



AB 2050 (Caballero) - Providing Safe, Clean Affordable and Accessible Water through Governance and Service Delivery Solutions

Municipal Water District of Orange County
Public Affairs and Legislative Committee

March 19, 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



Case Study - Eastern Municipal Water District and County Water Company of Riverside

County Water Company of Riverside

Private Water Company

140 Customers

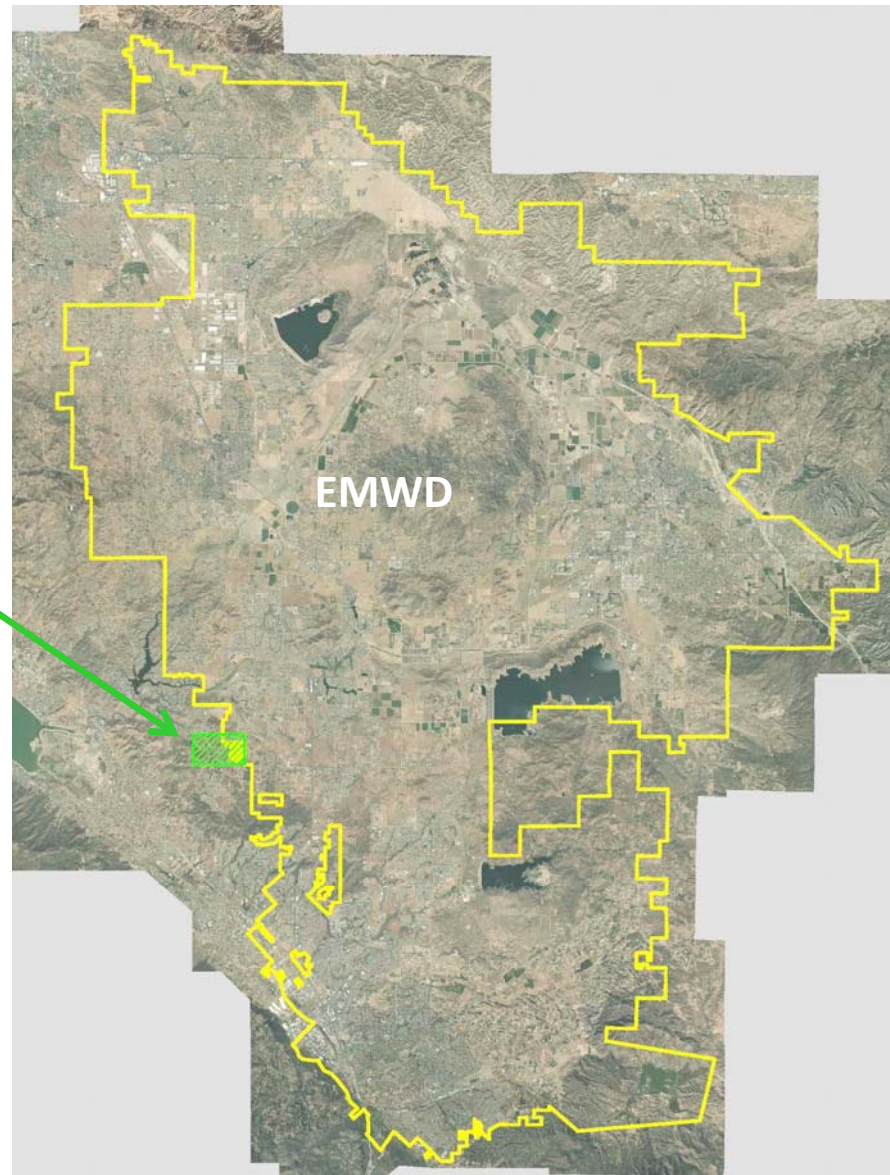
1,032 acres

Two contract employees

Disadvantaged Community

Facilities:

- Substandard 50,000 gallon tank
- Failing, branched distribution system – no isolation capacity
- Inadequate fire flow and only one hydrant
- Single source of supply (well) with frequent outages
- Chronic well water contamination - Notices of Violation
 - Nitrate levels ranging ~ 60 – 75 mg/l (MCL = 45 mg/l)
 - Bacterial contamination



County Water Company (CWC) Dissolution

Solution:

- Two larger public agencies able to consolidate system
- Immediately installed temporary potable water supply line
- CWC stipulated to be put into Receivership
- Assets transferred to public agencies
- Constructed \$5.8 million in system improvements with SWRCB grants
- Passed SB 1130 (Roth) in 2014 to address liability



*Consolidations with Larger Public Agencies
and Investor Owned Utilities can be
Effective Options*

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)**

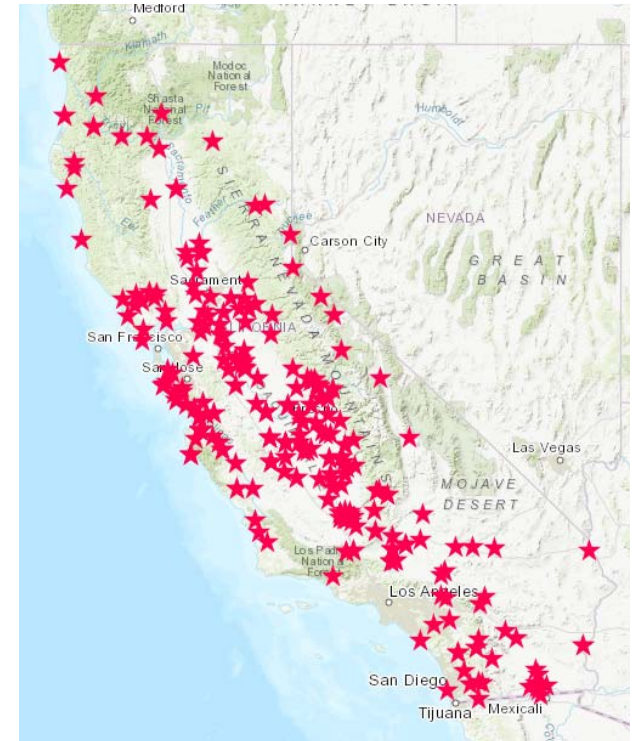
* SWRCB State Drinking Water Data Base, November 20, 2017 database

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:



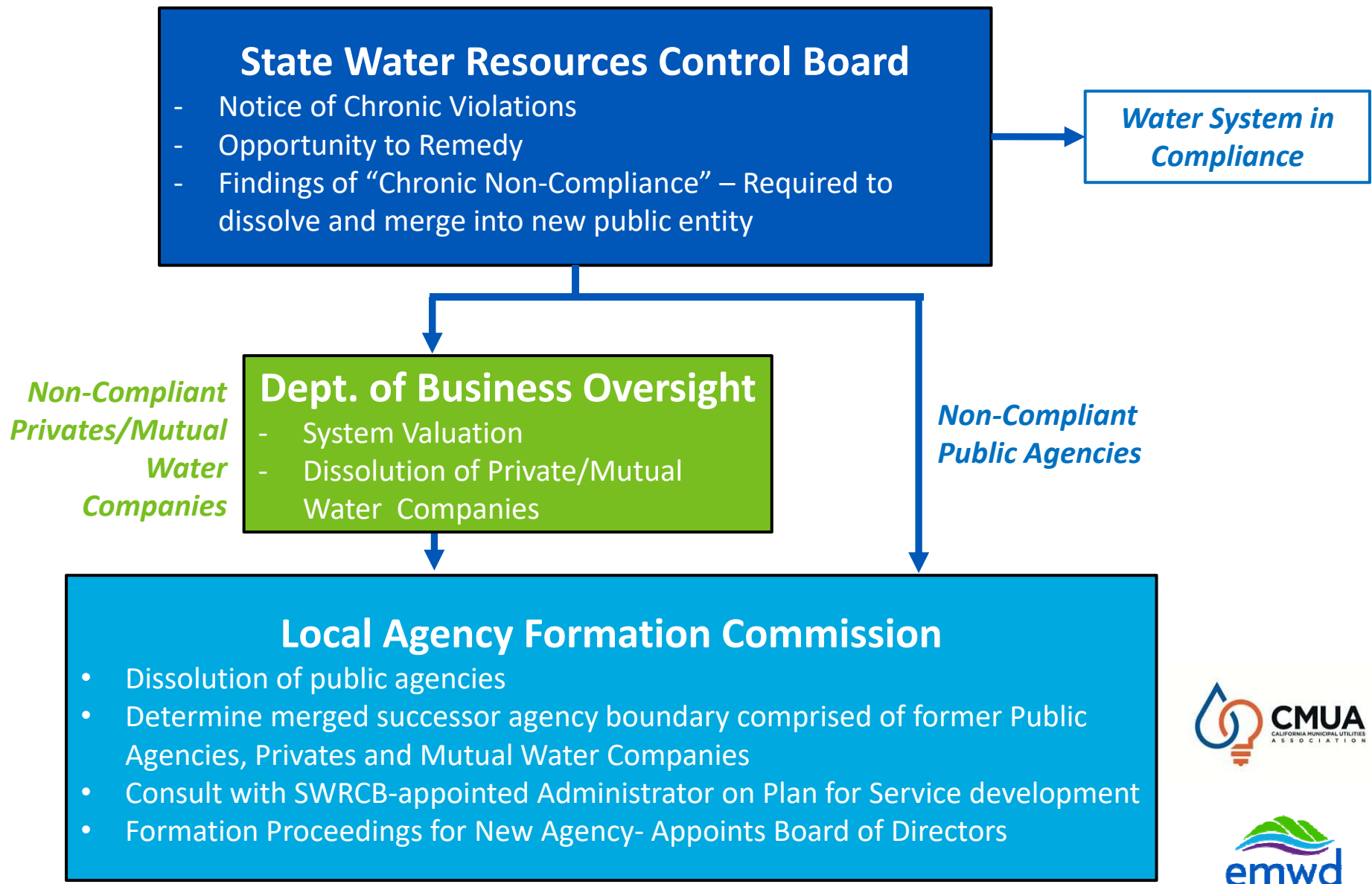
1. Establish new type of public water entity (“Small System Water Authority”) in the Water Code:
 - Multiple contiguous/non-contiguous systems
 - Independent special district at county or sub-county level
 - Appointed/elected Board
 - Enhanced internal and external financial capabilities

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



AB 2050: Small System Water Authority – Financial Tools and Enhancements

Internal Agency Sources

- Significant revenue from 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 Obligation (G.O.) taxing authority
- Tax-exempt Municipal debt supported by credit enhancement

External Agency Funding

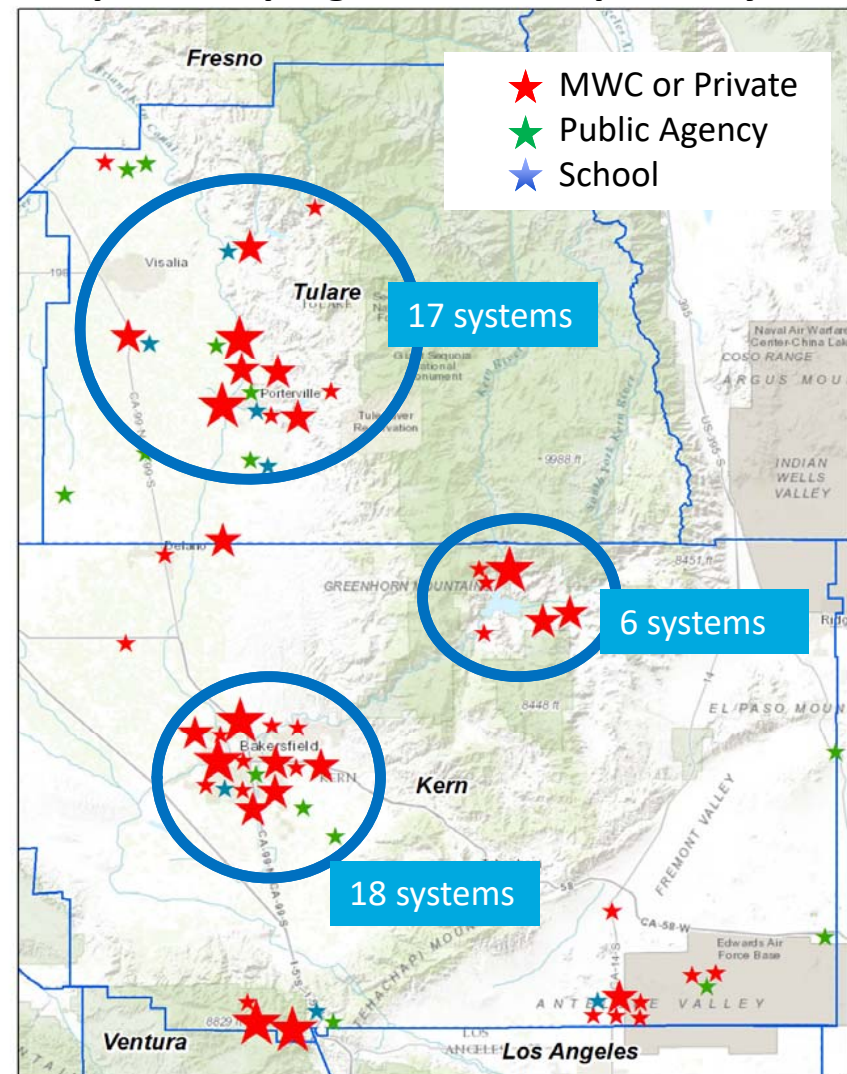
- State grants from water bonds
 - Proposition 1 and Proposition 68 (qualified)
 - **\$770 million SDW and \$1.37 billion GW funding**
- SRF No/Low-Interest Loans and Principal Forgiveness grants
- Start-up and formation funding from **\$6.1 billion GF budget surplus**
 - State Safe Drinking Water Account (Environmental Protection/SWRCB)
 - LAFCO supplemental budget augmentation
 - Department of Business Oversight supplemental funding

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

AB 2050: Small System Water Authority - Summary

- Merger of like entities into viable public water agency
- Participatory public governance
- Substantial reduction in number of small systems
- Merger provides economies of scale – frees-up operating rate revenue
- Establishes staff with technical and managerial expertise
- New internal and external financial resources
- New tool in addition to existing consolidation options

Example Grouping of Non-compliant Systems



Larger stars denote proportionately larger populations of small systems noted as “Out of Compliance” on State Water Board database.

Request: AB 2050 (Caballero)

Status:

- Co-sponsored by the California Municipal Utilities Association
- Introduced February 6, 2018 by Assembly Member Anna Caballero

Requested Action:

- MWDOC Adopt “Support” Position on AB 2050

