



AB 2050 (Caballero)

Providing Safe, Clean Affordable and Accessible Water
through Governance and Service Delivery Solutions

Presentation to the CWA
Conference

May 17, 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**)

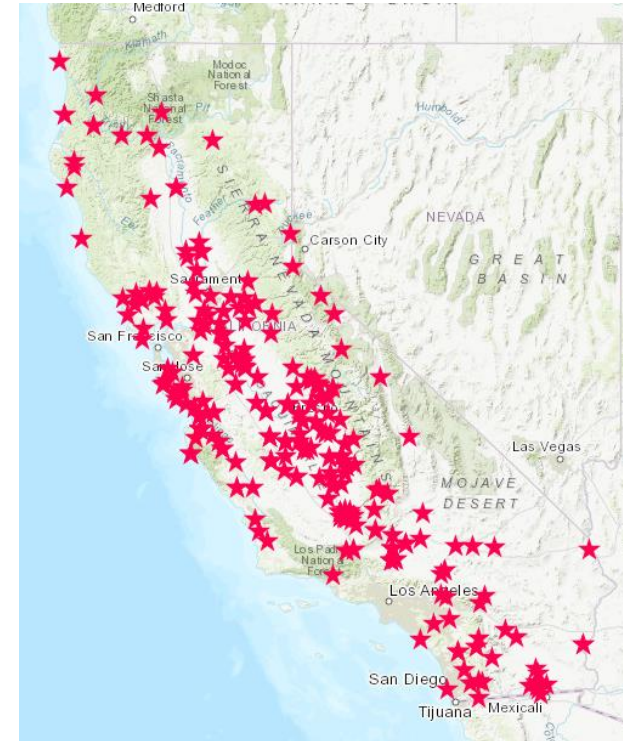
* SWRCB State Drinking Water Data Base, November 20, 2017 database

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)

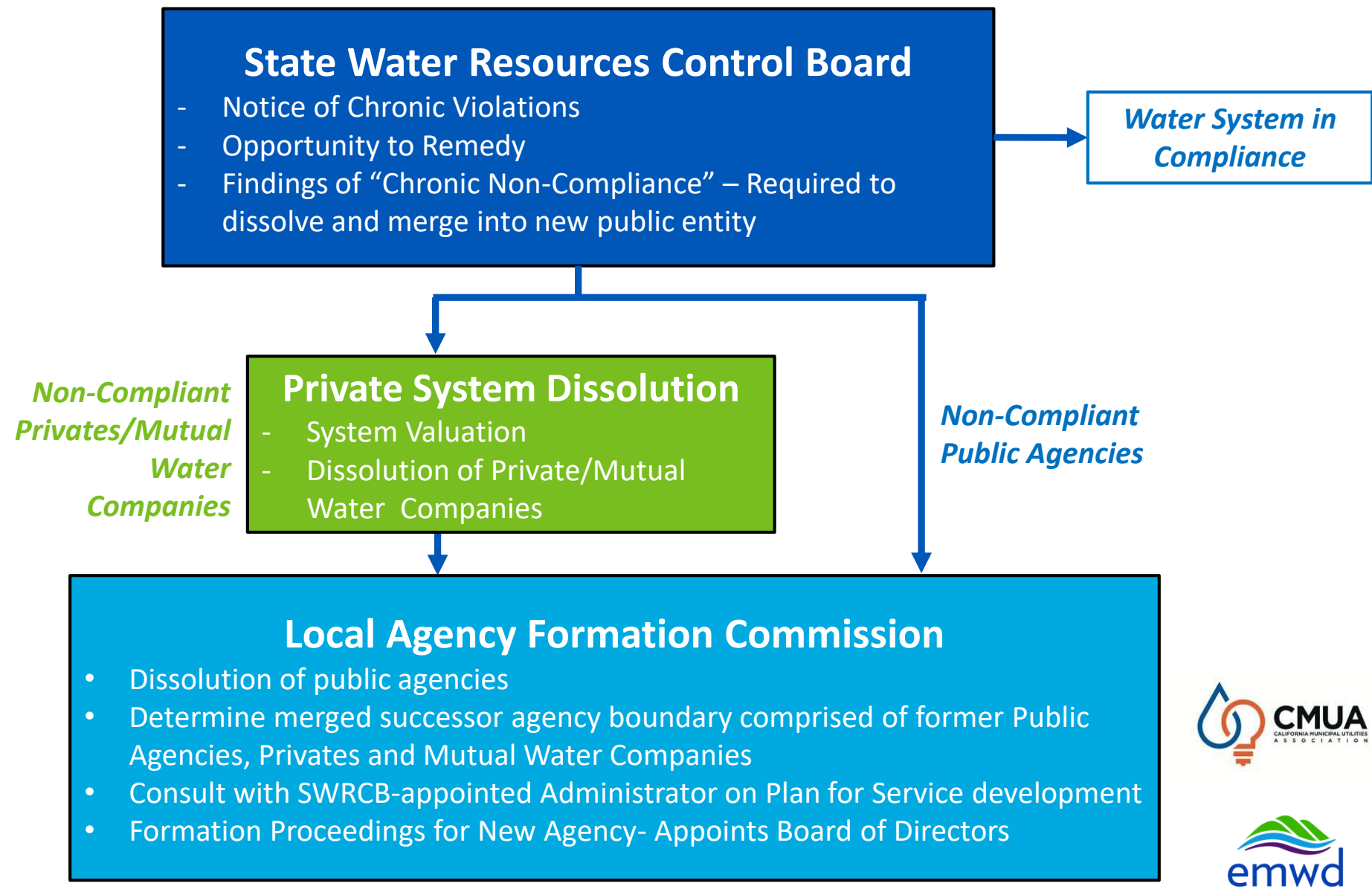
- Co-sponsored by EMWD and the California Municipal Utilities Association - introduced February 6, 2018
- Three main components:



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



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/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

- 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

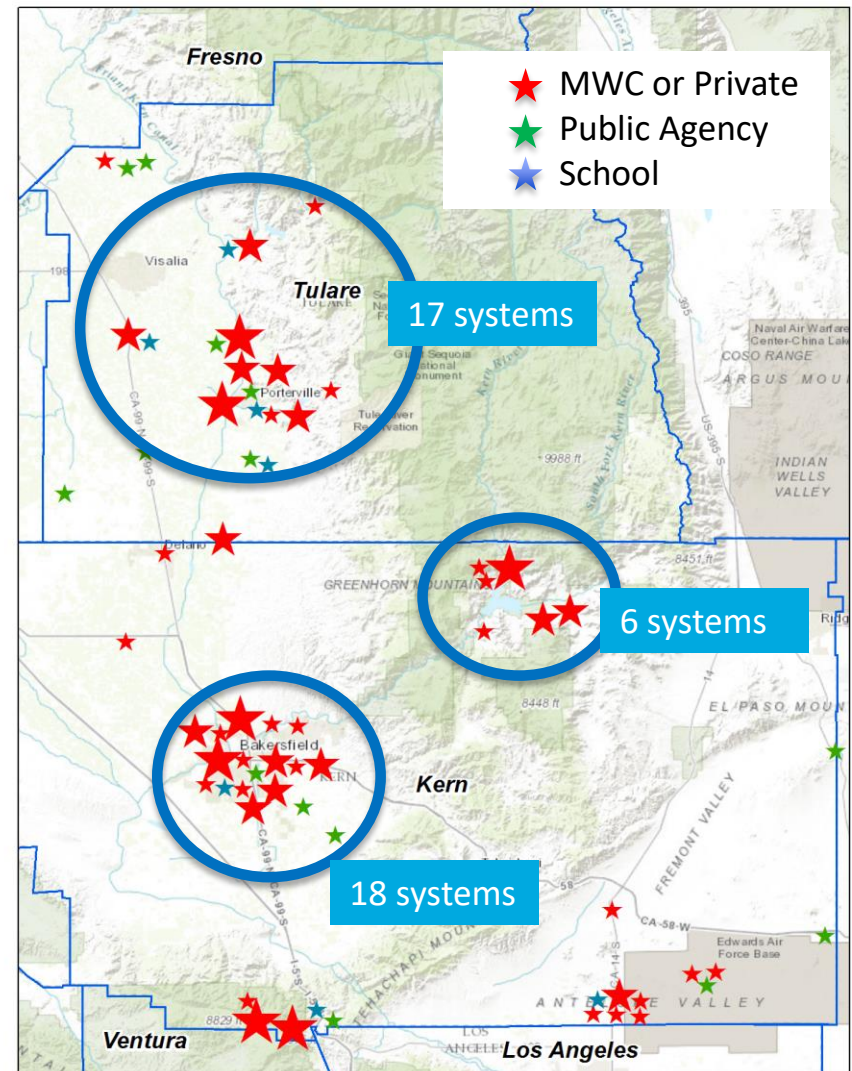
- State grants from water bonds:
 - Proposition 1 and Proposition 68 (qualified)
 - **\$770 million SDW and \$1.37 billion GW funding**
 - DAC set-asides
- SRF No/Low-Interest Loans and Principal Forgiveness grants
- Start-up and formation funding from **\$6.1 billion GF budget surplus**
 - State Safe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

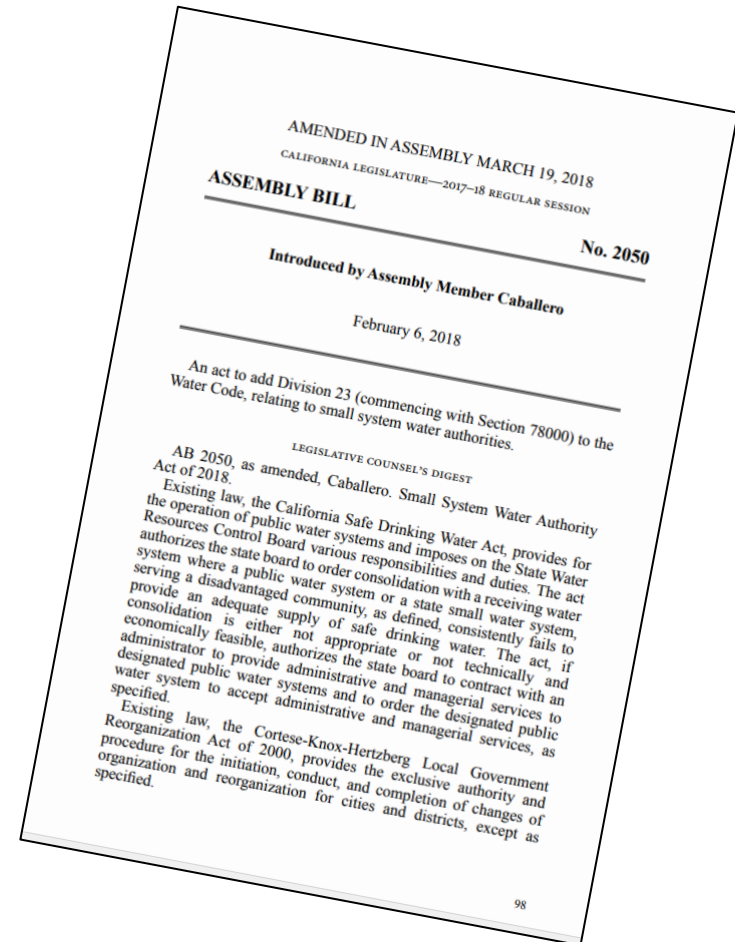


Larger stars denote proportionately larger populations of small systems noted as “Out of Compliance” on State Water Board database.

Legislative History: AB 2050 (Caballero)

Status:

- Co-sponsored by the California Municipal Utilities Association
- Introduced February 6, 2018 by Assembly Member Anna Caballero (D- Salinas)
- Passed out of two policy committees:
 - Assembly Environmental Safety and Toxic Materials (4/10/18)
 - Assembly Local Government Committee (4/25/18)
- Will next be taken up in:
 - Assembly Appropriations Committee (5/23/18)



Support and Opposition - AB 2050 (Caballero)

Support:

- California Municipal Utilities Association (CMUA) - (Co-Sponsor)
- Eastern Municipal Water District (Co-Sponsor)
- Association of California Water Agencies (ACWA) - (Support and Amend)
- California Association of Mutual Water Companies (CALMUTUALS) - (Support if Amended)
- California Special Districts Association (CSDA)
- California State Association of Counties (CSAC) (Testified in Support)
- Calleguas Municipal Water District
- City of Riverside (Office of the Mayor)
- City of Sacramento
- Clean Water Action (Testified in Support)
- Cucamonga Valley Water District
- Irvine Ranch Water District
- Jurupa Community Services District
- Las Virgenes Municipal Water District
- Long Beach Water Department
- Municipal Water District of Orange County
- The Metropolitan Water District of Southern California
- Monterey Peninsula Water Management District
- Northern California Water Association
- Orange County Water District
- Rancho California Water District
- Regional Water Authority (Support and Amend)
- Rural County Representatives of California (RCRC) (Testified in Support)
- Santa Margarita Water District
- Santa Ana Watershed Project Authority
- Three Valleys Municipal Water District
- Western Municipal Water District

Opposition:

- Howard Jarvis Taxpayers Association





Questions?

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