Water Partnerships and Consolidation

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Division of Drinking Water (DDW)

- 7,500 Public Water Systems (PWS)
- 3,000 Community Water Systems (CWS)
- 77% of the CWS serve less than 1,000 connections
- DDW regulates all types of Water Systems, public & private
Compare with Other Utilities

In California approximately:

• 7,500 Public Water Systems
• 900 Wastewater Treatment Plants
• 75 Electricity Providers\(^1\)

\(^1\)http://www.energy.ca.gov/almanac/electricity_data/utilities.html#service
Importance of Consolidation

- Small systems have inadequate staffing
- Less resilient to natural disasters
- Difficulty funding infrastructure improvements
- Poor economies of scale
- Difficulty adjusting to regulatory changes
- Majority of MCL violations go to small systems
## CA Drinking Water Violations

<table>
<thead>
<tr>
<th>System Size</th>
<th>% of Systems</th>
<th>% of Violations&lt;sup&gt;2&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very small (pop. 25-500)</td>
<td>61%</td>
<td>80%</td>
</tr>
<tr>
<td>Small (pop. 501-3,300)</td>
<td>16%</td>
<td>12%</td>
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<tr>
<td>Medium (pop 3,301-10,000)</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>Large (pop 10,001-100,000)</td>
<td>12%</td>
<td>2%</td>
</tr>
<tr>
<td>Very Large (&gt;100,000)</td>
<td>3%</td>
<td>0%</td>
</tr>
</tbody>
</table>

<sup>2</sup>Violations based on CA Human Right to Water data for communities and schools-8/2017
Water System Sprawl

• Lack of comprehensive land-use planning around water systems at the State, county and city levels

• Water system sprawl just outside cities
  • due to high city development fees
  • unwillingness/inability to serve outside their service area
  • County/city disagreements over tax revenue
Consolidation Solutions

• Past 40 years, 4 consolidations were funded per year
• Since Jan 1, 2017--33 consolidations statewide
• In 2016, SWRCB hired two consolidation coordinators
• Created water partnership website
• Supported legislation
Summary of Regulations

• Senate Bill 88/552 (Mandatory Consolidation)

• Liability Protection for Receiving Water Systems (Section Health & Safety Code 116684)

• Senate Bill 1263 (New Water System Applicants)
Voluntary Consolidation
West Goshen Mutual Water Company

Problem:
- TMF failures
- Nitrate violations
- Both wells, aged over 40 years, collapsed and caused severe sand intrusion

Intermediate Solution:
- Temporary Intertie with Cal Water Visalia due to repeated water outages
- Prop 84 emergency grant funding

Long-term Solution:
- Consolidation with Cal Water – Visalia
- Funding agreement issued in 2013 for $3.5 million (DWSRF & Prop 84)
- Permanent Intertie constructed from 2014 to 2016
Regional Consolidation Project—City of Santa Rosa

- Arsenic violations
- 4 small water systems-700 disadvantaged residents
  - Rancho Santa Rosa
  - Moorland Avenue Apartments
  - Sequoia Gardens Mobile Home Park
  - Westfield Community
- Project: installation of 9,000 feet of pipeline, water meters, and fire hydrants
- Total cost: $3.5 million, Prop 84 funded
- Primary challenge: planning and construction took nearly a decade to complete
- Construction completed in 2016
- City of Santa Rosa is currently working with DDW on a second round of consolidation projects
Mandatory Consolidation Project
Pratt Mutual Water System

- Disadvantaged community
- Arsenic violations
- 2010 study, consolidation best long-term alternative
- Pratt/City of Tulare signed agreement in 2011
- 2013 Pratt was issued construction funding
- Physical intertie was constructed
- Project Cost: $5 million, Prop 84 funded
- Validity of agreement disputed, entered into litigation

- SB 88 mandatory consolidation order issued, March 2016
- 1,500 residents have been receiving safe drinking water from City of Tulare since May 2016.
Hurdles for Receiving Systems

- Taking in failing distribution systems
- Maintenance of long intertie pipelines
- Concern about costs falling on existing customers
- Ensuring adequate source & treatment capacity
- Loss of water rights or inadequate water rights
- Liability concerns (Health & Safety Code 116684)
Hurdles for Investor Owned CWS

- Initial Water Quality Issues (if system out of compliance)
- Political Issues with Cost Sharing
- Operational Challenges
- Liability Issues related to begin out of compliance
  - Hartwell Case/Class Action Lawsuits
Hurdles for Subsumed Systems

• Water rate increases
  • Consolidation may be the most cost effective and still rate rates
  • Small system rates often have artificially low costs, covering only operations
• Fear of loss of local water control
• Concern about who will pay for interties
• Concern about who will pay for needed upgrades and meters
• Fear of annexation, loss of existing property uses
General Hurdles

- Service area jurisdictional issues
  - Tax revenue allocation
  - Unwillingness to work together due to historical disagreements
- SB-88 only for disadvantaged communities with unsafe water
- Consolidation requires major community and agency outreach
- Engineers/developers think of new systems not consolidation
Division of Financial Assistance

Voluntary Consolidation
a. Providing Incentives for Voluntary Consolidation

   i. 2017-18 Drinking Water Intended Use Plan provides up to $10M (up from $5M) in zero percent financing for an eligible construction project for the surviving entity that completes a full consolidation with PWS serving a small DAC or small severely DAC

   ii. Can fund physical capacity increase for surviving system, to the extent it is needed to replace capacity lost as a result of consolidation

   iii. Provide priority financing to consolidation projects ranked within the same category
Division of Financial Assistance - Obstacles

- Covering the up-front costs so entity can be legally eligible for funding
- Mutual Water Companies need agreement from shareholders to consolidate
- Ownership issues – Consolidation of a corporate entity not in good standing
- Non-disadvantaged Public Water System (PWS) not eligible for grant funding
b. Technical assistance agreements include legal services to make entities eligible for funding and community outreach to overcome resistance.