

Staff Report

for the Board of Directors' Meeting of March 13, 2019

TO: Board of Directors
FROM: Chip Close, Water Operations Manager
DATE: March 6, 2019
SUBJECT: Affordable Drinking Water Tax

OPERATIONS

RECOMMENDATION:

Receive an update on the proposed Safe and Affordable Drinking Water Fund options, and provide direction to staff for support or opposition.

BACKGROUND:

On September 25, 2012, Governor Edmund G. Brown Jr. signed Assembly Bill (AB) 685, making California the first state in the nation to legislatively recognize the human right to water.

Now in the Water Code as Section 106.3, the state statutorily recognizes that "every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes." The human right to water extends to all Californians, including disadvantaged individuals and groups and communities in rural and urban areas.

On February 16, 2016, the State Water Resources Control Board (State Water Board) adopted a resolution identifying the human right to water as a top priority and core value of the State Water Board and Regional Water Quality Control Boards. The resolution stated the Water Boards would work "to preserve, enhance, and restore the quality of California's water resources and drinking water for the protection of the environment, public health, and all beneficial uses, and to ensure proper water resource allocation and efficient use, for the benefit of present and future generations."

However, for many public water systems, the operation and maintenance costs to supply, treat, and distribute potable water that complies with federal and state drinking water standards on a routine and consistent basis may be significant. Community water systems are currently required to set, establish, and charge a schedule of rates and fees that are sufficient to recover the operation and maintenance costs required to supply, treat, and distribute potable water that complies with federal and state drinking water standards on a consistent basis. These high costs lead to numerous community water systems in the state that cannot charge rates and fees that are affordable and sufficient to recover the full operation and maintenance costs required to supply, treat, and distribute potable water. The rate limitations are based on a combination of low income levels of

customers, high treatment costs for contaminated water sources, and a lack of economies of scale that result in high unit costs for water service.

While grants are available for financial assistance, nearly all state or federal drinking water project funding sources prohibit the use of that funding for operation and maintenance costs. As a result, those systems that cannot afford required operation and maintenance costs are unable to access funding for capital projects to meet federal and state drinking water standards. Consequently, hundreds of thousands of Californians, particularly those living in small disadvantaged communities, may be exposed to unsafe drinking water in their homes and schools, which impacts human health, household costs, and community economic development.

In an effort to solve these funding issues and support the human right to water, the State intends to create a fund and a funding source to provide safe drinking water in every California community, for every Californian. The fund (often referred to as a water tax) was initially proposed in the 2017/2018 budget but was rejected by the Legislature’s Budget Conference Committee.

Recently, the fund was resurrected and inserted as a budget trailer bill in the 2019 / 2020 fiscal budget. The proposed state mandated fee is based on meter size and starts at \$0.95 a month for meters < 1”, with a maximum of \$10 per month for meters over 4”. A breakdown of the estimated fees the State would collect based on the Districts current treated water customer base is listed in the table below.

Treated Water Meter Size	Number of District Customers	State Mandated Fee	Monthly Total	Annual Total
5/8” to 1”	19,106	\$0.95	\$18,151	\$217,808
>1” to 2”	163	\$4.00	\$652	\$7,824
>2” to 4”	31	\$6.00	\$186	\$2,232
>4”	10	\$10.00	\$100	\$1,200
		Totals	\$19,089	\$229,064

The burden of the tax collection would be the responsibility of each water utility and would lead to additional tracking and staff time and costs.

The proposed water tax is not widely supported in the water industry for the following reasons:

- It is not sound policy to tax a resource that is essential to life
- A regressive statewide tax on local water bills is in conflict with keeping water affordable for all Californian’s
- It would be highly inefficient to require more than 3,000 local water agencies to serve as tax collectors for the State
- It is anticipated that combined local administrative costs would exceed the combined statewide water tax revenue collected with local water bills

As an alternative, the Association of California Water Agencies (ACWA) and the California Municipal Utilities Association (CMUA) are sponsoring state legislation to create a Safe Drinking Water Trust (Trust). Instead of relying on a proposed

statewide water tax, the Trust would be funded with General Fund dollars during a state budget surplus year. The net income from the Trust would create a durable funding source that will help community water systems in disadvantaged communities provide access to safe drinking water. ACWA and CMUA has put together a plan to set up a state trust fund where the state could build a nest egg specifically for funding projects to support the human right to water. The highlights of trust fund include:

- Trust funding would be initially financed with a one-time infusion of General Fund dollars during a budget surplus year
- There is a record budget surplus for the 2019-2020 Fiscal Year, which makes it the perfect time to create and fund the Trust
- Funding the Trust via the General Fund serves as a progressive source of revenue, as taxpayers with higher income would contribute more, while lower income taxpayers would contribute less
- The Trust fund would be invested, and the net investment income would be transferred to a Safe Drinking Water Fund, which the State Water Board would administer

Staff is requesting the Board provide direction on which Safe and Affordable Drinking Water Fund option to support or oppose, if any.

BUDGETARY IMPACT: None at this time

Attachments (3):

- Facts on ACWA and CMUA Proposal for a Safe Drinking Water Trust
- Overview of SB 669 (Caballero) ACWA / CMUA Sponsored Legislation
- Resolution Supporting SB 669 ACWA / CMUA Sponsored Legislation



WATER TAX FACTS

Feb. 22, 2019

Facts on ACWA and CMUA Proposal for a Safe Drinking Water Trust

The Association of California Water Agencies (ACWA) and the California Municipal Utilities Association (CMUA) are sponsoring SB 669 (Caballero) to create a Safe Drinking Water Trust that will help community water systems in disadvantaged communities provide safe drinking water. The Trust would be funded with General Fund dollars during a state budget surplus year with the net income from the Trust creating a durable funding source.

Why is there a need for safe drinking water funding in California?

- Most Californians have access to safe drinking water, but some disadvantaged communities do not
- Lack of access to safe drinking water is a public health issue the state must address
- A funding gap exists for operations & maintenance (O&M) costs for community water systems that treat water
- In general, O&M costs cannot be financed using existing state and federal drinking water funding sources
- In some situations, consolidation of a community water system may be the most effective solution
- A financial solution is needed for O&M and consolidation costs that can complement existing federal and state funding sources for capital costs

How would the ACWA/CMUA proposal for a Trust work?

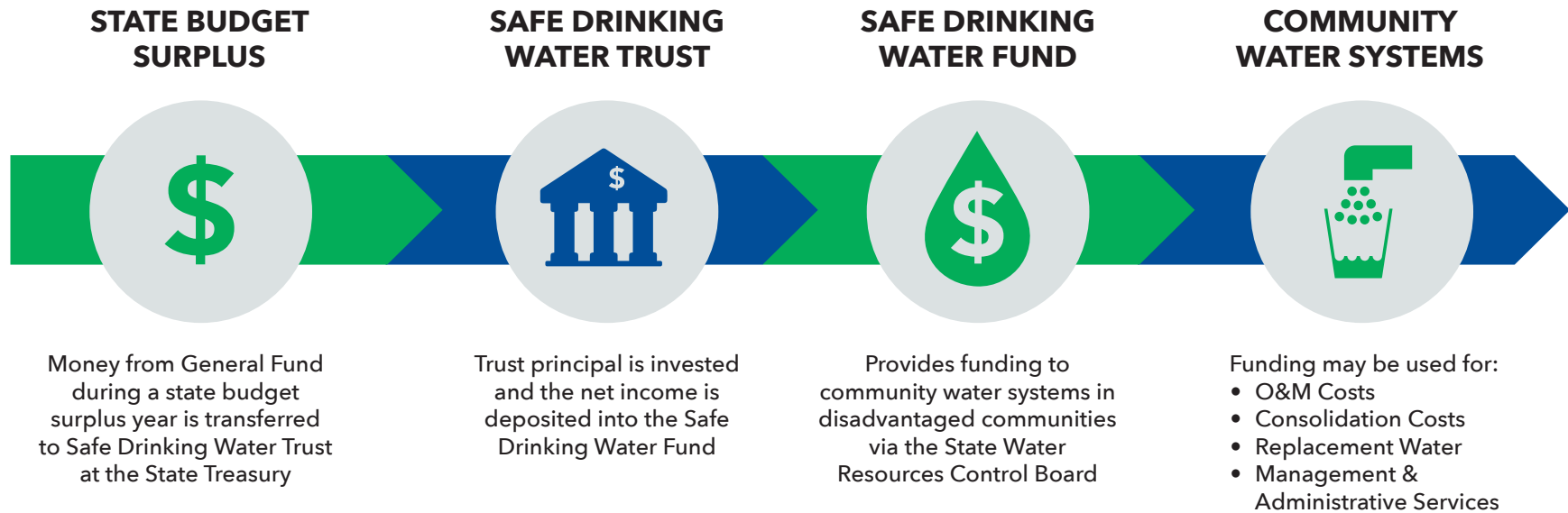
- The Trust's principal would be initially financed with a one-time infusion of General Fund dollars during a budget surplus year
- There is a record budget surplus for the 2019-2020 Fiscal Year, which makes it the perfect time to create and fund the Trust
- The Trust's principal would be invested, and the net income would be transferred to a Safe Drinking Water Fund, which the State Water Resources Control Board would administer
- Funding the Trust via the General Fund serves as a progressive source of revenue, as taxpayers with higher income would contribute more, while lower income taxpayers would contribute less

The governor and some legislators are proposing a statewide tax on drinking water. How would that work?

- The state would levy a monthly tax on the water bills of more than 10 million homes and businesses in California
- More than 3,000 local water agencies would serve as tax collectors for the state in collecting the tax on drinking water bills
- Local agencies would incur significant administrative and technology expenses associated with implementing new systems used for collecting water tax revenues from local water bills
- Revenues generated from the tax would be funneled through the State Water Board, which would allocate funding to safe drinking water projects in the state

For more information about the Safe Drinking Water Trust proposal or the proposed statewide water tax, please visit www.watertaxfacts.org. You may also contact ACWA Deputy Executive Director for Government Relations [Cindy Tuck](#) at [\(916\) 441-4545](tel:9164414545).

OVERVIEW OF SB 669 (CABALLERO) ACWA / CMUA SPONSORED LEGISLATION TO CREATE THE SAFE DRINKING WATER TRUST



OVERSIGHT AND ACCOUNTABILITY

Safe Drinking Water Trust Commission

Manages and reviews the principal and investments of the Trust

State Water Resources Control Board

ANNUALLY

- Reports on expenditures from Fund
- Adopts updated needs analysis
- Works with multi-stakeholder advisory group to identify priorities for the Fund
- Adopts annual Fund implementation plan

AT LEAST EVERY FIVE YEARS

- Conducts public review and assessment of Fund



RESOLUTION No. 2019-06

OF THE BOARD OF DIRECTORS OF THE NEVADA IRRIGATION DISTRICT

SUPPORTING SB 669 (CABALLERO), THE SAFE DRINKING WATER TRUST

WHEREAS, the Association of California Water Agencies and the California Municipal Utilities Association are sponsoring SB 669 (Caballero) to create the Safe Drinking Water Trust (the Trust); and

WHEREAS, drinking water is essential to life and the lack of access to safe drinking water in disadvantaged communities is a public health issue that the state should address; and

WHEREAS, a funding solution for operation and maintenance and consolidation costs is needed that can complement existing federal and state funding sources for capital costs; and

WHEREAS, ACWA and CMUA have developed the Trust proposal to provide the needed funding solution;

WHEREAS, SB 669 would create the Trust in the state Treasury; and

WHEREAS, the Trust would be funded with an infusion of General Fund dollars during a state budget surplus year; and

WHEREAS, there is a record General Fund budget surplus for the 2019-'20 fiscal year and a portion could be used to fund the Trust's principal; and

WHEREAS, the net income from the Trust would provide the needed durable source of funding; and

WHEREAS, a statewide water tax on local water bills of approximately 3,000 community water systems would work against the common goal of keeping water affordable;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Nevada Irrigation District formally supports SB 669.

PASSED AND ADOPTED by the Board of Directors of the Nevada Irrigation District at a regular meeting held on the 13th day of March 2019, by the following vote:

- AYES:** Directors:
- NOES:** Directors:
- ABSENT:** Directors:
- ABSTAINS:** Directors:

Attest:

President of the Board of Directors

Secretary to the Board of Directors