

emwd EASTERN MUNICIPAL WATER DISTRICT

Safe Drinking Water Solutions for All Californians

MWDOC Public Affairs & Legislation Committee
March 18, 2019

Human Right to Water

- AB 685 (Eng, 2012): *“Every human being has the right to safe, clean, affordable and accessible water adequate for human consumption, cooking and sanitary purposes.”*

Accessible 

Affordable 

Reliable 

All Californians Deserve Safe Drinking Water - What is the Most Effective Way to Make this Happen?

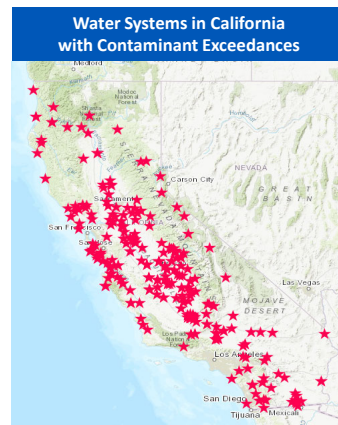


Underlying Challenges to Ensuring Safe Drinking Water for All Californians



Underlying Challenges to Ensuring Safe Drinking Water

- Approximately 300 systems throughout the state chronically serve contaminated water, or cannot provide reliable water service due to unsound infrastructure/operations
- Inadequate technical, financial and managerial resources
- Very high per-customer administrative overhead:
 - Overhead rates for systems serving less than 1,000 people can be **> 60%**
 - Systems serving 5,000 to 10,000 people can be **< 35%**



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



What are the Statistics of the Statewide Challenge?

Non-compliant systems (Population)*	Number of Systems	Percent
10,000 or greater	9	3%
1,000 to 9,999	40	15%
100 to 999	128	48%
Under 100	87	33%
Total =	264	

81% of the non-compliant systems serve less than 1,000 people (~ 400 service connections)

* SWRCB State Drinking Water Data Base, December 19, 2018 database

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



Drinking Water Tax Scheme



What is the Safe and Affordable Drinking Water Tax?

- Included in Newsom Administration’s proposed budget and in Budget Trailer Bill language distributed in January
- Establishes the Safe and Affordable Drinking Water Fund in the State Treasury with continuous appropriation to SWRCB
- Requires nearly 3,000 public water systems to collect a monthly water tax from residential and commercial customers (\$0.95 to \$10/connection)
- Includes fee to address nitrate from three sources in exchange for regulatory relief from the SWRCB and regional boards:
 - Dairy fee
 - Fertilizer fee
 - Confined animal fee



7 | emwd.org



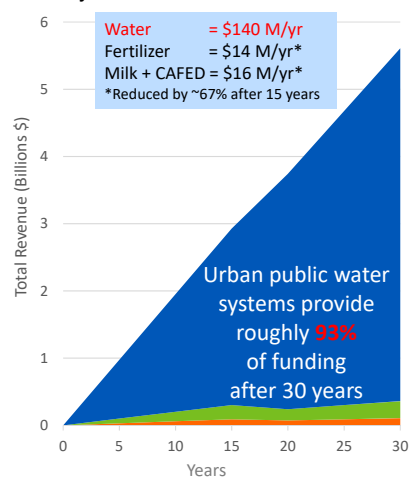
Is a Water Tax the Best Solution?

Concerns:

- Economic basis for revenue is **unsupported** and cost allocations are **inequitable**
 - Assumes highest cost methods to provide safe drinking water
- A per connection fee on water meters is a **“regressive” tax**
 - One economically-challenged community subsidizing another
- Fails to address the **root cause of the problem – unsustainable ultra-small water systems**
 - Disincentive for consolidation/efficiencies

8 | emwd.org

Projected Revenues for the Fund



■ Water ■ Fertilizer ■ Milk/Conf. Animal
 * Confined animal fee to be determined after bill passage. Capped at \$1,000 per facility.



Is a Water Tax the Best Solution?

Concerns:

- Broader State goal appears to be instituting a mechanism to levy taxes
- AB 401 – State Board Low Income Rate Assistance (UCLA 2017)
 - \$4.23 to \$36.49/mo. per connection
- Draft California Water Plan Update 2018 (Ch. 4 – New Funding Mechanisms)
 - “A tax or assessment, of about \$10 per month ... “

Avg Residential Customer

*Based on \$56/mo. water bill

9 | emwd.org

EMWD/CMUA Sponsored Legislation to Address Failing Water System Governance

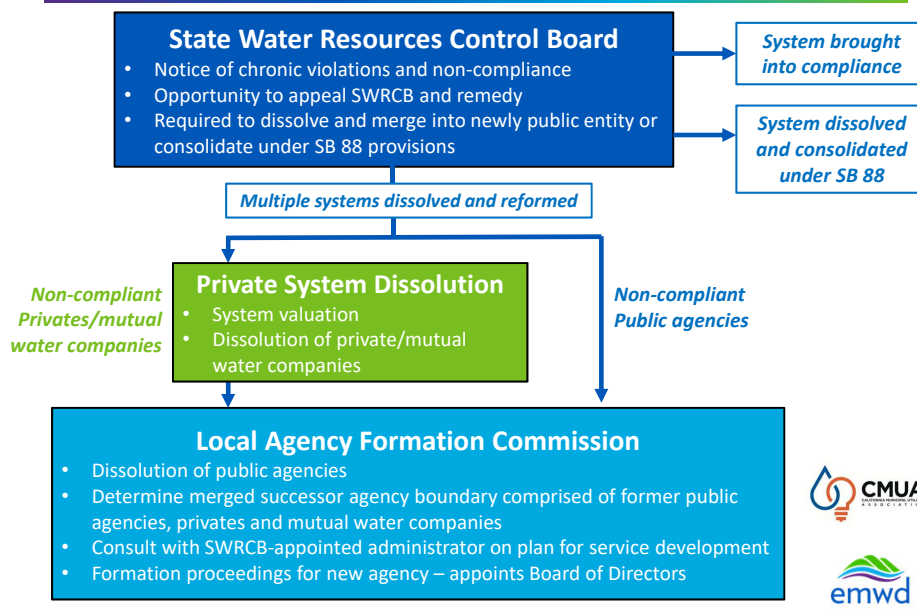
SB 414 (Caballero) - Small System Water Authority Act of 2019

- Co-sponsored by EMWD and the California Municipal Utilities Association
- Main components of the Legislation:
 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 SWRCB, qualified appointed Administrators and LAFCOs



11 | emwd.org

Small System Water Authority Formation



Small System Water Authority (SSWA) – New Financial Tools

Internal SSWA 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 SSWA Funding Opportunities

- State grants from water bonds for capital improvements:
 - **Unobligated Prop 68 Safe Drinking Water - \$462 million**
- SRF No/Low-Interest Loans and Principal Forgiveness grants
- **Funding from Proposed Safe and Reliable Drinking Water Trust:**
 - SWRCB and LAFCO dissolutions and formations, and
 - Start-up operational funding for newly formed entities
 - Short-term operational assistance

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

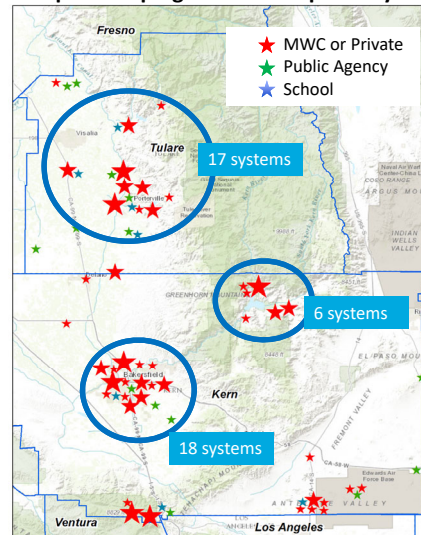


Small System Water Authority Act – Benefits

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

“Good government” reforms to create sustainable water systems

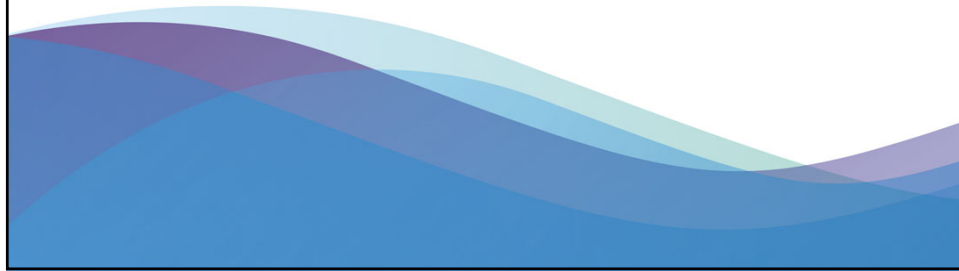
Example Grouping of Non-Compliant Systems



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



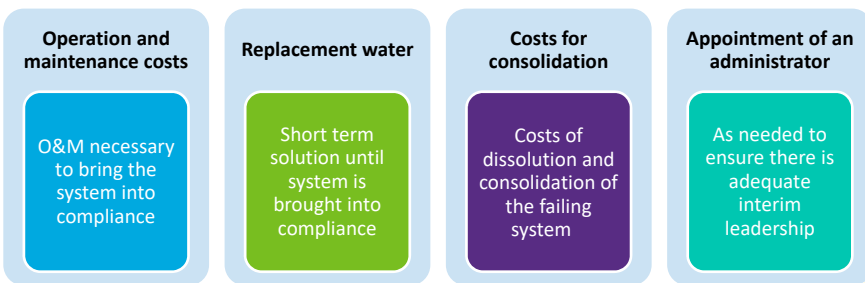
CMUA and Association of California Water Agencies (ACWA) Co-sponsored Legislation to establish Safe Drinking Water Trust



SB 669 (Caballero) – Safe Drinking Water Trust A Reliable Funding Solution

CMUA and ACWA have introduced SB 669:

- Establish a Safe Drinking Water Trust
- Initial one-time start-up allocation from the General Fund to the trust
 - **Current state budget projects a \$14.8 billion surplus**
- Targeting annual revenue generation from Trust earnings of approximately \$50 million
 - Transferred to a Safe and Reliable Drinking Water Fund
- Eligible expenditures of the trust includes:



A Comprehensive Package to Addressing Safe Drinking Water Needs

- Water community needs to support plan for Safe Drinking Water for all Californians
- Water Tax is inequitable and unnecessary with \$14.8 billion state General Fund surplus
- Need to address root cause - ultra-small systems that are not viable
- Proposed dual-approach legislative package:
 - SB 414 (Caballero) - Failing Water System Governance
 - SB 669 (Caballero) - ACWA/CMUA Safe Drinking Water Trust bill

A DUAL-APPROACH TO ADDRESS SAFE DRINKING WATER NEEDS OF CALIFORNIANS



Next Steps SB 414 (Caballero)

- SB 414 has been “double referred” to two policy committees
- Senate Governance and Finance Committee
 - Hearing date: March 27, 2019
 - Support letters needed by: March 19, 2019
- Senate Environmental Quality Committee
 - Hearing date: April 3, 2019
 - Support letters needed by: March 25, 2019



Requested Actions

1. Support the Dual Approach legislative Package for Addressing Non-compliant Water Systems in California:
 - **Governance:** SB 414 (Caballero) – Small System Water Authority Act of 2019
 - **Funding:** SB 669 (Caballero) – Safe Drinking Water Trust
2. Provide letters of support in advance of hearings (sample letters provided)
3. Have staff or Sacramento advocates provide support testimony at hearings



No Water Tax



Creates Economies of Scale



Establishes Self-Sustaining Systems



Contact Information

Paul D. Jones II, P.E., General Manager
(951) 928-3777 www.emwd.org