



SAFER Advisory Group

Thank you for the opportunity to provide comments about proposed changes to the 2022 Drinking Water Needs Assessment. The following comments are being submitted on behalf of the California Association of Mutual Water Companies (“CalMutuals”). CalMutuals was founded in 2012 to advocate as “the voice of small water systems” and as a professional association for mutual water companies. In 2017 we formed a Joint Powers Risk Management Authority (“CalMutuals-JPRIMA”) bringing low-cost liability and workers compensation insurance for mutual water companies and other small water systems. Mutuals are not eligible for insurance under other programs such as ACWA JPIA. Today CalMutuals-JPRIMA has almost 400 members, as well as large suppliers such as Westlands Water District, Las Virgenes Municipal Water District and the San Diego County Water Authority purchase CalMutuals-JPRIMA insurance. This allows the insurance residuals to be invested in building management/operational resources and capacity for small water systems whose management take their roles seriously in support of safe drinking water. We have participated in workshops regarding the proposed changes to the SAFER Needs Assessment indicators, have reviewed related materials and have consulted with people experienced in managing and operating small water systems to develop the following comments for your consideration:

Water Quality and Accessibility: CalMutuals supports the addition of *constituents of emerging concern* as an indicator. For this indicator to be meaningful, the State Water Resources Control Board should consider economic feasibility for small water systems when approving new maximum contaminant levels (MCL), and potential contaminant response levels (RL). The lack of economic feasibility assessments perpetuates a downward spiral where water suppliers that are viable one day, are suddenly not on the day that an MCL or RL is announced. Such consideration includes identifying needed funding and technical assistance to remove contaminants in water systems that otherwise cannot afford the expensive technology that becomes necessary for treatment after the establishment of new drinking water standards. We are encouraged that the State Water Board has taken a first step by signaling its willingness to provide a compliance period for the upcoming MCL for hexavalent chromium (Cr6). We urge that the compliance period include a *compliance plan* encouraging larger water systems to comply first, in order to create economies of scale that will drive down costs and facilitate state assistance for smaller suppliers by the end of the compliance period. We believe that strict standards are only possible if economic feasibility is “built-in” to adoption of such standards so that all systems and their customers may equitably benefit from the safest drinking water possible.

Affordability: CalMutuals does not view *arrears* as a universal indicator of *affordability* and does not support inclusion of that indicator as an indicator of risk (or failure to apply for arrearage funding as an indicator of *capacity*). Mutual water companies are not for profit corporations that are limited to serving only their shareholders. This means that shareholders are responsible for the full costs of operating and maintaining mutual water companies. In fact, liens against shareholder properties were addressed under AB240 in recognition of their importance as

a means of sustaining revenues and reserves for mutual water companies. After AB240's passage in 2012, shareholder forbearance programs have become a step before liens are issued on shareholder properties for delinquency. In cases with renters, SB998 provides residents with the ability to take over the billing responsibility when landlords, in the case mutual water company shareholders, are delinquent. We had no reports of such cases of renters becoming directly responsible customers of mutual water companies during the pandemic period covering arrearages. Our experience in tracking the arrearage program during the COVID 19 period is that many mutual water companies did not report arrearages given that many already have a forbearance program in place to work with those who need support paying their bills. Some mutuals that serve wealthier and vacation communities did not believe that subsidies for unpaid bills were necessary or appropriate for people with financial means who simply chose to take advantage of the unconditional moratoria put in place by the Governor and then the Legislature.

TMF Capacity: CalMutuals further supports the proposed addition of financial *capacity* indicators including *income, operating ratio, and days cash on hand*. We are hopeful that regular reporting of these indicators of financial health might ultimately replace AB 240's universal requirement of an annual financial review. While appropriate for larger mutuals, AB240's financial review requirement applies to small water systems, including those with less than 100 connections. Costs of the financial review for mutuals with less than 100 connections can cost as much as 10 percent of a small water company's annual budget. The proposed financial capacity indicators are much more appropriate, especially for smaller water systems, and will likely provide a more accurate indication of the financial condition of such small systems.

Cost Estimates to address Drought Planning: CalMutuals applauds the State Water Resources Control Board for focusing the 2022 cost assessment on the cost for systems to comply with drought contingency requirements in SB 552. The support of the State Water Board in providing funding and technical assistance will be essential to compliance. In our discussions with our members, the following input was provided with respect to the State Water Board's cost estimates:

Well Level Sounders & Meters: The water system managers we consulted who have rich experience in managing small water systems, reviewed the estimated costs associated with each requirement. They found that the estimates identified for sounder devices to detect well levels and to purchase and install meters to be reasonable. We note, however, that installation of meters will entail additional costs that do not appear to be considered in the estimate, such as the need for creation or upgrade of company billing systems.

Backup Generators, Wells, and Interties: We found the Needs Assessment estimates for back-up generators, wells and interties significantly underestimate the true costs, particularly in light of recent significant material and labor cost increases.

Backup Generators. Experience by our members in purchasing backup generators has been that the cost of a generator is three to four times more than the estimated \$30,000, and that costs to maintain the generator are significant. We encourage the State Water Board to clarify the type of generator specified and its associated run time. We further encourage the addition of costs of

testing, fuel, fuel storage and some consideration for the emerging challenge of ever-changing requirements of regional Air Quality Management Districts that have required water suppliers to retire and replace new and nearly new equipment to meet more stringent emissions standards.

Wells. CalMutuals consulted with several mutuals that recently installed wells and found that their costs were at least three times more than the approximate \$1 Million estimate in the risk assessment report.

Interties. In reviewing estimated costs for interties, our members noted there are many unique variables for each water system, and this makes it difficult to develop a good estimate of costs. They called attention to the fact that while there may be a water supplier nearby, it cannot be assumed that the system has excess capacity to support an intertie. They further noted that depending on the terrain, an intertie may require an oversized pipeline or booster pumps or the purchase of water at significantly higher cost than the core water source. These costs do not appear to be considered in the estimate. We recommend identifying a few common scenarios for intertie projects and refining the budget to account for additional common costs.

Consolidation as a Universal “Fix”: CalMutuals continues to be concerned about the State Water Resources Control Board’s singular focus on consolidation as a universal solution for all small water systems. We have been advised that some of the State Water Board’s consultants have deliberately excluded small water system operators and their advocates in the development of these policies through various working groups and think-tank partnerships. Given CalMutual’s positive promotion of State Water Board programs and initiatives, we are concerned that over half of our members surveyed perceived the suggestion of consolidation in applications for financial assistance by the Office of Financial Assistance as negative or hostile.

CalMutuals’ stance is that consolidation is a tool that can be successful when the utilities involved agree about the action, with public and ratepayer support as well. We are also advocating for more transparency in the discussion of potential rate impacts from consolidations. Consolidation is not a one-size-fits-all solution. In the case of mutual water companies, consolidations with investor-owned utilities, for example, can result in significant rate increases and trigger issues of rate payer affordability. In addition, consolidation with special districts involves sharing the costs of higher compensation for management, pension plan obligations, and prevailing wage requirements. In some cases, our members have also had to face public sector corruption in relation to outright threats of consolidation.

Notwithstanding the universal threat of consolidation, the acceptance of grants requires hiring prevailing wage contractors and may result in increases in water rates to meet project cost sharing obligations. The state’s grant application process and reporting requirements are difficult for small water systems and unaffordable in many cases. For mutuals, there is also the exposure to state taxes when accepting grants because California does not recognize our federal 501(c)12 tax-exempt status.

We have found success when larger water systems step up to interface with the State Water Board on behalf of small water systems and mutual water companies. Examples involving the Coachella Valley Water District, Mojave Water Agency, the Water Replenishment District of

Southern California, Oildale Mutual Water Company and South Mesa Water Company provide the State Water Board with examples and expertise to greatly expand the reach for large systems helping small water systems in California. We recognize that such regional agency initiatives do not exist in all parts of the state. This is more reason to embrace all of the tools the State Water Board has access to and focus them in the most optimal way where most appropriate and needed.

We thank the State Water Board and the SAFER Program for considering our comments. We stand ready to assist.

Sincerely,

Lisa Yamashita-Lopez
President
California Association of Mutual Water Companies