



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

Southern California Water Dialogue

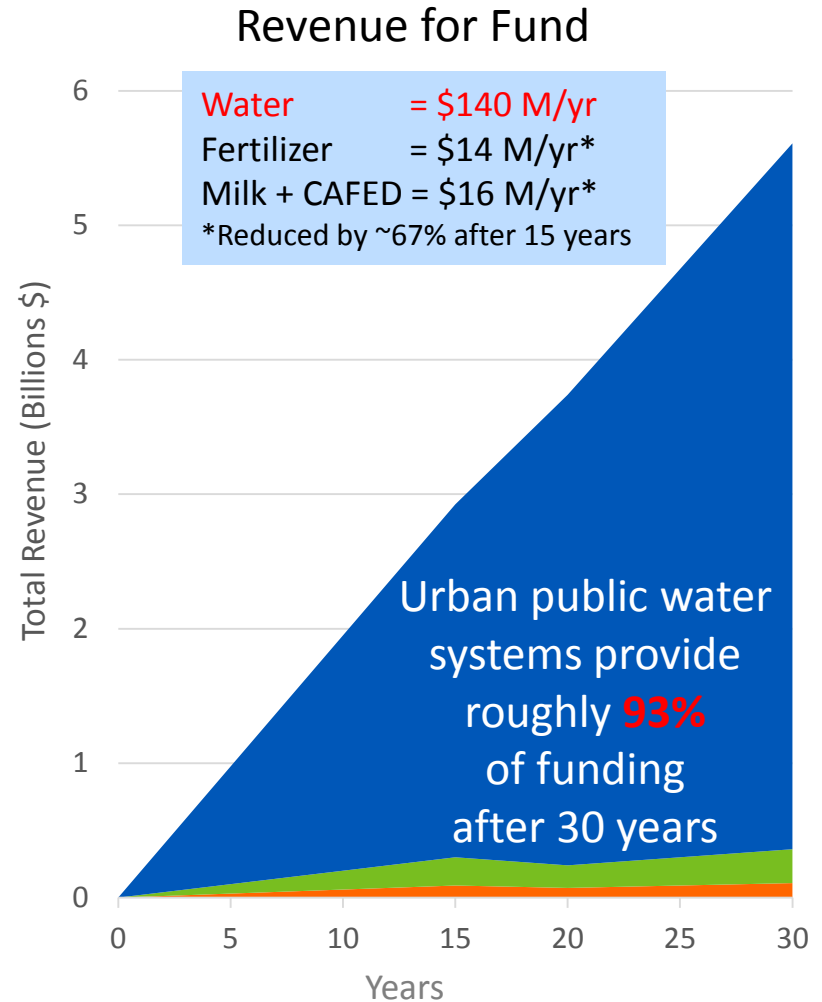
July 25, 2018



Does SB 623/Budget Trailer Bill Provide the Best Solution?

Concerns:

- Economic basis for revenue is unsupported and cost allocations are inequitable
- Does not address root causes:
 - Perpetual subsidies for unsustainable water systems
 - Disincentive for improved efficiency or consolidation
- Other funding sources and policy considerations are available



Does SB 623/Budget Trailer Bill Provide the Best Solution?

Concerns:

- Broader State goal appears to be instituting a water tax
- 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 ...”*

California Water Plan
- \$10.00/month

Statewide Low
Income Rate
Assistance -
\$4.23/month

SB 623 Water Tax -
\$0.95/month

\$15.18/mo
increase =
**27% fixed
charge
increase** to
representative
Western
Riverside
County
residential
customer

*Based on \$56/mo.
water bill

Avg Residential Customer

What is the Problem We're Trying to Solve?

Problem and Root Causes

- As of late 2017, 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)

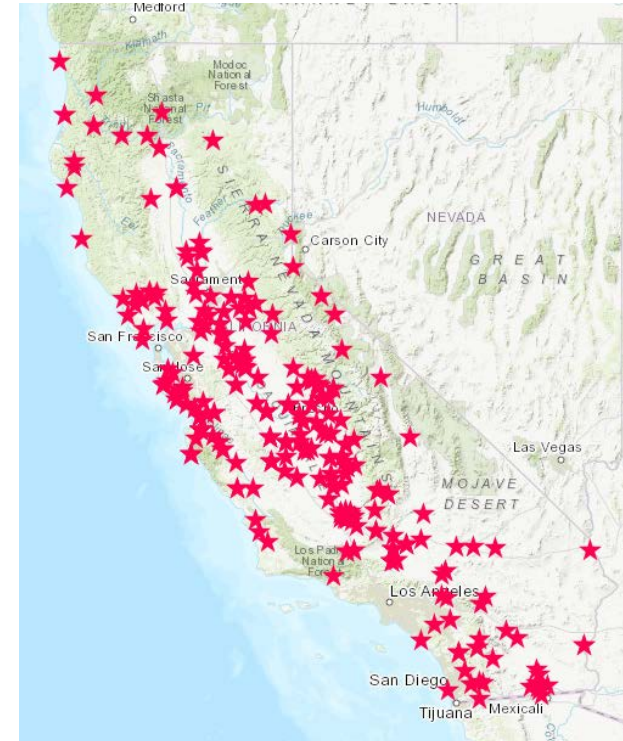
* SWRCB State Drinking Water Data Base, November 20, 2017 database

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 resources
- 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, qualified appointed Administrators and LAFCOs



Small System Water Authority Formation - AB 2050 (Caballero)



Non-Compliant Privates/Mutual Water Companies



Non-Compliant Public Agencies



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
 - Considers assets/liabilities and costs to bring system into compliance
- State Board/Controller/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

- General Obligation (G.O.) taxing authority
- Tax-exempt Municipal debt supported by credit enhancement
- Standby charges
- Rates and Charges - enhanced by 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**

External Agency Funding

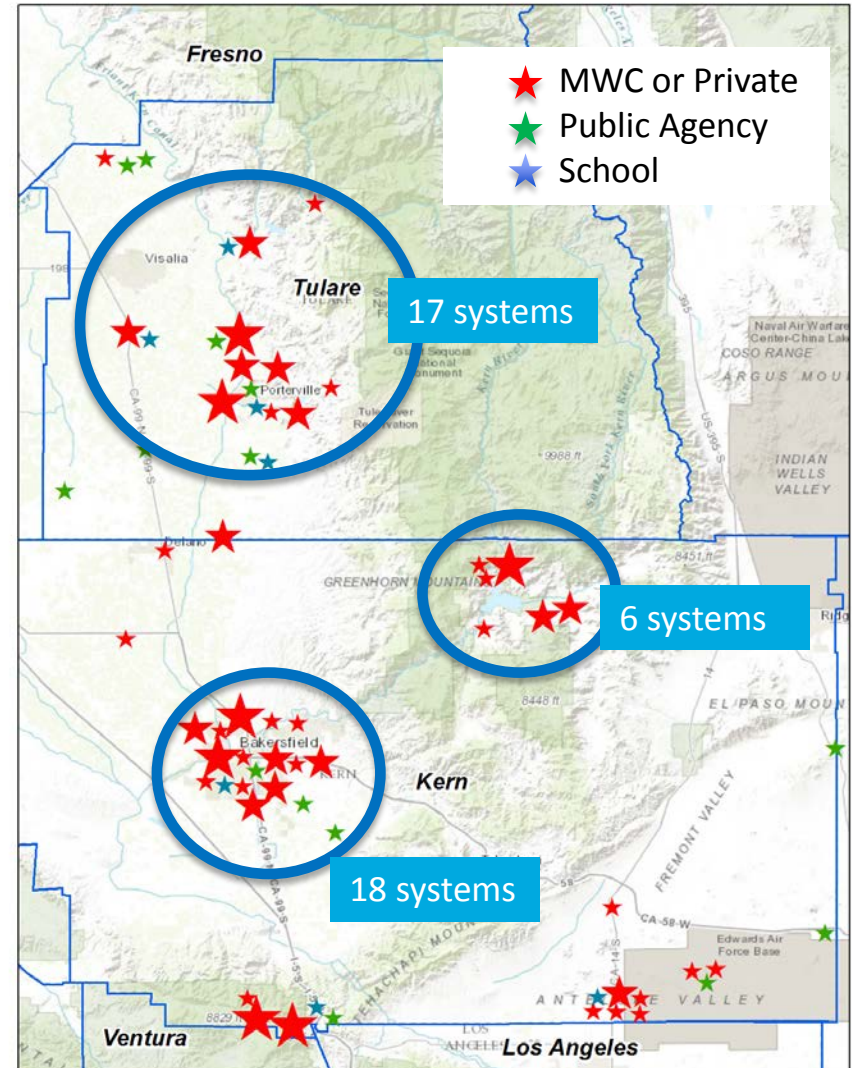
- State grants from water bonds:
 - Proposition 1 and Proposition 68 (qualified)
 - **\$770 million SDW and \$1.37 billion GW funding**
 - DAC set-asides
- SRF No/Low-Interest Loans and Principal Forgiveness grants
- Start-up and formation funding from **\$6.1 billion GF budget surplus**
 - State Safe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

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 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
- 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.



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