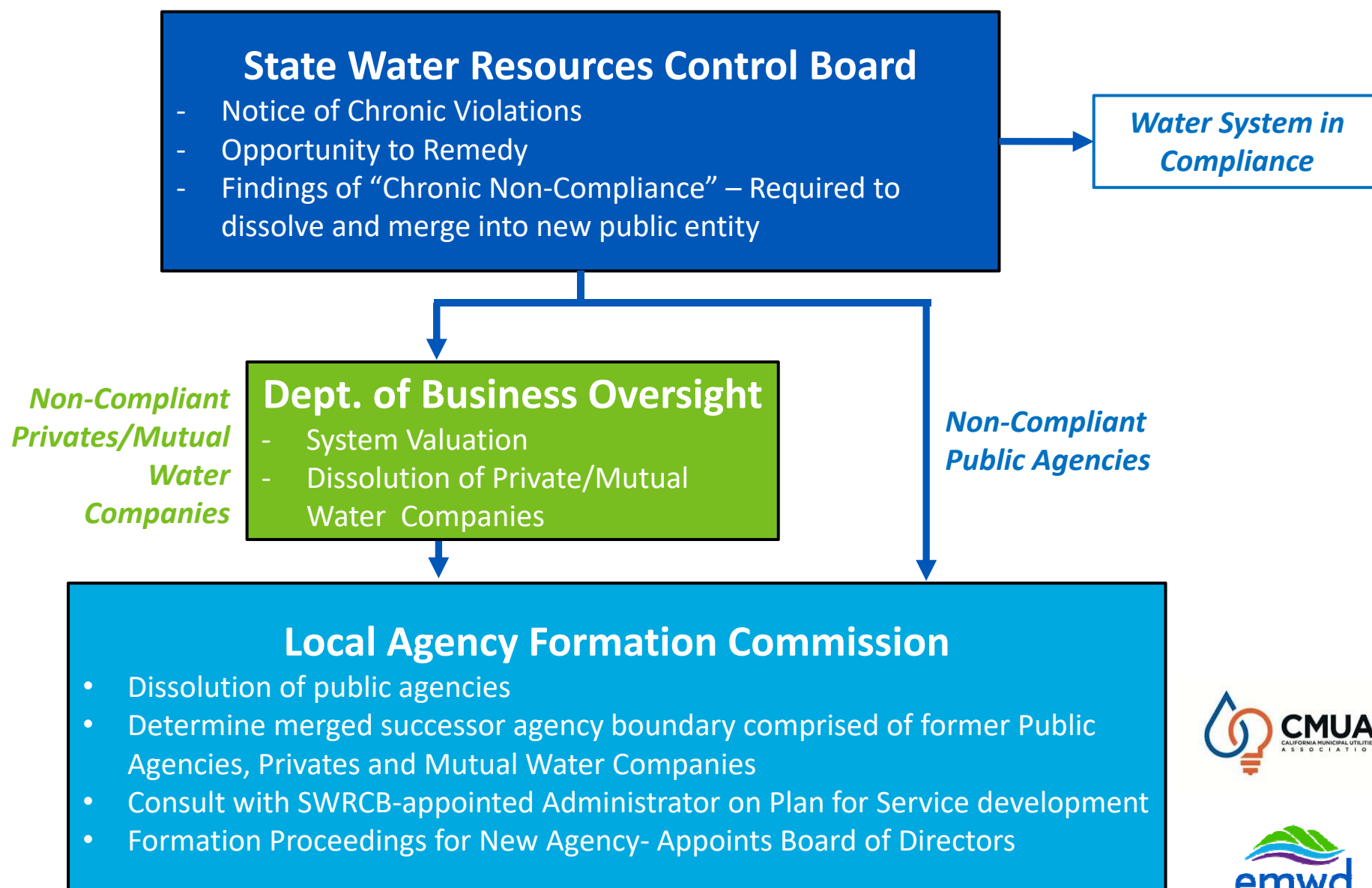


2. Specify process and timeline to equitably dissolve failing systems and form into newly defined public agencies that are viable and sustainable:

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



Small System Water Authority Formation - AB 2050 (Caballero)



Legislative Proposal: AB 2050 (Caballero)



3. 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
- Generates **\$1.5 million/year¹** 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

