The City's Water Enterprise Fund

Cost of Operations & Proposed Water Main Connection to Cal Water System

Special Council Study Session
April 18, 2023

What is an Enterprise Fund?

An enterprise fund is a self-supporting government fund that sells goods and services to the public for a fee.

An Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing authority is that the costs (e.g., capital maintenance, operations, reporting, depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

City's Water Enterprise Fund

Consists of Two wells on Road 57 installed by Glenn Fertilizer Company, currently serving three customers:

- Well 1 – Built February 1982 capable of pumping 300 GPM.
- Well 2 – Built June 1982 capable of pumping 1,200 GPM.

Chronology of Water Wells & Water Enterprise Fund

- 1982 - Water wells installed by the Glenn Fertilizer Company (later becomes Wilbur Ellis).
- 1995 – Plans generated for City to take over system.
- 1996 – Swift Transportation is constructed.
- 2000 – A subdivision map is approved for the South Willows Industrial Park.
- 2003 – Chevron is constructed.
- 2008 – The City contracted with CH2M HILL to study the feasibility of installing a water line from the wells to the Cal Water system.

Chronology of Water Wells & Water Enterprise Fund (cont.)

- 2014 – Conversations began with Cal Water to potentially takeover the wells.
- 2016 – Cal Water submits an offer to takeover the wells.
- 2018 – Coastland Engineering provides a map to divide a City owned lot to provide space for Cal Water to install storage tanks that would be necessary for connecting the road 57 wells to the City water system currently operated by Cal Water.

Chronology of Water Wells & Water Enterprise Fund (cont.)

- 2021 – AB 850 (Assemblymember Gallagher) extended existing law authorizing the City of El Monte, the City of Montebello, and the City of Willows to sell its public utility for furnishing water service for the purpose of consolidating the system with another public water system if the public water system is wholly within the boundaries of the city and the city determines that it is uneconomical and not in the public interest to own and operate the public utility.

City Operated - Requirements

Required Certified staff:

- Requires two certified staff members @ $2,300 per person (cost of certification).
- Must pass State test.
- Ongoing recertifications and required training hours.

City Operated - Requirements

Required Testing & Monitoring:

- Regular testing required by certified water distribution operator.
- Checked daily for flows and proper operation, including:
  - Water level in tank,
  - Pressure in tank, and
  - Confirm length of time the pump ran since previous day.
- Water samples tested weekly.
- In addition to routine maintenance, unplanned maintenance issues that are difficult to budget for will occur (e.g., valve and well repairs).

City Operated - Requirements

Required Annual Reporting:

- A Consumer Confidence Report must be issued annually, including:
  - Aggregate information collected throughout the year; and
  - Annual test for additional substances.

Additional Considerations

- Cost allocation of staff time to the Water Enterprise Fund.
- Cost of Long-term infrastructure maintenance and repairs.
- As the customer base expands:
  - Staffing levels would also need to expand, and
  - Infrastructure costs would also increase.

Future Potential Liability

Treatment of Contaminants:

- Costs, liabilities and risks of treating contaminants, including Chromium 6, PFAS (e.g., fire retardant, food packaging) and micro-plastics are difficult to quantify; however, they must be treated and the city would be responsible to do so.
- There is new pending legislation to address and require treatment of additional contaminant concerns; and legislation is regularly introduced as new contaminants are realized and discovered.
- The trend continues to be more regulation rather than less to ensure safe potable water.

Current Operational Costs

Currently, the Water Enterprise Fund operates at a deficit:

- Revenues for FY 2022 were $6,057.
- Expenditures for FY 2022 were $19,174.
- Over the past 20 years, the Water Enterprise Fund has experienced a total operating deficit of ~ $65K.

Current Operational Costs

- Staff cost allocations and certifications are not included in the aforementioned expenditures (previous slide).
- Short- and long-term maintenance are also not included in the previous slide.
- To resolve the operating deficit, City must conduct a Prop 218 study.
- With only three customers, two of them could vote against it and the proposed rate increase could fail.

Associated Operating Costs

Approximate Known Costs:

- Filtration System: $1 million to set up
- Water storage tank: $1 million to install

Associated Operating Costs (Cont')

Unknown Costs:

- Increased staff wages
- Certifications/recertifications
- Pump failure/replacement and repair
- Filtration equipment replacement and repair
- Response during power outages
- Ongoing maintenance and required upgrades
- Unfunded State/Federal mandates for treatment of contaminants


CLEAN WATER WOES

Connection to Cal Water

Benefits:

- All of the ongoing costs, risk and liability of operating the Water Enterprise Fund (e.g., potable water) are removed from the City's responsibility.
- City pays a one-time cost of ~ $550K to remove future risk and liability of owning and operating a "drinking water company."

Disadvantages:

- Disadvantages are de minimis when compared to the ongoing expense, risks and liabilities of a City owned and operated Water Enterprise Fund.


Comments & Questions?