



**CITY OF SANTA CLARITA
AGENDA REPORT**

NEW BUSINESS

CITY MANAGER APPROVAL:

Ken Stripling

DATE: March 28, 2017

SUBJECT: STATE LEGISLATION: SENATE BILL 634

DEPARTMENT: City Manager's Office

PRESENTER: Michael Murphy

RECOMMENDED ACTION

City Council discuss Senate Bill 634 and provide direction to staff.

BACKGROUND

Authored by Senator Scott Wilk (R-21) and introduced in the Senate on February 17, 2017, Senate Bill 634 proposes to reorganize the Newhall County Water District (NCWD) and the Castaic Lake Water Agency (CLWA) into the Santa Clarita Valley Water District. This bill describes the primary purposes of the Santa Clarita Valley Water District are to acquire, hold, and utilize water and water rights, and to provide, sell, manage, and deliver surface water, ground water, and recycled water at retail or wholesale within the district's territory. The new district shall be the successor-in-interest to Castaic Lake Water Agency's water supply contract with the California Department of Water Resources.

Specifically, this bill:

1. Prescribes the composition of the board of directors for the Santa Clarita Valley Water District to initially include 15 members. The board may, after January 1, 2023, by resolution reduce the number of elected directors to nine. The Santa Clarita Valley Water District shall initially consist of the following 15 members:
 - a. Five members of the Newhall County Water District Board of Directors in office as of December 31, 2017
 - b. Nine members of the Castaic Lake Water Agency Board of Directors in office as of December 31, 2017
 - c. One member of the Los Angeles County Waterworks District No. 36

2. Extends the terms of office for board members currently serving on the CLWA and NCWD boards. Board members whose current term expires following the 2018 general election will be extended to serve until the 2020 general election and board members whose current term expires following the 2020 general election will be extended to serve until the 2022 general election.
3. Prescribes the boundaries of the new district and divides the Santa Clarita Valley Water District into three divisions, delineating the boundaries of each division.
 - a. Successors to the first board of directors for the Santa Clarita Valley Water District shall be elected by the voters for each division as follows:
 - i. Two directors elected for each division at the 2020 general election.
 - ii. Two directors elected for each division at the 2022 general election.
 - b. Each elected director shall have their primary residence in and be an elector in the division they represent. Each elected director shall serve a four year term from the date of taking office and until the election and qualification of a successor. A director shall take office on the first Monday of the January after an election.
4. Directs the Santa Clarita Valley Water District, on or before January 1, 2019, to develop a rate-setting process that includes an independent ratepayer advocate to advise the board of directors and provide information to the public before the adoption of new rates. The ratepayer advocate shall be selected by the board of directors and shall serve in an advisory capacity only. The board of directors is also directed to develop and adopt any necessary rules and procedures to define the role of the ratepayer advocate.

The City of Santa Clarita is served by several separate retail water providers. Castaic Lake Water Agency is a State Water Project contractor and provides wholesale water service to the retailers operating within the City of Santa Clarita. Castaic Lake Water Agency (CLWA) provides retail water service to a portion of the Santa Clarita Valley through its Santa Clarita Water Division that has approximately 30,700 service connections. In addition, CLWA owns the stock of the Valencia Water Company, which also provides retail water service in the Santa Clarita Valley and has approximately 31,350 service connections.

Newhall County Water District (NCWD) is a county water district and provides retail water service in the Santa Clarita Valley to approximately 9,750 service connections.

Beginning in February 2016, CLWA and NCWD began conducting an extensive evaluation and public process to determine whether creating a new public entity is in the best interest of the residents of the Santa Clarita Valley. This effort included a series of joint meetings and public workshops to gather information and public input. On December 13, 2016, the Newhall County Water District Board voted 4-1 in support of creating the Santa Clarita Valley Water District. On that same day, in a separate vote, the Castaic Lake Water Agency Board voted unanimously (10-0) to also support the creation of the Santa Clarita Valley Water District.

Additionally, both agencies commissioned an independent third party to conduct a financial evaluation of a proposed new entity. The independent financial evaluation determined that both CLWA and NCWD are in sound financial condition and that formation of a new combined water district would achieve operational cost efficiencies and economies of scale in project costs and pave the way for savings. For example, it is estimated that the new agency will generate savings of approximately \$14 million over the first ten years of operation. The public opinion surveys also showed support for creating a new combined public entity and the joint study determined that in addition to foundational efficiencies and cost savings, a new combined district would be much better positioned to provide improved regional water resource management.

Both water agencies concluded in the settlement agreement that they conducted an open and transparent process and that ratepayer value and multi-stakeholder benefits have been the central priority. Based on this process, both agencies anticipate there will be multiple benefits to the ratepayers resulting from combining the two entities into one new water district, including, but not limited to, economies of scale such that the new water district's expenses will be less than the total expenses of the individual entities. Additionally, it is estimated that litigation costs between the two separate entities will be eliminated, overall staffing will be reduced by approximately seven percent over time as the result of attrition, and rate stabilization will occur during the initial years of the new district's existence.

In its role as a customer, the City of Santa Clarita (City) is served by three retail water providers: Valencia Water Company, Santa Clarita Water Company, and Newhall County Water District. A significant amount of water usage paid by the City is through the City's maintenance of 55 Landscape Maintenance District (LMD) zones, which include parkways, medians and paseos. Valencia Water Company accounted for just over half of City funds used to support water use of LMD zones in 2016 at 53 percent. Santa Clarita Water Company accounted for 39 percent and Newhall County Water District accounted for 8 percent of funding spent to support water use of LMD zones in 2016. Although they account for a significant portion of the total water used in the City, LMD zones do not include water services provided to other City's facilities, such as City Hall, the Transit Maintenance Facility or George A. Carvalho Sports Complex. The City of Santa Clarita paid the following amount towards water usage for LMD zones in 2016:

- Valencia Water Company: \$1,847,718.07
- Santa Clarita Water Company: \$1,359,331.41
- Newhall County Water District: \$266,284.15

Senate Bill 634 was referred to the Senate Committee on Natural Resources and Water and the Senate Committee on Governance and Finance on March 2, 2017. As of the writing of this report, Senate Bill 634 is scheduled for a hearing in the Senate Committee on Natural Resources and Water on March 28, 2017. Staff will update the City Council regarding the committee hearing during the staff presentation on Senate Bill 634 at the City Council meeting.

The City Council Legislative Committee met on March 10, 2017, and recommends that the City Council discuss Senate Bill 634 and provide direction to staff.

ALTERNATIVE ACTION

1. Adopt a “support” position on Senate Bill 634
2. Adopt a “neutral” position on Senate Bill 634
3. Adopt an “oppose” position on Senate Bill 634
4. Take no action on Senate Bill 634
5. Refer Senate Bill 634 back to the Legislative Committee
6. Other action, as determined by the City Council

FISCAL IMPACT

The resources required to implement the recommended action are contained within the City's adopted 2016/17 budget.

ATTACHMENTS

SB 634 - Santa Clarita Valley Water District